

FOSSAR MARKAÐIR HF.

RULES OF PROCEDURE ON THE CLASSIFICATION OF CLIENTS

1. Purpose and Scope

- 1.1. These Rules are issued on the basis of Article 21 of Act No. 108/2007, on securities transactions, and Regulation No. 995/2007 on investor protection and the business conduct of financial undertakings.
- 1.2. These Rules are intended to ensure that Fossar Markets (hereinafter "Fossar") classifies its securities trading clients in accordance with the law and that trading is only carried out which is appropriate to the classification of individual clients.

2. Responsibility

- 2.1. The employees of Market Trading who receive orders from clients regarding securities trading are responsible for compliance with these Rules in practice.
- 2.2. In the event of any doubt in the observance or interpretation of the Rules the Compliance Officer shall be consulted.

3. Client classification

- 3.1. Before any business is carried out Fossar shall have classified its clients as eligible counterparties, professional investors or retail investors.

Professional investors

- 3.2. A client possessing the experience, knowledge and expertise to make his or her own investment decisions and properly assess their associated risk. The following parties shall be regarded as professional clients:
 - a) Legal persons in Iceland or abroad licensed to operate or engaging in regulated activities in financial markets, including financial undertakings and businesses connected with the financial sector, insurance companies, collective investment undertakings and their management companies, pension funds and their management companies, as applicable, commodity and commodity derivatives dealers, local parties and other institutional investors;
 - b) Large undertakings meeting at least two of the following requirements:
 - i. Balance sheet total is EUR 20 million or higher;
 - ii. Net turnover is EUR 40 million or higher;
 - iii. Equity is EUR 2 million or higher.
 - c) National and regional governments, central banks and international institutions, such as the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organisations;

- d) Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.
- e) Parties approved as professional clients on the basis of Article 24 of Act No. 108/2007 on securities transactions.
- f) Fossar shall inform professional investors that they can request to be treated as retail clients. Increased protection may be provided to professional clients only when a written agreement is concluded with Fossar to the effect that the client in question will not be treated as a professional client. The agreement shall specify whether this applies in general or in respect of individual transactions, services, financial instruments or products.

Eligible counterparty

3.3. Eligible counterparty refers to a client falling within the scope of points (a), (b) or (c) of Section 3.2.

- a) When Fossar enters into transactions with an eligible counterparty, consent shall be obtained from the client to being treated as an eligible counterparty. Such confirmation may be obtained either in the form of a general agreement or in respect of each individual transaction.
- b) (b) An eligible counterparty may request to be treated by Fossar as a professional investor or retail investor in its business dealings. Where an eligible counterparty requests increased protection, but does not expressly request treatment as a retail client, and Fossar agrees to that request, that eligible counterparty shall be considered as a professional client.
- c) An eligible counterparty may also request that Fossar observe the rules on investor protection provided for in Articles 9, 14, 15, 16 and 18 and the first paragraph of Article 19 of Act No. 108/2007 on securities transactions in their dealings.

Retail client:

3.4. Retail client refers to a client who is neither a professional investor nor an eligible counterparty.

- a) A retail investor may request to be treated as a professional investor if the conditions of Article 5 are met.

3.5. Fossar will notify clients of their classification and inform them of their right to request a different classification and of the limitations on the scope of protection of clients by classification.

4. Changes that impact classification

4.1. Professional clients are responsible for keeping Fossar informed of any change that could affect their classification as professional clients.

4.2. Fossar is required to take appropriate action on becoming aware that a client no longer fulfils the initial conditions of eligibility to be treated as a professional client

5. Conditions to be fulfilled by a retail investor to be classified as a professional investor.

5.1. A retail investor can request classification as a professional investor in general or in respect of individual transactions or types of transactions. Such a request must be received by Fossar in writing on a specific form.

To be treated as a professional client, the client must satisfy at least two of the following criteria:

- a) The client shall have carried out transactions, in significant size, on securities markets at an average frequency of at least ten per quarter over the previous four quarters;
 - i. An individual requesting classification as a professional investor must himself or herself have engaged in the transactions in question for his or her own account and at his or her own risk. Experience must be demonstrated in the types of trading covered by the client's request to be treated as a professional investor. To give an example, if a client has engaged in trading in only a specific type of financial instrument, but requests to become a professional investor in all if his or her trading, it is inadvisable to agree to a change in classification as the client will then not possess the required experience that professional investors may be assumed to possess.
 - ii. In the case of a legal person requesting to be classified as a professional investor account is taken of the transactions conducted on its behalf and for its account. Account is not taken of the personal experience of the agents of the legal person. In other respects, the provisions of point (a) shall apply.
- b) The value of the securities holdings of the investor shall amount to more than EUR 500 thousand.
 - i. Account shall be taken of the personal net worth of the client. Securities holdings include financial instruments, as defined in Article 2 of the Act on securities transactions.
- c) The client shall work, or have worked for at least one year, in the financial market in a position requiring expert knowledge of investments in securities.
 - i. A client who is a natural person needs to have had as his or her principal occupation over the last year, as a minimum, to assess the risk of investments and take responsibility for investment decisions. These conditions are fulfilled principally by front-line employees in securities trading and asset management. Other experts of financial undertakings, such as lawyers and advisors in other areas would normally not fulfil this condition.
 - ii. A client who does not operate in the financial market may fulfil this condition if the client in question has had as his or her principal occupation over the last year, as a minimum, to take responsibility for investments and assess their associated risk, e.g. an investment manager at a pension fund or investment company.
 - iii. Account is taken of the knowledge of the employee of the legal person who is responsible for that person's investments and assessment of their associated risk. In other respects, the provisions of points (a) and (b) shall apply.

5.2. In addition, Fossar will assess independently whether to accede to a client's wish to be reclassified as a professional investor.

5.3. Fossar will provide clients with a clear explanation of the legal protection and entitlement to compensation that may be lost through reclassification. The client shall confirm in writing that he or she has read Fossar's summary of investor classes.

6. Compliance

6.1. The compliance officer and internal auditor are responsible for monitoring observance of these rules.

Approved by the Board of Directors of Fossar Markets on 15 May 2015.

Sigurbjörn Thorkelsson

Kolbeinn Arinbjarnarson

Magnús Gunnarsson