

LEGAL FRAMEWORK ON THE SAFETY OF CUSTOMER FUNDS

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1. EUROe reserves are customer funds

EUROe reserves, which are fiat funds Membrane Finance receives from its customers for the issuance of EUROe (e-money), are legally considered customer funds of Membrane Finance as per Section 26 of the Payment Institution Act of Finland (297/2010). Therefore, all latter references to customer funds shall also refer to EUROe reserves.

2. Membrane Finance's customer funds are safeguarded in accordance with the applicable legislation

Membrane Finance is an electronic money institution (EMI) licensed in Finland by the Finnish Financial Supervisory Authority (FIN-FSA) in November 2022. As an EMI, Membrane Finance has an obligation to safeguard customer funds in accordance with the relevant legislation. Section 26 of the Payment Institution Act of Finland (297/2010) regulates the safeguarding of customer funds by an EMI as follows (please note that the Act uses the words 'payment institution' and 'electronic money institution' partly as synonyms):

A payment institution shall hold the funds referred to in subsection 1 so that there is no danger of their commingling with the funds of another payment service user, payment service provider or payment institution. The payment institution shall deposit the funds in an account in the central bank, a deposit bank or in a credit institution authorised in another State and entitled to receive deposits or in low-risk and liquid securities or other investment targets if the funds have not been delivered to the payee or transferred to another payment service provider on the business day following the day of receipt of the funds. Funds which the service provider credits to an electronic money institution on the basis of the use of electronic money shall be deposited or invested in accordance with this subsection as soon as the funds are available to the electronic money institution, however, at the latest on the fifth business day following the issue of the electronic money. The Financial Supervisory Authority shall issue regulations on when a security or other investment target may be deemed low-risk and liquid.

A payment institution may safeguard the funds referred to in subsection 1 also so that, in the event of insolvency of a payment institution, the funds received by the payment institution are paid to the payment service users from an insurance policy or guarantee from an insurance company or a credit institution which does not belong to the same group as the payment institution.

Therefore, Membrane Finance shall always ensure that the customer funds are safeguarded in accordance with the legislation, whereby the **customer funds shall always be kept separate from any other funds**. Furthermore, Membrane Finance shall always safeguard customer funds by (i) **depositing them in an account** in the central bank, a deposit bank or in a credit institution, or (ii) **investing them in low-risk and liquid**

securities or other investment targets. Membrane Finance may also safeguard the customer funds with a suitable **insurance policy or guarantee** from an insurance company or a credit institution.

The FIN-FSA supervises Membrane Finance's safeguarding of customer funds.

3. Membrane Finance's customer funds are safe in case of Membrane Finance's bankruptcy

In the context of Membrane Finance's possible bankruptcy, the applicable law would be the Finnish law.

Thus, the afore described Section 26 of the Payment Institution Act of Finland (297/2010) has a connection to Chapter 5, Section 6 of the Bankruptcy Act of Finland (120/2004), which regulates the assets of third parties in a bankruptcy as follows:

Assets in the possession of the debtor but belonging to a third party shall not be assets of the bankruptcy estate if they can be detached from the debtor's assets. The assets of the third party shall be surrendered to the owner or to an assignee of the owner subject to such conditions that the bankruptcy estate is entitled to impose.

Furthermore, Chapter 4, Section 9 of the Enforcement Code of Finland (705/2007) states that:

Property belonging to a third party may not be attached, unless in accordance with a ground for enforcement it stands as security for the applicant's receivable or it is a constituent part or appurtenance of an attached object belonging to the debtor

Therefore, the customer funds held by Membrane Finance shall be considered the property of third parties (customers) and not belong to the bankruptcy estate of Membrane Finance, whereby the customer funds shall be regarded to be safe in case of bankruptcy of Membrane Finance. *The only scenario where Membrane Finance's customer funds would not be protected during bankruptcy is if Membrane Finance or the custodial bank of Membrane Finance has committed a crime or acted in gross negligence in connection with the safeguarding of customer funds.*

4. Membrane Finance's customer funds are safe in case of Membrane Finance's custodial bank's bankruptcy

In the context of Membrane Finance's custodial bank's possible bankruptcy, the applicable law would be the law of the place of establishment of the custodial bank. Since Membrane Finance may use the services of custodial banks that are established in the European Economic Area (EEA), the possible applicable laws would be EEA-based laws. Hence, as the EEA-based laws are quite harmonised, the below described applicability of the Finnish law should – more or less – apply within the entire EEA-area.

In the context of Membrane Finance's (Finnish) custodial bank's possible bankruptcy, the afore described Section 26 of the Payment Institution Act of Finland (297/2010) has a connection to Chapter 5, Section 6 of the Bankruptcy Act of Finland (120/2004), which regulates the assets of third parties in a bankruptcy as follows:

Assets in the possession of the debtor but belonging to a third party shall not be assets of the bankruptcy estate if they can be detached from the debtor's assets. The assets of the third party shall be surrendered to the owner or to an assignee of the owner subject to such conditions that the bankruptcy estate is entitled to impose.

Furthermore, Chapter 4, Section 9 of the Enforcement Code of Finland (705/2007) states that:

Property belonging to a third party may not be attached, unless in accordance with a ground for enforcement it stands as security for the applicant's receivable or it is a constituent part or appurtenance of an attached object belonging to the debtor

Therefore, the customer funds held at a (Finnish) custodial bank shall be considered the property of third parties (customers) and not belong to the bankruptcy estate of the (Finnish) custodial bank, whereby customer funds shall be regarded to be safe in case of bankruptcy of the custodial bank. *The only scenario where Membrane Finance's customer funds would not be protected during bankruptcy is if Membrane Finance or the custodial bank of Membrane Finance has committed a crime or acted in gross negligence in connection with the safeguarding of customer funds, or the authorities of the applicable EEA-based country would suddenly, unpredictably and quickly change the legislation or established practices in effect in such a country (force majeure).*

5. Customer funds held at custodial banks in low-risk and liquid securities or other investment targets need not be given special consideration in bankruptcy

In referral to the afore described, the strong general rule is that the customer funds (including *investments in low-risk and liquid securities or other investment targets*) shall be considered the property of third parties (customers) and not belong to the bankruptcy estate of Membrane Finance or any third party.

Therefore, the customer funds invested in low-risk and liquid securities or other investment targets should not be in need of special consideration in a bankruptcy.

6. Does deposit guarantee apply to Membrane Finance's customer funds?

The deposit guarantee schemes of EU member states have been harmonised. Deposit guarantees are governed by the EU Deposit Guarantee Scheme Directive, which includes harmonised provisions concerning rapid payment, depositors and deposits to be protected as well as the maximum compensation amount of EUR 100,000. Since Membrane Finance may only use EEA-based custodial banks, the customer funds accounts of Membrane Finance shall always be covered by the deposit guarantee.

Membrane Finance's each individual customer is also covered by the deposit guarantee, since according to (i) Chapter 1, Section 3, Subsection 15, (ii) Chapter 1, Section 3, Subsection 2c and (iii) Chapter 5, Section 8 of the Act on the Financial Stability Authority of Finland (1195/2014), the customer of Membrane Finance is considered '*depositor*', which refers to the party that is covered by the deposit guarantee. Therefore, each of

Membrane Finance's customer shall be entitled to a maximum of EUR 100,000 per used custodial bank in case their funds would be lost.