Risk disclosure and customer's confirmation

Pursuant to our obligations under the Markets in Financial Instruments Directive (Directive 2014/65/EU) ("MIFID II") with this document the Bank provides general description of the risks involved when trading financial instruments (FI). Although current document contains information about significant risks, please be aware that other risks may occur that are not included in this document.

Investment services, investment ancillary services and financial transactions are related to various risks, which may influence the results of the financial transaction and thus also the achievement of the targets of the customer. In order to achieve the planned results, the customer shall pay special attention to all risks related to a particular financial instrument (FI) and transaction. Thus, the Bank shall introduce the customer to potential risks, which may arise from financial instrument transactions. Investment risk involves the risk of gains or losses, however this document seeks to inform primarily of risks that can result in potential losses and does not cover potential gains.
These risk disclosures shall apply to all customers – private customers, professional customers or eligible counterparties.

General risks

RISK OF FOREIGN FINANCIAL MARKETS — transactions in foreign financial markets include risks, which may differ from risks, which are related to investments and transactions in the Latvian financial market. In some cases the risks may be higher. Potential profit or loss from transactions in foreign financial markets or from transactions with financial instruments, which are nominated in foreign currency, additionally depends on fluctuations in currency exchange rates.

RISK OF TRADING DERIVATIVES — derivatives and transactions with them are related to high risk and may not be suitable for private customers. Prior to performing transactions with derivatives the customer shall assess the possible risks as well as evaluate the suitability of derivatives, takinginto account the previous experience, targets, financial status and other provisions. Trade with derivatives usually takes place by using a financial lever (leverage), which may lead to big losses or profit. This means that relatively small changes in prices may proportionally cause much higher changes in the value of an open position due to the use of leverage. Big price fluctuations are peculiar for some derivatives, which respectively increase the risk to suffer big loss, including loss that may exceed initial deposit. Price of the derivative may be different from underlying asset price.

PRICE RISK — a risk, as a result of which the customer may suffer losses from fluctuations of prices of financial instruments. FI prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in the short-, medium- and long-term alternate without it being possible to determine the duration of those cycles.

COUNTERPARTY RISK — a possibility to suffer losses, which arise in the case that the party who has entered into a financial transaction with the customer through the Bank fails to fulfill its liabilities arising from the transaction.

RISK OF TRADING OUTSIDE REGULATED MARKET OR TRADING VENUE (multilateral trading facility (MTF) or organized trading facilities (OTF)) — when performing transactions outside of the regulated market, MTF or OTF, they are concluded directly with the business partner. Such transactions are associated with a relatively higher risk in comparison with transactions concluded within the regulated market, as there is a possibility that trade with financial instruments outside of the regulated market, MTF or OTF may be suspended and the assessment and closing of open positions may become difficult.

RISK TRADING COMPLEX FINANCIAL INSTRUMENT — trading of complex financial instruments by default are not suitable for private customers. Complex instruments transactions include transactions with simple financial instruments (ordinary shares, bonds with simple structure, some investment funds certificates) which are made using margin loan; derivatives (futures contracts, options, swaps, CFD); structured financial instruments (index linked bonds, FI which contain characteristics of derivatives), as well as other FI which are not easily understood or transparent. Trading of complex financial instrument carries a substantial risk of loss.

DIVIDEND RISK — the dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or losses, dividend payments may be reduced or not made at all.

ECONOMIC RISK — related to changes of the economic situation in countries where the investments are made.

RISK OF USING ELECTRONIC COMMUNICATION MEANS AND SOFTWARE — when using electronic communication means, the customer may suffer direct or indirect losses, which have occurred due to damages in informative, electronic or remote service systems or errors related to shortagesin market infrastructure, including shortages in transaction technologies and management, accounting and control systems, which are related to the unauthorized access of third persons to trade by using the name of the customer. In the case that refusals appear in the data transmission system or software operation, there is a risk of non-performance of the order of the customer as well as the customer will not be able to receive information on his account in a timely manner by using electronic Internet system or remote service systems.

ISSUER RISK — the possibility that the value of an FI may decrease due to insolvency of an issuer, its failure to meet commitments, weak financial indicators, economic difficulties (sanctions) or other similar events, so the customer may suffer losses due to a decrease in the value of the FI.

INFORMATION RISK — the unavailability or lack of true and complete information about the issuer or the FI. Usually, the absence of information may be observed for FI which are traded outside of a regulated market, for FI with small capitalization, for FI traded on emerging markets.

SHORT SELL RISK — a short position arises from the sale of an FI that the customer does not have in the portfolio with the aim to purchase it back at a cheaper price. By opening a short FI position, the customer must be aware that the potential losses may be several times higher than the initial investment amount and may be theoretically unlimited.

LEGAL RISK — a possibility that additional expenses will arise for the customer in relation to changes in the national and foreign legal acts (including, tax policy, depositor protection laws, money laundering and terrorist financing prevention laws, the enforcement of sanctions, etc.).

RISK OF FRAUD — a risk of partial loss or loss of all investments in the event of fraudulent activities towards financial instruments held on FI accounts.

CREDIT RISK — a possibility to incur losses if the debtor fails to fulfill or is not be able to fulfill obligations provided for in the contract or transaction against the customer, arising from transactions with financial instruments.

LIQUIDITY RISK — a possibility to incur losses due to insufficient market liquidity, as a result of which the purchase or sale of financial instruments may become difficult or impossible within the preferable time and at the preferable price.

RISK OF MARGIN TRADING — trading financial instruments using margin loan may incur losses that may exceed customer's initial investments. The customer at all times shall monitor margin requirements and shall ensure its sufficient amount during the whole period of maintaining the open position. If the amount of required margin maintenance decreases, the Bank may oblige the customer to immediately transfer additional funds to the account. If the customer fails to provide sufficient funds in a timely manner to maintain the position, the position may be closed, thus causing the customer a possible loss.

TAXATION RISK — a possibility that the tax laws and/or tax amounts are uncertain and may change.

SETTLEMENT RISKS — is the risk that the customer is exposed to during settlement of financial instruments. The risk of technical malfunctioning may lead to interruptions in reporting systems or communication channels, resulting in inaccurate processing of transactions.

POLITICAL RISK — a possibility to suffer losses, which are related to national political structure or changes in policies in countries where the investments are made.

INTEREST RATES RISK — unfavorable influence of changes of interest rates on a financial instrument. The value of debt securities change, depending on changes of interest rates. In the case of an increase of interest rates, the market value of such securities decreases and vice versa.

SYSTEM RISK — the risk associated with the functioning of the financial market as a system and arises as potential failure of a system or part of thereof (bank system, deposit system, market systems, clearing system and other systems affecting the functioning of the financial market) to perform its functions.

RISK OF SUBMITTING A MARKET ORDER — a Market Order does not guarantee a specific trade price and may be executed at an undesirable price. To receive greater control over the trade prices, orders should be submitted using a Limit Order.

MARKET RISK — a possibility to suffer losses, which are related to changes in the financial instruments market, which occur due to the influence of changes in currency exchange rates, interest rates and other factors.

THIRD PARTY RISK — to provide financial instruments services, the Bank also uses services provided by third parties (custodian banks, settlement agents, stock exchanges, etc.). There is a risk of losses in case of insolvency of the third party or there is fraud in relation to a third party.

CURRENCY RISK — a possibility to suffer losses from the reassessment of balance and off-balance items denominated in foreign currency upon the change of the currency exchange rate. Gold is also considered a foreign currency.

OTHER RISKS — force majeure (natural disasters and calamities, war activities, strikes) and other risks, which may not be fully projected or controlled.

Risks associated with financial instruments

RISKS THAT ARE ASSOCIATED WITH INVESTMENTS IN ALL TYPES OF FINANCIAL INSTRUMENTS – price risk, currency risk, legal risk, taxation risk, third party risk, risk of fraud, counterparty risk.

EQUITY SHARES (STOCKS) — a share, entitling the owner of it (shareholder) to receive a part of the profit of the Joint stock company in the form of dividends, entitling it to participate in the management process of the Joint stock company and entitling it to a part of the property of the company, remaining after the liquidation of the company. Owner of a share – shareholder, co-owner of the company. The customer may have different purposes for the investment in shares, namely, a single transaction of purchase/sale of shares, long-term investments, short-term speculations in financial markets.
Major risks – price risk, issuer risk, dividend risk, liquidity risk.

MARGIN SHARE TRADING AND SHORT SHARE POSITION — the purchase of shares for an amount that exceeds amount of money held by the customer, as well as the sale of shares, which the customer has previously borrowed from a broker or stock exchange.
Major risks – price risk, issuer risk, dividend risk, liquidity risk, risk of margin trading, short sell risk.

DEBT SECURITIES MARGIN TRADING, REPO AND REVERSE REPO TRANSACTIONS — the purchase of debt securities for an amount that exceeds amount of money held by the customer. REPO is a loan transaction in which the borrower sells his FI to the lender. FI later are redeemed by the borrower within the term provided for in the repurchase agreement. The difference between the sale and repurchase price of the FI is the interest on the loan. For the seller of FI, the transaction is a REPO transaction, but for the buyer of FI, the transaction is a REVERSE REPO transaction. REPO and REVERSE REPO transactions are high risk transactions because in case of possible FI price reduction the holder of FI is entitled to sell them in the market in order to recover the amount of loan granted to the borrower.
Major risks – price risk, issuer risk, credit risk, liquidity risk, risk of margin trading, risk of trading outside regulated market or trading venue.

FUTURES CONTRACTS — Standardized legal agreement to buy or sell a predetermined amount of a particular underlying asset at a fixed price and at a specific future date. To open a position in futures contract it is necessary to keep cash collateral on the investment account required by an exchange or a broker.
Major risks – price risk, liquidity risk, risk of trading derivatives, short sell risk.

OPTIONS — grant the right to the owner to buy or sell a predetermined amount of a particular underlying asset at a fixed price on or before the specified date. An options buyer (if long position is opened) has the right (not obligation) to buy or sell an underlying asset, while the seller of an option (if short position is opened) has an obligation to buy or sell an underlying asset if the buyer of an option requests an option execution.
Major risks – price risk, liquidity risk, risk of trading derivatives, short sell risk.

CFD (CONTRACT FOR DIFFERENCE) — provides an opportunity to speculate on the price fluctuations of an underlying asset. CFDs are traded on margin and just as with other financial instrument, profits or losses arise from the difference between buying and selling prices. Investors should carefully consider the risks of margin trading and the impact of potential losses on their financial situation before making an investment decision.
CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage.
74–89 % of retail investor accounts lose money when trading CFDs.
The customer should consider whether he understands how CFDs work and whether he can afford to take the high risk of losing his money.
Major risks – price risk, liquidity risk, risk of margin trading, short sell risk, all risks associated with a particular underlying asset.

MARGIN FOREX, NDF — a transaction concluded by the customer with a purpose to make profit through fluctuations in the currency exchange rates. With relatively small initial deposit it is possible to perform transactions for amounts exceeding the initial capital. It is margin currency trading using an initial deposit. Investors should carefully consider the risks of margin trading and the impact of potential losses on their financial situation before making an investment decision. Given the high margin loan proportion in the transaction, there is a possibility of suffering losses due to failure to close the position, for reasons beyond the control of the customer or the Bank, for example due to technical problems of the communication channels, etc.
Major risks – price risk, system risk, risk of margin trading, short sell risk.

FX SWAP — a currency swap as a result of which the customer agrees with the Bank on the currency exchange in accordance with the fixed rate and at the same time undertakes to convert this amount of money to the initial currency after a certain period of time at the fixed rate. The actual value ofthe currency forward transaction fluctuates, because it depends on the currency interest rates. Upon a change of the currency exchange rate, there is a possibility to suffer losses from the revaluation of balance items denominated in foreign currency and off-balance items. The customer may suffer losses in the case that the currency exchange rate differs from the transaction exchange rate at the moment of the settlement of the transaction.
Major risks – interest rates risk, currecy risk, counterparty risk.

FX FORWARD — a currency exchange operations, enabling the customer to purchase or sell any particular currency after a certain period of time, however not earlier than after 3 business days by using the currency exchange rate set at the moment of agreement with the Bank. Forward is an over the counter transaction and the parameters of forward may be adjusted for the needs of the investor. The actual value of the currency forward transaction fluctuates, because it depends on the currency interest rates. A possibility to suffer losses from the revaluation of balance items denominated in foreign currency and off-balance items, upon a change of the currency exchange rate. The customer may suffer losses in the case that the currency exchange rate differs from the transaction exchange rate at the moment of the settlement of the transaction.
Major risks – interest rates risk, currecy risk, counterparty risk.

The Bank draws your attention to the fact that the above mentioned list of risks related to financial instruments is not complete and also other risks, which are not described here, may occur during transactions with financial instruments. Detailed information about risks is available at the European Securities and Markets Authority (ESMA) homepage: https://www.esma.europa.eu/investor-corner/warning-and-publications-investors

Customer's confirmation

Upon signing this customer's confirmation, the customer certifies that he has become acquainted, understands and undertakes all possible risks which are related to investments and transactions with financial instruments, and certifies that the Bank has completely disclosed information on risks which are related to investment services and investment side-services as well as transactions with financial instruments.

The customer also confirms that he has become acquainted with and agrees with the customer order for financial instruments execution policy of the Bank, is informed of and agrees with the conditions of the Bank regarding the review of complaints and disputes in relation to the provision of investment services and investment side-services, by an out-of-court way, agrees with the Bank service rates, is informed on the place of execution of transactions and safe storage of financial instruments and money of the customer.

The customer confirms that he is informed of the rights to request the Bank to grant him another customer status (professional customer or private customer).

This confirmation of the customer shall be an integral part of any agreement concluded between the Bank and the customer, the conditions of which affect or are related to the provision of investment services and investment side-services, the customer agrees with this by confirming it by his signature.

Signatures

THE CUSTOMER

(name, surname / company name)	(signature)	(transcript of signature)	(date)