

Information on Risks Related to Operations With Financial Instruments

The Bank provides the Customer with information about risks associated with business transactions in the financial markets, and warns of contingent losses that may occur upon receipt of investment services and auxiliary investment services. The Bank informs that the below list of risks is not exhaustive and includes only the most significant of them, and in the course of business transactions the Customer may undergo other risks as well.

General Risks

Issuer's risk - the risk that the value of securities may decrease because of issuer's inability to perform its liabilities, weak financial indicators, economic problems or other similar reasons, and such decrease of securities value may result in losses for the Customer.

State or political risk - risk of losing capital or restricted opportunities of currency buying / selling due to the events that affect the national or regional economic or political stability, or further development of the country or region.

Market risk - consolidated risk that consists of the following risks: price risk, currency risk, interest risk and liquidity risk.

Currency risk - may occur with changing of foreign currency exchange rates in the market.

Interest rate fluctuation risk - risk that Customer may incur losses due to interest rates fluctuations in the market.

Liquidity risk - risk of losses caused by insufficient market liquidity, i.e. complicated or impossible sale of financial instruments at the time desired by Customer or at a desired price.

System risk - risk of losses due to malfunctioning of financial settlements centre or financial settlements system, which prevents making of payments or transfers.

Legal risk – risk of losses or suffering of additional costs due to amendments to regulatory documents.

Information risk – risk of losses in connection with unavailability or lack of credible and complete information about exchange rates, prices of financial instruments, market trends.

Risks Associated with Separate Transaction Types

Transactions in foreign financial markets involve risks which may differ from the risks associated with investments in Latvia. In some cases the risk may be higher.

Trading in financial instruments through the trading platform, may differ significantly from trading in other systems. In this case, the Customer may face a risk of losses as a result of malfunctioning of computer network or other equipment, risk of a third party to have unauthorized access to the trading platform, using Customer's authorization data, etc.

Transactions in derivative financial instruments are associated with high risk and may be unsuitable for some investors. Trading in financial derivatives typically take place in the form of financial lever, which may result in major losses or gains, compared with the invested funds. This means that relatively small changes in market prices cause proportionately much greater changes of investment value. Some derivatives are characterized by large fluctuations in market prices, which, therefore, increase the risk of suffering even greater losses.

Transactions outside the regulated market (OTC) are associated with relatively higher risk compared to closed deals of the regulated market, because it is highly possible that trading in financial instruments outside the regulated market may be terminated and the evaluation and closure of open positions may be difficult.

Transactions where the bank provides an opportunity to buy financial instruments on credit (margin transactions - Margin Forex or Margin Loan against a financial instruments pledge). In case of a Margin transaction, the lever mechanism is applied. This means that only a fraction of the investment is paid (the initial margin is paid), as a result of which enhanced are both the contingent gains and losses. If a financial instrument is bought and sold on the same day, the Customer does not pay any interest for borrowing the money. If a customer buys a financial instrument and does not want to sell it on the same day, the Customer pays the bank a set interest rate for the use of funds.

Other risks depend on the type of financial instrument purchased by investor.

Repo/Reverse REPO transactions - contracts for sale/purchase of financial instruments /purchase at a fixed price subject to repurchase of the same financial instrument at a specified price at the end of the transaction. These transactions are associated with the risk of price changes. In case of adverse changes in prices of financial instruments (if the value of financial instruments decreases compared to the purchase price of financial instruments), the counterparty may require additional collateral.

Risks Associated with Separate Financial Instruments

Simple Financial Instruments

Ordinary and preference shares

The Customer can buy shares with the aim to sell them later for profit. However, there is no guarantee that the profit will be earned, because share prices depend on many factors - company's successful performance, industry, situation in the country and in the international markets and etc. The result can be a partial or complete loss of invested money, if the company becomes insolvent. Investment in shares is connected to the dividend payment risk if the company decides not to pay dividends. Important is also the liquidity risk

Debt financial instruments

By buying debt financial instruments a Customer is planning to earn either from interest payments and / or from increase of market price of the financial instruments. There is a possibility that the issuer will not be able to repay the principal and / or coupon (credit risk) if the issuer goes bankrupt. If interest rates increases, the price of the debt financial instrument decreases. The price of debt financial instruments with a fixed coupon where the coupon is lower and the repayment period longer, undergo more changes than the price of debt securities with a higher coupon and a shorter repayment period. Investors may lose a part of their investment if debt instruments are sold before the repayment (maturity) date. Important is also the liquidity risk. Debt securities may be structured. The price of structured debt securities in the secondary market also depends on the underlying asset price changes. There may be a risk of losing the invested principal and not to receive any profit. Contingent risks are described in the section "Structured financial Products".

Investment funds

Investment funds may have different levels of risk, depending on the segments of the financial market and financial instruments in which investments are made. The cash and bond funds are the safest (they have smaller share value fluctuations), but the balanced and equity funds have a higher risk (greater share value fluctuations), which allows to earn more. The objective, category, investment restrictions, risk level, as well as costs of an investment fund are described in the fund prospectus.

Derivative (complex) financial instruments

Since these instruments can be very different, depending on the underlying asset of the transaction, the risk profile of each financial instrument must be examined separately. For many derivative financial instruments the lever mechanism is applied. This means that only a fraction of the investment is paid (the premium is paid or the initial margin is paid in), which results in increasing of both the contingent gains and losses.

Futures

The risks associated with futures are the price (price volatility) risk, liquidity risk and interest rate risk. In the event of OTC futures the counterparty risk also exists.

Options

The risk for an option buyer is limited because the premium paid upon signing an agreement is the only unavoidable expenditure faced by the option buyer, but an option seller's risk is unlimited. Other financial risks associated with options include the price volatility risk, liquidity risk and interest rate risk. An option loses its value if it is not realized until the transaction closing date. OTC options have the counterparty risk.

Swaps

The main risk of currency swaps is the interest rate risk. Other risks are currency risk, which applies only to the difference of interest to be paid, liquidity risk and counterparty risk. In case of adverse changes in FI price, the counterparty may require additional collateral. The main risks of interest rate swaps are the interest rate risk and counterparty risk.

Structured Financial Products

Each structured product has a different risk profile. Since a large number of combinations is permissible, it is not possible to describe each structured product's risk. About the risks associated with structured products the Customer shall be informed upon conclusion of each separate contract.

When performing transactions with financial instruments whose trading requires a Margin, it should be noted that as a result of fall in the asset price the margin amount from which losses are deducted is less than the maintenance margin, and in this case the investor receives a margin call, i.e. he has to replenish the account (invested money) to restore the Margin to the required level. If the investor fails to replenish the margin account, the bank has the right to close the investor's position under the current market price, and to cover losses from the margin funds.

The Margin may be used as Initial Margin which is the amount that must be deposited at the bank upon closing the deal, and the maintenance margin, which is the minimum amount of money that must be available in the account until the transaction date.

The Margin is part of the financial lever. Every time an investor borrows money to invest in financial instruments, this process may result in both the contingent gains, as well as losses, and that is why the concept is called 'lever'.

The Customer should note: the higher the potential return on a financial instrument, the greater the risk of a loss.

The Customer understands that

- the Bank shall not be responsible for any losses that Customer may incur in connection with transactions, which the Bank has executed in compliance with Orders;
- the Bank shall not be responsible for any losses that Customer may incur due to disclosure of Customer's code where the disclosure is not Bank's fault;
- it is Customer's responsibility to notify of being included in insiders' lists; and the Customer is aware of the prohibition to use insider information and is aware of the responsibility established for violation of this rule;
- manipulations with Financial Instruments in the market are not allowed; Customer is aware of the responsibility arising out of market manipulations with Financial Instruments;

The Customer agrees that

- the Bank will record its telephone conversations with the Customer related to operations in the securities market and Customer's applied for, started and/or executed transactions. The Customer agrees that these records of telephone conversations have full legal force and that they may be used in the court as evidence in regard to Orders and existence or absence of certain Order terms and conditions;
- the Bank has the right to disclose information about Customer and his/her transactions in the situations provided for by current legislation of the Republic of Latvia;
- The Customer shall reimburse the Bank in full for any losses that are caused to the Bank by the fact that Customer has not performed his/her liabilities stipulated in respective agreements;

I have read the aforementioned:

name, surname *signature* *date*