

Principles and rules of categorization and changes in client categorization

(Internal Directive No 26/2019)

In accordance with Act no. 566/2001 Coll. on Securities and Investment Services and on Amendments to Certain Acts (the Securities Act), the Trader is obliged to determine the client category pursuant to the provisions of § 8a and § 73u of the Securities Act. In relation to this, Trader is obliged to include all its clients, which applies to the Securities Act, into three categories - eligible counterparty, professional client, non-professional client. Depending on the determination of the client's categorization, the Trader is obliged to provide various degrees of protection in accordance with the Securities Act.

1. Article Client categorization principles

1.1 Eligible counterparty (according to § 73u of Securities Act)

For the purposes of provision of services according to the Securities Act, the following shall be recognized as eligible counterparties:

- a. Traders and foreign Traders;
- b. credit institutions and foreign credit institutions;
- c. insurance companies, foreign insurance companies and insurance companies from another Member State
- d. asset management companies, foreign asset management companies, mutual funds, European mutual funds, foreign investment firms and foreign mutual funds;
- e. pension fund management companies, supplementary pension companies, pension funds, supplementary pension funds, and similar foreign companies and funds;
- f. other financial institutions authorized or regulated under the law of the European Union or a Member State;
- g. person, which is a person under § 54 par. 3 letters i) and j) of the Securities Act, i.e.:
 - i. an operator who is obliged to comply with the provisions of a special regulation which, when trading in emission allowances, does not carry out client orders and does not provide any investment services or perform any investment activities other than trading for own account and does not use the high-frequency algorithmic trading method,
 - ii. the transmission system operator or transmission network operator pursuant to specific rules, other regulations or guidelines in the field of network industries adopted pursuant to those regulations, to any person acting on their behalf as a service provider for the purpose of performing their tasks

under those regulations or guidelines and any operator or mechanism administrator to compensate for energy variations, a pipeline network or a system for balancing the supply and use of energy in the performance of such tasks, but only if it also carries out investment activities or provides investment services related to commodity derivatives in order to carry out those activities; this does not apply to the organization of the secondary market, including the system for the secondary trading of financial transmission rights,

- h. public authority bodies of the Slovak Republic or other countries, including the Debt and Liquidity Management Agency, which are charged with performing certain activities related to the management of public debt and liquidity in accordance with a separate regulation, 49a) and authorities of other countries that are charged with or intervene in the management of public debt;
- i. the National Bank of Slovakia, other national central banks, and the European Central Bank;
- j. international organizations;
- k. professional clients as referred to in Article § 8a(2)(a) to (c) which are not already mentioned in letters (a) to (j);
- l. professional clients as referred to in Article § 8a(2)(e), at their request, only in respect of the investment services or ancillary services or transactions for which that client could be treated as a professional client.

1.2 Professional client under (§ 8a par. 2 of Securities Act)

For the purposes of this Act, 'professional client' means a client who possesses the expertise, experience and knowledge to make its own investment decisions and properly assess the risks that it incurs. The following shall be regarded as professional clients:

- a. Traders, foreign Traders, financial institutions, commodity and commodity derivatives dealers, persons under Article § 54(3)(j), and entities authorized to operate in the financial market by a competent authority or whose activity is separately regulated by generally binding legal regulations;
- b. vlarge undertakings and an undertaking shall be regarded as a large undertaking where it meets two of the following requirements on an individual basis:
 - i. a balance sheet total is minimum 20 000 000 euros;
 - ii. net annual turnover is minimum 40 000 000 euros,;
 - iii. own funds are minimum 2 000 000 euros.
(in the event that the Client does not provide the Trader with the company's balance sheet prepared as of 31 December of the immediately preceding

calendar year for the purposes of categorization by the Trader, the Trader shall categorize the client or potential client as a Non-Professional Client)

- c. state, regional or municipal authorities, state or regional authorities of other countries, the Debt and Liquidity Management Agency, public authorities of other countries that are charged with or intervene in the management of public debt, the National Bank of Slovakia, other central banks, the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations;
- d. legal persons not mentioned in subparagraphs (a) to (c) whose main activity is to invest in financial instruments, including entities that carry out the securitization of credits and loans or other financing transactions;
 - i. Over the previous four quarters, the person has carried out transactions in financial instruments of a significant size on the relevant market in financial instruments at an average frequency of at least ten per quarter
 - ii. the size of its portfolio covering financial instruments and financial deposits exceeds 500,000 euros
 - iii. entities which may at their request be treated as professional clients provided that the at least two of the following conditions are met:
- e. such a person carries out or has carried out, for at least one year, in relation to his employment, profession or duties, an activity in the area of financial market in a position which requires knowledge of transactions or investment services provided or which are to be provided for such person and at the same time this person meets the following conditions:
 - i. the Trader has assessed the client's expertise, experience and knowledge and has issued a written statement that these give reasonable assurance, in light of the nature of the envisaged transactions or investment or ancillary services that the client is capable of making his own investment decisions and understanding the risks involved;
 - ii. the client has stated in writing to the Trader that it wishes to be treated as a professional client, in regard to one or several investment services, ancillary services or transactions, or to one or several types of financial instrument or transaction;
 - iii. the Trader has given the client a clear written warning of the protections and investor compensation rights it may lose;
 - iv. the client has stated in writing, in a separate document from the contract, that it is aware of the consequences of losing the rights mentioned in subparagraph iii.

1.3 Non-professional client

In accordance with the Securities Act, the Trader categorizes as Non-Professional Clients all clients and potential clients who do not fall into the categorization of Professional Clients or the categorization of Eligible Counterparties.

2. Article

Change of Client categorization

All requests for change of categorization are submitted on the Traders forms. The change of categorization will occur on the basis of delivery and receipt of a written notice of the Trader on the acceptance of the Client's request for change of categorization, resp. on the basis of concluding a written agreement on the change of categorization with the Client.

2.1 Change of Client's categorization in the case of an Eligible Counterparty:

In accordance with the provisions of § 73u par. 3 of the Securities Act, the Trader is obliged to obtain confirmation that the Eligible Counterparty agrees to be treated as an Eligible Counterparty. An eligible counterparty may grant such consent for all transactions or only for individual transactions. The Eligible Counterparty has the right to request in writing to be reclassified into the Professional Client or Non-Professional Client category. In the event that the Eligible Counterparty does not explicitly state to be treated as a Non-Professional Client, the Trader is obliged to treat this Eligible Counterparty as a Professional Client.

2.2 Change of Client categorization in the case of Professional Client:

In the event that the Client has been categorized as a Professional Client, in accordance with § 8a par. 9 of the Securities Act, it is obliged to inform the Trader of any change that could affect its categorization. The Trader is then obliged to take all necessary measures to reassign the Client to another category (if the legal conditions for such reassignment are met).

2.2.1 Change of Client categorization in the case of Professional Client to Non-Professional Client:

If the Professional Client is not able, due to the intended investment service / ancillary service, to properly assess or manage the risks associated with this service, it has, according to the provisions of § 8a par. 4 and 5 of the Securities Act, prior to the stated intention, the right to request the Trader to be treated as a Non-Professional Client.

The right of a Professional Client to be treated as a Non-Professional Client is entitled to be exercised through the Application to change the categorization of a Professional Client to a Non-Professional Client, in which the Professional Client is obliged to determine or requests to be treated as a Non-Professional Client for a certain investment service or for all future investment services.

The Trader is obliged to examine the said Application from the requisites point of view specified by the Securities Act and in case of their fulfilment, it is obliged to accept the Client's Application.

On the basis of the Application, the Client acquires the rights to protection provided to Non-Professional Clients, which are listed in Art. 3.1 of this Principles.

2.2.2 Change of Client's categorization in case of a Professional Client to an Eligible Counterparty:

In the event that facts arise on the basis of which it is possible to consider the Professional Client as an Eligible Counterparty, after making such a change, in relation to the services for which the Client may be in accordance with § 73u par. 1 of the Securities Act considered to be an Eligible Counterparty, the provisions of Sections § 73b to § 73m and Sections § 73o to § 73t of the Securities Act will not apply in relation to the Client as an Eligible Counterparty.

Based on the above, the Trader is not obliged to:

- a. in relation to the Eligible Counterparty, to comply with the provisions of the Securities Act concerning information on fees and marketing communication in accordance with § 73b and § 73c of the Securities Act,
- b. to provide the Eligible Counterparty with information regarding the services provided by the Trader, financial instruments and proposed investment strategies, execution venue, costs and related fees in a comprehensible form necessary for the Eligible Party to properly understand the nature and risks of the investment service, the type of financial instrument offered and subsequently to make investment decisions responsibly,
- c. inform the Eligible Counterparty:
 - i. on the fact that the accounts in which the Eligible Counterparty's financial instruments or funds are held are or will be subject to the law of a non-Member State, including a notice that the Eligible Counterparty's rights attached to those financial instruments or funds may therefore differ,
 - ii. on the existence and conditions of all financial collaterals in relation to the Eligible Counterparty's financial instruments or funds that the Trader has or may have, or on any right to set off a claim in connection with such instruments or funds,
 - iii. on the possible fact that the person with whom the financial instruments of the Eligible Counterparty are registered may have a lien or other security right on these financial instruments or funds, or the right to set off a claim in connection with these financial instruments or funds pursuant to § 73d par. 6 and 7 of the Securities Act
- d. in accordance with § 73g of the Securities Act, to determine whether the specific financial instrument, investment or ancillary service offered or required by it is suitable for the Eligible Counterparty,
- e. keep records, which must contain all documents that contain all rights and obligations agreed between the Trader and the Eligible Counterparty and other conditions under which the Trader provides the Eligible Counterparty with investment services or ancillary services pursuant to Section § 73i of the Securities Act,
- f. to provide the Eligible Counterparty, after the execution of an order or a transaction on its account, with basic information concerning the execution of such an instruction pursuant to § 73o par. 4 of the Securities Act,

- g. to provide the Eligible Counterparty with information at least once a year on the actual amount of payments or payments received by the Trader in connection with investment services pursuant § 73b par. 8 letter c) of the Securities Act,
- h. provide the Eligible Counterparty with all necessary information on its order execution strategy and, prior to the execution of the first order, to obtain the Eligible Counterparty's prior consent to such strategy pursuant to § 73p par. 3 of the Securities Act,
- i. provide the Eligible Counterparty with relevant reports on the investment services provided on the durable medium, including in particular the costs associated with transactions and services performed in the name or on behalf of the Eligible Counterparty, if necessary;
- j. provide the Eligible Counterparty with relevant information that its instruction strategy allows the Eligible Counterparty's orders to be executed outside the regulated market of the MTF or the organized trading venue and is entitled to execute the Eligible Counterparty's orders outside the regulated market, outside the MTF or outside the organized trading system, only if it has obtained the prior express consent of the Eligible Counterparty to such method of execution of the order pursuant to § 73p par. 4 of the Securities Act; such consent may be granted to the Trader in the form of a general consent for all trades or in the form of individual consents for individual trades.

2.3 Change of Client categorization in case of Non-Professional Client:

In the event that the Client has been categorized as Non-Professional Client, it may pursuant to the provisions of § 8a par. 2 letter e) of the Securities Act to request a change of categorization to a Professional Client, and the Trader may treat it as a professional client if such a person meets at least two of the following criteria:

- a. Over the previous four quarters, the person has carried out transactions in financial instruments of a significant size on the relevant market in financial instruments at an average frequency of at least ten per quarter
- b. the size of its portfolio covering financial instruments and financial deposits exceeds 500,000 euros
- c. such a person carries out or has carried out, for at least one year, in relation to his employment, profession or duties, an activity in the area of financial market in a position which requires knowledge of transactions or investment services provided or which are to be provided for such person and at the same time this person meets the following conditions:
 - i. the Trader has assessed the client's expertise, experience and knowledge and has issued a written statement that these give reasonable assurance, in light of the nature of the envisaged transactions or investment or ancillary services that the client is capable of making his own investment decisions and understanding the risks involved;
 - ii. the client has stated in writing to the Trader that it wishes to be treated as a professional client, in regard to one or several investment services, ancillary

- services or transactions, or to one or several types of financial instrument or transaction;
- iii. the Trader has given the client a clear written warning of the protections and investor compensation rights it may lose;
 - iv. the client has stated in writing, in a separate document from the contract, that it is aware of the consequences of losing the rights mentioned in subparagraph iii.

The Trader shall assess the Client's expertise and experience (the Trader shall perform the assessment on the basis of a written Non-Professional Client Expertise Test elaborated by the Client) and issue a written confirmation that these provide reasonable assurance that due to the nature of planned transactions and / or investment / ancillary services, the Client is able to make its own investment decisions and understand the relevant risks involved and the client has been notified by the Trader of all types of protection / rights it may lose due to the categorization, the notification has been delivered to the client or the client confirms receipt by the signature and declares in writing that it has been duly instructed and is aware of all possible consequences of the loss of protection rights related to the change of categorization.

In the event of such a change, the Trader is entitled in accordance with § 8a of the Securities Act to assume that the client has the expertise, experience and knowledge to make their own investment decisions and to properly assess the risks associated with it, and therefore the client loses the right for protection and certain rights provided to Non-professional clients as investors in accordance with the provisions of the Securities Act.

In this connection, the Trader is not obliged to provide the Professional Client with the right to protection in accordance with Art. 3.1 of this Principles. Based on the relevant provisions of the Securities Act, the Trader assumes that the Professional Client has the necessary knowledge for the purposes of the intended trades for a responsible and independent assessment of the facts. Pursuant to the Securities Act, it is assumed that the Professional Client has the necessary knowledge to be aware of all related risks associated with the intended investment transactions / services, and therefore the Trader is not obliged to examine the knowledge and financial capabilities of the Professional Client and provide adequate protection.

3. Article

Non-professional client rights

3.1 Trader is obliged to:

- a. provide the Non-Professional Client in a comprehensible form with all necessary information (information on the Trader, financial instruments and investment strategies, location and costs of performing the service, as well as instructions on the risks associated with them and protection of the Client's financial instruments / funds), that are necessary to understand risks of the investment service / financial instrument pursuant to § 73d par.1 of the Securities Act,

- b. The Trader is obliged to inform the Non-Professional Client on a durable medium in good time before it is bound by any contract on the provision of investment / ancillary services, resp. before executing any trade, on:
 - i. the detailed terms of the contract under which such a transaction will be executed,
 - ii. the facts within the meaning of § 73d par. 1 of the Securities Act, which relate to such contract or these investment / ancillary services pursuant to § 73d par. 4 and 5 of the Securities Act,
- c. when providing investment advice prior to the transaction, provide the client with a written statement of suitability of the client on a durable medium, stating how the provided investment advice corresponds to the preferences, needs and other characteristics of the Non-professional Client pursuant to § 73f par. 3 of the Securities Act,
- d. in providing investment advice or portfolio management investment services, obtain the necessary information about the client regarding investment knowledge and experience related to the business or management of its portfolio and whether the client is able to financially manage investment risks in accordance with its investment objectives according to § 73f par. 1 of the Securities Act,
- e. in case of the provision of investment services other than under letter d), to ascertain whether the Non-professional Client has the necessary investment experience and knowledge regarding the particular type of financial instrument, investment service or ancillary service offered or requested in order to be aware of the risks associated with the relevant investment services or ancillary services or transactions, or types of trade or financial instrument for which it is considered a Non-Professional Client pursuant to § 73g par. 1 of the Securities Act,
- f. after the execution of the order or transaction on the client's account, to inform the Non-Professional Client about where the order was executed according to § 73o par. 4 of the Securities Act,
- g. if the Non-Professional Client decides to receive information on individual executed trades, the Trader is obliged to send to the Non-Professional Client a notification confirming the executed trade in accordance with the provisions of § 73j par. 5 of the Securities Act, no later than on the first trading day after the trade, resp. in the event that the confirmation was received by the Trader from a third party, no later than on the first business day after receipt of the confirmation from such third party,
- h. on request of the Non-Professional Client, to send it regular statements on activities performed on behalf of the Non-Professional Client and related to portfolio management, structured in accordance with § 73k par. 2 of the Securities Act in 6-month periods (on request of a non-professional client in 3-month periods), resp. once a month if the contract concluded between the Trader and the Non-Professional Client enables a portfolio with leverage effect,
- i. in case of executing order on behalf of a Non-Professional Client, the best possible result shall be determined on the basis of measures and procedures specified in

accordance with the provisions of § 73o par. 1 of the Securities Act in accordance with the Strategy for Execution of Orders,

- j. provide the Non-Professional Client with the following information on a durable medium or via a website in accordance with the provisions of Section § 73o of the Securities Act in a reasonable time in advance pursuant to Section § 73p of the service:
 - i. assessment of the importance which the Trader in accordance with § 73o par. 2 of the Securities Act attaches to the criteria determining the best possible result in accordance with § 73o par. 1 of the Securities Act or the procedure by which the importance of these criteria is determined,
 - ii. list of execution venues,
 - iii. a clear and unambiguous warning for the Non-professional Client that its specific instructions may prevent the Trader from proceeding in accordance with the Trader's Order Execution Strategy in order to achieve the best possible result in the execution of the orders in relation to this specific instruction,
- k. Inform the Non-professional client in advance of any serious obstacles related to the proper execution of orders of which is the Trader aware.

4. Article Final provisions

1. This document was approved by the Board of Directors of the Trader on 15.07.2019, with effect from 15.07.2019.

The principles and changes in the client's categorization were published on 15 July 2019 on the website of the securities trader www.up.sk in the Documents section