

## Explanations/ Definitions

**Tax Residency** – a country under the legal enactments of which the Client is considered to be this country's tax resident on the basis of location of the Client's central management, place of registration/ incorporation or any other criterion which, under the law of that country, is the basis for considering the Client a tax resident of that country and imposing taxes on the Client's income in the respective country.

**Tax Resident** – an individual whose income is subject to taxation under the laws and regulations of the relevant country, e.g. based on the person's domicile, duration of stay (usually 183 days or longer in a 12-month period), close personal or economic relations or other criteria serving as the basis for the taxation of income in the relevant country (e.g. in the USA, inter alia, a US citizen/resident to whom a residence permit (Green Card) has been issued is considered a US tax resident).

**Active Entity** - is any non-financial entity (i.e. not a Financial institution), t.i. meets at least one of the following criteria:

- less than 50% of the Client's gross income for the preceding calendar year is passive income\* and less than 50% of the assets held by the Client during the preceding calendar year are assets that are held for the production of passive income (*For example, more than 50% of the Client's gross income for the preceding calendar year consists of income derives from the incomes from manufacturing and/ or sale of goods, services and/ or related to the goods, services manufacturing and/ or sale;*)
- the Client is not yet operating a business/has no prior operating history, but is investing capital into assets with the intent to operate a business other than that of a financial institution, provided that the Client does not qualify for this exception after the date that is 24 months after the date of the initial organisation of the Client;
- the activities of the Client consist of holding (in whole or in part) the outstanding stock of, or providing financing and services to, one or more subsidiaries that engage in trades or businesses other than the business of a financial institution;
- the Client was not a Financial institution in the past 5 (five) years, and is in the process of liquidating its assets or is reorganising with the intent to continue or recommence operations in a business other than that of a financial institution;
- the Client primarily engages in financing and hedging transactions with, or for, related entities that are not financial institutions, and does not provide financing or hedging services to any entity that is not a related entity, provided that the group of any such related entities is primarily engaged in a business other than that of a financial institution, or

the Client meets all of the following requirements:

- it is established and operated exclusively for religious, charitable, scientific, artistic, cultural, athletic, or educational purposes; or it is established and operated as a professional organisation, business league, chamber of commerce, labour organisation, agricultural or horticultural organisation, civic league or an organisation operated exclusively for the promotion of social welfare,
- it is exempt from income tax in its jurisdiction of residence;
- it has no shareholders or members who have a proprietary or beneficial interest in its income or assets,
- the applicable laws of the Client's jurisdiction of residence or the Client's formation documents do not permit any income or assets of the Client to be distributed to, or applied for the benefit of, a private person or non-charitable entity other than pursuant to the conduct of the Client's charitable activities, or as payment of reasonable compensation for services rendered, or as payment representing the fair market value of property which the Client has purchased, and
- the applicable laws of the Client's jurisdiction of residence or the Client's formation documents require that, upon the Client's liquidation or dissolution, all of its assets be distributed to a governmental entity or other non-profit organisation, or escheat to the government.

**Passive Entity** – a legal entity for which more than 50 % of the Client's gross income for the preceding calendar year is passive income\* and more than 50% of the assets held by the Client in the previous calendar year are assets that are held to generate passive income.

**\*Passive Income** – a portion of the company's income consisting of:

- dividends;
- interest and income equivalent to interest;
- rents and royalties, other than rents and royalties derived in the active conduct of a business conducted by employees of the Client;
- annuities;
- the excess of gains over losses from the sale or exchange of financial assets that gives rise to the above-mentioned passive income (except income resulting from the core activity of a broker (dealer));
- the excess of gains over losses from transactions (including futures, forwards, options, and similar transactions) in any financial assets (except income resulting from the core activity of a broker (dealer));
- the excess of foreign currency gains over foreign currency losses (except income resulting from the core activity of a broker (dealer));
- net income from swaps (except income resulting from the core activity of a broker (dealer));
- amounts received under Cash Value Insurance Contracts;
- other income which, by its economic nature, is comparable to the passive income referred to above.

**Financial Institution** – a legal entity rendering any of the below services within the framework of its economic activities:

- acceptance of deposits (as the Client's main activity) within the framework of banking or similar business;
- trading in money market instruments (cheques, bills, derivatives, deposit certificates etc.), interest rate and index instruments, foreign exchange instruments, transferable securities or commodity futures traded on a regulated market dealing as per orders of its clients or on behalf thereof;
- individual and/or collective securities portfolio management performed by the Client as per orders of its clients or on behalf thereof;

- other investment, administration or management of financial assets on behalf of other persons;
- savings insurance or insurance services providing for guaranteed regular payout of savings to clients within the framework of insurance companies (holding insurance companies);
- holding of financial assets of other persons (if the client's gross income from holding such assets and the rendering of related financial services makes at least 20% of the client's gross income).

**Investment Entity** – a legal entity meeting the criteria as follows:

- the Client's gross income is primarily attributable to investing, reinvesting, or trading in financial assets, and
- gross income attributable to the relevant activities equals or exceeds 50% of the Client's gross income during the shorter of: (i) the three-year period ending on 31 December of the year preceding the year in which the determination is made; or (ii) the period during which the Client has been in existence, and
- the Client is managed by another company or legal arrangement that is a Financial Institution.

**Beneficial Owner (BO)** – a natural person who ultimately owns or controls the legal person Client, through direct or indirect ownership of a sufficient percentage of the shares or voting rights or ownership interest in that person, including through bearer shareholdings, or through control via other means, and holds at least:

- in the form of direct ownership, a shareholding of 25 per cent plus one share or an ownership interest of more than 25 per cent in a company;
- in the form of indirect ownership, in a manner of exercising control whereby a company which is under the control of a natural person holds or multiple companies which are under the control of the same natural person holding a shareholding of 25 per cent plus one share or an ownership interest of more than 25 per cent in a company.

In the case of a trust, civil law partnership, community or legal arrangement, the Beneficial Owner is the natural person who ultimately controls the association via direct or indirect ownership or otherwise and is such associations':

- 1) settlor or person who has handed over property to the asset pool;
- 2) trustee or manager or possessor of the property;
- 3) person ensuring and controlling the preservation of property, where such person has been appointed, or
- 4) the beneficiary, or where the beneficiary or beneficiaries have yet to be determined, the class of persons in whose main interest such association is set up or operates.

**Politically Exposed Person (PEP)** – a natural person, who in the Republic of Estonia or in foreign countries occupies or has been entrusted with prominent public functions : head of State, head of state administrative unit (chairman of the municipal council, rural municipality or city major), head of government , minister, deputy of minister or deputy of minister's deputy, state secretary or other upper level official in government or state administrative unit (municipality), member of parliament or member of other similar legislative bodies, member of governing bodies (board) of a political party, judge of constitutional court, higher court or judge in a different level court (member of court institutions), member of highest revision (audit) institution council or board, member of central bank's council or board, ambassador, charge affaires, chief officer in the armed forces, member of management or supervisory bodies of State – owned enterprises, Head of an international organization (director, deputy director), and member of the board or a person who is in a similar position in this organization.

**Family member of a Politically Exposed Person** – a person who is a spouse or a person equivalent to a spouse (a person is deemed equivalent to a spouse only if the laws of the respective country define such status for that person), a child of a politically exposed person, or a child of his/her spouse or a person equivalent to his/her spouse, a spouse or a person equivalent to the spouse of the child of a politically exposed person, a parent, a grandparent, a grandchild, a brother or sister.

**Person closely connected to a Politically Exposed Person** – an individual having business or other close relationships with a PEP, or who is a shareholder or a member of one and the same commercial company as a PEP, or who is the sole owner of the legal body which has been created in the interests of a PEP.

**International sanctions** – restrictions imposed on the subject of sanctions by the United Nations (UN) or the EU (European Union) or another international organization of which the Republic of Latvia, Republic of Lithuania, Republic of Estonia or Switzerland Confederation are members and which are directly applicable or implemented in the Republic of Latvia, Republic of Lithuania, Republic of Estonia or Switzerland Confederation, in accordance with international law, as well as restrictions adopted by Office of Foreign Assets Control (OFAC).

**Goods of strategic significance**, including software and technology, are items that can be used for both civilian and military purposes (Dual-use items). This category includes all goods that can be used in the manufacture of weapons, military equipment, weapons of mass destruction or means of delivery, etc. and are listed in Annex 1 to Council Regulation (EC) No 428/2009 of 5 May 2009 setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items, Annex 2 to Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, the Common Military List of the European Union, and the National List of Goods and Services of Strategic Significance of the Republic of Estonia