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## DECLARATION OF UNDERSTANDING OF RISKS INVOLVED IN TRANSACTIONS ON FINANCIAL INSTRUMENTS MARKET

Date / / 20

Approved by the Board of JSC "Rietumu Banka", Minutes No. 6, 25.01.2023

COMPLETE IN BLOCK CAPITALS

JSC "Rietumu Banka" (hereinafter – the Bank) hereby informs the Client about the risks that the Client may be exposed to when conducting transactions with financial instruments and warns about possible losses that may be incurred when receiving investment services from the Bank. The Bank informs that the listing of the types of risks below is not exhaustive and includes only the most essential risks that the Client may run when concluding transactions with financial instruments. The Client when conducting transactions with financial instruments may be exposed to additional risks.

### BASIC RISKS

**Systemic risk** – the risk that depends on the functioning of the financial instruments market as a system and is expressed in the potential inability of that system or its parts (banking industry, depository system, trade systems, clearing system and other systems that affect the operation of the financial instruments market) to fulfil its functions.

**Non-systemic (individual) risk** – the risk of a specific participant of the financial instruments market: a Client, a Bank, a trustee, a Trading Venue, a depository, an issuer, financial instruments market regulators.

**Information risk** – the risk arising from a lack or deficiency of information about an issuer and/or a financial instrument.

**Price risk** – the risk that the market value of the Client's investment portfolio will decrease and all or a part of the Client's funds invested in Financial Instruments will be lost as a result of adverse price movements in the financial instruments market.

**Foreign exchange risk** – the risk caused by adverse changes in currency exchange rates, as a result of which the Client's assets are exposed to inflationary impact.

**Liquidity risk** – the risk that a situation may arise in the financial instruments market, which will make it difficult or impossible to close a position previously opened by the Client.

**Default risk** – the risk that assets may be lost as a result of non-fulfilment of obligations towards the Client, insolvency or misconduct by a participant of the financial instruments market.

**Tax risk** – the risk that changes in tax laws might cause a decrease in returns on the Client's investments. The Bank does not act as a counsellor either on tax, or on legal or investment issues.

**Political risk** – the risk of adverse changes in the political situation in the country of an issuer or other participants of the financial instruments market, which may have an impact both on the value of Financial Instruments and on the payout ratios and conditions.

**Margin risk** – margin trading entails high risk. The use of leverage results in minor market fluctuations having significant impact on the state of the Client's account. If the market moves against the Client's position, the Client is required to deliver additional money at short notice, otherwise the Client's position may be closed at a loss. The Client may lose all initially invested money, as well as any other additional amounts delivered to sustain the position. FOREX quotations are based on supply and demand, which is why under certain market conditions the Client may be unable to carry out a transaction at an acceptable exchange rate. There are times when the market moves very fast and from the moment that the Client takes a decision to the moment that the respective transaction is executed the Client may incur substantial loss.

**Legal risk** – the risk of losses or of additional costs as a result of changes in the legal enactments of the Republic of Latvia or foreign countries.

### RISKS RELATED TO VARIOUS TYPES OF TRANSACTIONS

Transaction making in foreign financial markets has risks that differ from the risks that are typical to transactions made with the financial instruments issued in Latvia. The transaction making in foreign financial instruments markets involves greater risks.

Transaction making in trading venues includes the Systemic risk, that is, the Client may suffer direct or indirect losses caused by faults or failures of information systems, electronic systems, remote systems, as well as by errors caused by imperfections in market infrastructure, including imperfections in transaction execution technologies and management, accounting and control systems connected with an unauthorised access to trade by third parties by using the Client's name.

Transaction making with derivative financial instruments has higher risks. Such transactions are made by using a financial leverage and as a result the Client may incur large losses or profit.

The leverage mechanism functions also in margin transactions. The Client pays in only a part of an investment (initial margin), the Client borrows the rest from the Bank as a marginal loan. The Client pays the interest rate for the loan to the Bank and as a result the Client may incur both losses and profit.

If the Bank exercises its right to reuse financial instruments pledged to it by the Client or if the Client provides financial instruments to the Bank under title transfer collateral arrangement (for example, it may happen when the Client categorised as a professional client or an eligible counterparty has made, as a seller, a repo transaction with Bank or has received a margin loan from the Bank), in addition to risks, related to different types of financial instruments, there also exist the following risks:

- Client's proprietary rights in the financial instruments used as a collateral will be replaced by a contractual claim for delivery of equivalent financial instruments;
- in respect to financial instruments used as a collateral the Bank does not provide Client's and Bank's asset segregation;
- the Client may not be able to exercise rights, attached to the ownership of pledged financial instruments;
- delay to return to the Client the financial instruments used as a collateral may prevent the Client to meet settlement deadlines in other transactions;
- in case of insolvency of the party receiving the collateral (Bank or third party to whom the financial instruments were re-pledged) or its default on its obligations, it may be not possible for the Client to return the equivalent financial instruments or recover full value of the financial instruments.

## DIFFERENT TYPES OF FINANCIAL INSTRUMENTS RISKS

### Shares

An investor buying shares becomes a member of the issuer and fully assumes the issuer's economic risks. The investor is entitled to dividends (if there are any) based on the issuer's profit for the respective period. Buying shares entails greater risks than buying bonds, because the investor's returns are more closely linked to the issuer's income. Moreover, shares entail additional risks the risk that the price at which the shares have been bought will be different from that at which they will be sold in the future. If the investor wishes to sell his shares immediately after they are bought there is a substantial risk of losses. The price of shares may change rapidly both upwards and downwards.

Shareholders bear the Systemic risks of shares.

Risks of short selling are as follows:

- margin interest. Margin interest can be a significant expense when trading stocks on margin. Since short sales can only be undertaken in margin accounts, the interest payable on short trades can add up over time, especially if short positions are kept open over an extended period.
- stock borrowing costs. Shares that are difficult to borrow – because of high short interest, limited float, or any other reason – have “hard-to-borrow” fees that is usually assessed by the broker-dealer and can be quite substantial.
- dividends and other payments. The short seller is responsible for making dividend payments on the shorted stock to the entity from whom the stock has been borrowed. The short seller is also on the hook for making payments on account of other events associated with the shorted stock, such as share splits, spin-offs and bonus share issues, all of which are unpredictable events.
- risk of short squeezes and “buy-ins”. A stock with very high short interest may occasionally surge in price – typically when a positive development in the stock or broad market triggers massive short-covering – creating what is known as a “short squeeze.” Heavily shorted stocks are also vulnerable to “buy-ins,” which occurs when a broker-dealer closes out short positions in a difficult-to-borrow stock because its lenders are demanding it back, what can lead to unexpected losses for the short seller.
- regulatory risks. Regulators may sometimes impose bans on short sales in a specific sector or even in the broad market to avoid panic and unwarranted selling pressure. Such actions can cause a sudden spike in stock prices, forcing the short seller to cover short positions at huge losses.
- skewed payoff ratio. Short selling has a skewed payoff ratio as the maximum gain – which occurs if the shorted stock was to fall to zero – is limited, but the maximum loss is theoretically infinite.

The tax rate on income from shares is established depending on the investor's country of residence. In most cases the depositary will withhold the tax when the respective income is received for the investor as provided for by the relevant internal procedures, so that the investor receives his dividends after tax.

### Bonds

An investor buying bonds becomes a creditor of the issuer and is entitled to interest on these bonds; in addition to that, the investor must receive the par value of the bonds at their maturity.

The risk that coupon yield on bonds will not be paid is there only when the issuer is in financial difficulties. Moreover, if the issuer goes bankrupt bondholders have priority over shareholders when it comes to the recovery of the invested funds from the sale of the issuer's property.

Bondholders bear the Systemic risks of bonds.

The tax rate on income from bonds is established depending on the investor's country of residence. In most cases the depositary will withhold the tax when the respective income is received for the investor as provided for by the relevant internal procedures, so that the investor receives coupon payments after tax.

### Investment Funds

Various investment funds inherent risks at different levels. Cash and bond investment funds are reliable (the smallest fluctuations) in turn balanced investment funds have more risk (big fluctuations). Restrictions on investments and the risks are described in the prospectus of the fund and/or By-Laws.

### Futures and Options

The risk of loss when dealing with futures contracts and options may be significant. An investor should thoroughly consider the suitability and appropriateness of such transactions from the point of view of the investor's financial resources.

In case the futures and options market is unfavourable towards the investor's open positions, it is probable that all money used as margin collateral for such positions will be lost in a relatively short time.

In case of adverse price movements on futures and options the investor may be required to deliver additional funds at short notice in order to sustain the open position; if the investor is unable to deliver such funds in due time the investor's position may be closed at a loss, which the investor will then be required to cover.

As a result of conditions in the futures and options market it may become difficult or impossible to close a position opened by the investor. It may happen, for example, when in case of rapid price changes trading in the futures and options market is suspended or limited.

Stop-orders – orders to buy or sell a certain amount of assets at a specified price or lower. Some stock exchanges fail to accept this type of order and place the synthetic orders on the counterparty's side, which means that the Bank cannot guarantee the execution of the order when the price is reached.

Stop orders directed to limiting losses not necessarily limit the Client's losses to the expected level, since in the current market situation it may not be possible to execute such order at an agreed price, moreover in most of the cases the stop-order system foresees the placement of orders on the market reflecting the stop price on the market. In such situation the Order is placed on the market at a market price which may considerably differ from the specified stop price.

The risk associated with option selling is comparable to the risk associated with futures contracts relatively small adverse price movements in the market expose the investor to potentially unlimited losses, which may exceed the income received from option selling.

### Contracts For Difference – CFD

When buying contracts for difference, the client undertakes all risks related to the instrument that underlies this contract. Furthermore the only guarantee for the disbursement of profit is the counterparty wherewith the transaction is entered into.

CFD – is an instrument with a built-in leverage that allows to have large exposures with a relatively small security deposit. If there is not enough money on the security deposit account to maintain the position and the Client cannot replenish the account on time, the position will be automatically liquidated at the first available price. The possibility of high profit carries the high risk of losses which in case of extreme price movements may exceed the amount of the security deposit.

### Trading in currency on non-regulated market

By this the Bank understands such instruments as FX Rolling Spot (for example, currency, metals, commodities), FX Forward (for example, currency), FX Swap. High leverage and volatility are the main features of Forex market. In the case of instruments such as rolling spot, marginal speculative trading does not provide for real delivery and has an open settlement date. If there is not enough money on the security deposit account to maintain the position and the Client cannot replenish the account on time, the position will be automatically liquidated at the first available price. The formation of prices is carried out outside the regulated market, therefore the current prices may differ at every broker. The possibility of high profit carries the high risk of losses which in case of extreme price movements may exceed the amount of the security deposit.

### Using trading platforms

Trading with the use of electronic trading platforms can differ not only from voice trading, but also from the trading among different platforms. In addition to the risks related to specific financial instrument, there is a technological risk related to possible failures and malfunctions of the hardware of information systems, as well as with software.

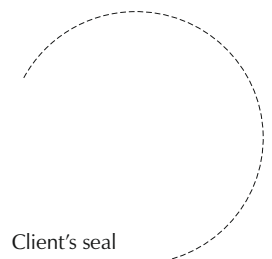
### The Client is aware, that:

- The Bank shall not be liable for damages that might arise for the Client if the Bank executed the transaction order, in accordance with the instructions of the Client;
- The Bank shall not be liable for damages that may arise as a result of third persons, if these parties have become aware of codes and Client identification information and the disclosure happened not by fault of the Bank;
- The Client undertakes to inform the Bank that it is in the lists of inside information holders. The client is informed the responsibility for the use of inside information;
- Customer is informed of the liability for manipulations in the market;
- The Bank maintains a record of telephone conversation with the Client on transactions with financial instruments, and these records can be used in court as evidence of execution of the Client's transaction order.

**The Client hereby certifies that he/she has read and understood this Declaration of Understanding of Risks Involved in Transactions on Financial Instruments Market and comprehends all the above mentioned risks.**

Client represented by \_\_\_\_\_  
(name, surname)

X \_\_\_\_\_  
(signature)



Rietumu ID \_\_\_\_\_ Test-key \_\_\_\_\_

### TO BE COMPLETED BY BANK EMPLOYEE

I confirm the identity and signature of the Client or the Client's Representative

Passport / Identity document No. \_\_\_\_\_

\_\_\_\_\_ X \_\_\_\_\_  
(name, surname) (signature)

Date \_\_\_\_ / \_\_\_\_ / 20\_\_\_\_  
DECLARATION OF UNDERSTANDING  
OF RISKS INVOLVED IN TRANSACTIONS  
ON FINANCIAL INSTRUMENTS MARKET 3 / 3



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# INVESTMENT ACCOUNTS OPENING ORDER

Date  /  / 20

Approved by the Board of JSC "Rietumu Banka", Minutes No. 6, 25.01.2023

COMPLETE IN BLOCK CAPITALS

Client \_\_\_\_\_  
(corporate entity: full name / private individual: name, surname)

Account No.

The Client hereby confirms that:

- The Client/Client's representative has the necessary authority to sign this Order;
- The Client has read and agrees to the documents and information mentioned below, which are available on the Bank's website [www.rietumu.com](http://www.rietumu.com):
  - Terms and Conditions of JSC Rietumu Banka" and Client Agreement (hereinafter – the Terms and Conditions);
  - Claim and Dispute Settlement procedure included in the Terms and Conditions, as well as the procedure for submitting suggestions and complaints over the Internet (<https://www.rietumu.com/en/about-bank/about-rietumu/bank-feedback>);
  - Bank's tariffs;
  - Client Personal Data Protection Notice;
  - Declaration of Understanding of Risks Involved in Transactions on Financial Instruments Market;
  - Disclosure of information within the framework of the provision of investment services;
  - Excerpt from Conflicts of Interest Management Policy;
  - Excerpt from Client Categorisation, Appropriateness Assessment and Order Execution Policy;
- The Bank within the framework of the provision of financial services performs audio recording of conversations and orders for transactions received by phone in accordance with the Terms and Conditions.

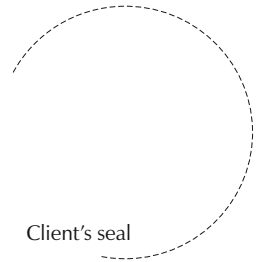
On the above basis, the Client requests to open a Cash Account and a Financial Instruments Account and to take actions necessary to conduct transactions with financial instruments under and in line with the Terms and Conditions.

Client represented by \_\_\_\_\_

(name, surname)

X

(signature)



Client's seal

Rietumu ID  Test-key

## TO BE COMPLETED BY BANK EMPLOYEE

I confirm the identity and signature of the Client or the Client's Representative

Passport / Identity document No.

\_\_\_\_\_  
(name, surname) X (signature) Date  /  / 20

## The Bank opened the following accounts to the Client:

Cash account No.

Financial Instruments Account No.

The Bank employee \_\_\_\_\_ X \_\_\_\_\_  
(name, surname) (signature, seal)