

## DESCRIPTION OF FINANCIAL INSTRUMENTS AND INVESTMENT SERVICES

### 1. Information on AS "PNB Banka" and its Investment Services Provider

#### Information on AS "PNB Banka" (hereinafter referred to as – the Bank)

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#### AS "PNB Banka" registration data and licences

Unified registration number 40003072918

LEI number of the Bank 549300J6I0BUEY33QO16

The Bank received the licence issued by the Bank of Latvia on 27 April 1992 that was re-registered with the Financial and Capital Market Commission (credit institution licence No 06.01.04.007/210) that authorises the Bank to provide investment services and ancillary investment services.

#### Supervision Authority

Financial and Capital Market Commission, address: 1 Kungu street, Riga, the Republic of Latvia, LV-1050.

#### Services provided by Bank:

The Bank provides the following investment services:

- accepts and sends the orders with regard to one or several financial instruments (hereinafter referred to as - FI);
- executes the orders on behalf of the Client;
- executes the transactions in its own name;

The Bank provides the following ancillary investment services:

- holding of FI;
- Issuing of credits or loans to the Client for effecting of FI transactions, if the Bank is involved in the FI transaction as a counterparty to the transaction;
- Foreign exchange services, if related to provision of investment services.

#### Communication with Clients

##### Languages

The language for the operations, documentation and communication of the Bank is Latvian unless the Client and Bank have agreed otherwise in the service agreement or data form.

##### Forms

The Clients may contact the Bank in person, by telephone or in writing as well as using AS "PNB Banka" automated remote access system PNB Internetbanka, hereinafter – PNB Internetbanka, and within PNB Internetbanka – PNB Chat system, or via other communication channels according to the contracts signed between the Client and Bank".

### 2. Financial Instruments Available to Clients (depending on the Investment Services or Ancillary Investment Services Provided to Client)

The Bank offers its Clients the following FI types: shares, bonds, simple and complex Exchange Traded Funds (ETF), investment funds, futures contracts, options.

The Bank offers to its Clients the following types of transactions: FI buying and selling, short selling of shares, reverse repo, margin trading (foreign exchange transactions and deals with securities using additional financing).

The evaluation of the Client's FI is performed based on the actual market value.

### 3. Reports on Services Provided

The Bank provides the Clients with regular reports on the services provided in accordance with the procedure, frequency and deadlines stipulated by the law of the Republic of Latvia.

The Bank provides to the Clients the following reports:

- Order execution confirmations (the term is defined in the provisions of the Agreement) – not later than on the next working day of the Bank after execution of the Order or receipt of approval from the third party (if the Bank receives this confirmation from the third party);
- FI account and Investment account (the terms are defined in the provisions of the Agreement) statements – 1 (one) time in a quarter or, as requested by the Client;
- Information about the fees and costs related to the received investment services – 1 (one) time a year;
- Information about FI that the private Client uses for the leverage funding or transactions with contingent obligations, for each decrease of the initial value by 10 % (ten per cent) or more – within 1 (one) working day of the Bank after establishment of the this fact.

The PNB Internetbanka and information trading system PNB MetaTrader systems (if available to the Client) allow the Clients checking the reports on the provided services individually and at any time.

## 4. Description of Risks Associated with Financial Instruments

In performance of FI transactions the Client shall evaluate the following most widespread general risks as well as each FI specific risks referred to in Section 5.

### 4.1. General risks associated with investments

<b>Sovereign risk (political and economic)</b>	Risk related to adverse events in a particular country or region that affects directly or indirectly the operation of the issuers residing in that country or its region and consequently also the value of FI issued in that country and/or the amount to be disbursed to the FI holder (investor).
<b>Market risk</b>	Risk that losses could occur related to remeasurement of FI as a result of the change of the market price. This risk consists of the price risk, currency risk, interest rates risk and liquidity risk.
<b>Price risk</b>	Probability of the Client sustaining losses due to change of the market price of FI involved in the transaction.
<b>Currency risk</b>	Probability of the Client sustaining losses due to fluctuations of the exchange rates of the currencies involved in the transaction.
<b>Interest rate risk</b>	Probability of the Client sustaining losses due to FI fluctuations resulting in changes of the financial market's interest rates.
<b>Liquidity risk</b>	Probability of losses due to insufficient liquidity of the market resulting in problematic or impossible sales of the currency or financial instrument at the preferred time and for the preferred price.
<b>System risk</b>	Risk that may occur due to operational malfunction or failures of the communication means and/or trading platforms and/or payment centres or payment systems, restricted internet access or operational interruptions or disruptions to other technical means.
<b>Legal risk</b>	Risk of losses and additional expenses being incurred due to amendments to the laws and regulations of the country or as a result of introduction of new regulatory enactments, including changes in taxes and introduction of new taxes .
<b>Information risk</b>	Losses arising from lack of access to accurate and complete information on the FI issuer (for instance shares, bonds), its future plans and overall market situation .
<b>Credit risk</b>	Potential losses in the event that the FI issuer may not settle or is incapable of settling the liabilities undertaken towards the Client if such liabilities derive from FI deals.
<b>Counterparty risk</b>	Risk that the Bank's counterparty may fail to settle its liabilities in due manner thus incurring losses to the Bank and its Clients.
<b>Payments risk</b>	Risk that disruptions may occur in the reporting systems or communication channels due to technical defects resulting in incorrect processing of the deals. The Client is exposed to this risk at the moments when settlements for FI transactions are not being completed.
<b>Transactions outside regulated market</b>	Risk that the Client may incur losses due to the transactions carried out outside the regulated market not being subject to compulsory regulation resulting in these transactions coming to a sudden halt, taking place irregularly or inconsistently or being encumbered otherwise. Also identification of FI price, closing of the position or introduction of the transaction related risk identification procedures may be encumbered or impossible.
<b>Other risks</b>	The Bank's activity may be affected also by other risks that the Bank can neither anticipate nor control fully. The list of the risks is not exhaustive, therefore the Client has to take into account that FI investments are related to additional risks.

### 4.2. Risks associated with certain deal types

Each type of FI deal may have not only the general risks referred to in Clause 4.1., but also specific risks described in Section 5. Nevertheless, the list of the named risks is not exhaustive, therefore, prior to engaging in transactions with specific FI, the Client, either independently or assisted by the bank's specialist, shall explore the market situation and risks inherent in a specific FI deal.

## 5. Description of Financial Instruments and Deals

### **Equities and Exchange Traded Funds (hereinafter referred to as - ETF) - simple FI**

Equities are share capital securities. In principle, the owner of equities or shareholder is one of the co-owners of the company. If the company is profitable, a portion of the profit may be distributed to the shareholders in the form of dividends. Equities, depending on their category, grant their owners different rights, for example, the right to participate in the management of the company (the right of voting in the shareholders' meetings). The more equities an investor owns, the larger capital share in the company the investor gets and, correspondingly, the larger share of distributed profits. The equities may be issued in both tangible and intangible forms. The main risk faced by the investor when buying equities is the purchase price of equities and the dynamics of further changes in their price. In future, the equities' price may either increase or decline. The overall profitability of the investment in equities is formed by both the acquired dividends and the shift in the equities' price (positive or negative). The price

of equities is influenced by several factors: company's development prospects, forecasted profits, profits per share, etc. Before investing in equities, the general economic environment of the country of incorporation of the company (share issuer), its development prospects, potential demand for the company's goods or services should be evaluated. In addition, equity price fluctuations, financial performance, management composition, organisational structure, and the reported productivity / efficiency of the company should be taken into account.

ETF are investment funds traded on stock exchanges with the underlying asset being either a specific index, branch, equities, bonds and other FI; the investors may purchase or sell the fund's units at any time. ETF value may change over the investment period and, depending on the market circumstances, it can be lower or higher compared to the amount of the initial investment. FI yield is related to the value fluctuations of the underlying assets and depends on the market circumstances. ETF is entitled to make regular pay-outs of the dividends/ coupons/ interest in proportion to the investments depending on the ETF underlying asset or reinvest them to expand ETF portfolio (these conditions must be included in the ETF prospectus and Client must familiarise itself with the prospectus). Mostly the risks are related to the instruments used by ETF and ETF structures. Usually ETF include various FI as diversification helps to lower the aforementioned specific risks of some FI - vastly diversified portfolios comprising various investments present less risk. Nevertheless, the Client may incur losses on the occasions named under Paragraph 4.1. of this Description; there is also the risk of the issuer that is related to substantial value impairment of the respective instrument due to inadequate management decisions of the managing company. Due to acquisition of the exchange traded investment funds, the Client may incur FI acquisition value related expenses and costs (FI purchase price multiplied by quantity) of investment nature that are not the commissions of the Bank or commission for services of a stock exchange, a depositary or other financial intermediaries.

#### **Short selling of shares - complex FI**

Involves additional risks since, when opening the short position in shares, the Client sells the shares that are not owned by the Client at the moment of sale (by borrowing them from the holder of such shares). The Client expects a fall in share prices in the future and expects to repurchase the previously sold shares at a lower price. The amount of money received from short selling is credited to the Client's investment account and is blocked until the Client repurchases the shares in the future and closes the short position in the shares. The short position shall be closed sooner or later, i.e. the shares must be repurchased and returned. Prior to engaging in short selling, the Client must provide an insurance deposit in the amount set by the Bank in its investment account opened with the Bank which may vary depending on the price fluctuations of the shares sold.

If the share price rises, the Client may incur losses, according to the difference between the selling price and repurchase price of the shares. The Client must take into account additional expenses – a commission to the provider of investment services – Bank for borrowing of the equities that usually is a fixed percentage of the value of the borrowed shares. The Client should also take into account that, if a corporate event (for example, company declaring the payment of dividends or assigning of rights) occurs at the period between the opening and closing of a short sale position, it will also be binding on the Client and, if closing the short position in this case, the Client will have to compensate corresponding amounts to the person from whom the shares have been borrowed, providing them on the Client's investment account opened with the Bank. The short position may be closed compulsorily at the request of the Bank.

Due to short selling of the shares, the Client may incur the following expenses and costs of investment nature that are not the commissions of the Bank or commission for services of a stock exchange, a depositary or other financial intermediaries:

- insurance deposit (a fixed percentage of transaction amount),
- as a result of changes in stock quotes – margin call and the obligation to replenish the insurance deposit to the initial margin,
- expenses related to the prohibition of the free disposal of the insurance deposit,
- costs of early closing of the short position (losses due to adverse changes in stock prices).

#### **Shares not admitted to trading on a regulated market - complex FI**

These are shares that have all the properties of simple shares, but are traded outside the regulated market posing additional credit, liquidity, issuer, sovereign and other risks for the investor.

#### **Debt securities (notes, bonds, collateralized obligations) - simple FI**

Debt securities, such as bonds, are debt FI based on the obligation of the issuer to pay to the owner the income in accordance with a predefined or variable interest income (coupon), as well as to repay to the owner the full nominal value of the debt security upon its maturity. The interest income, or coupon, is usually paid to the owner of the debt security at a pre-determined periodicity. The issuers of debt securities may be national governments, banks, companies, and other market participants. The debt securities may be issued in both tangible and intangible forms.

There are debt securities without a periodic interest payment (notes or zero coupon bonds). Debt securities of this type are usually (but not always) sold at a price lower than their nominal value and are repurchased at full nominal value.

Collateralized obligations are debt securities which secure debt obligations covered by mortgage loans or loans secured by government or local government guarantees or by certain cover set forth in applicable laws and regulations. Investments in collateralized obligations are characterised by a lower risk of issuer failing to fulfil its obligations, because the investor usually has a priority right to sell the assets used as collateral in order to satisfy the claim of the investor against the issuer.

The most significant risks that an investor should expect when purchasing debt securities are: the purchase price paid, the changes in the value of debt securities and the possibility that the issuer will not repurchase / pay off part or all of the debt securities. In future, the price of debt securities may either rise or fall. Despite the fact that debt securities issued or guaranteed by the government (the state) are considered as risk-free financial instruments, it cannot be ruled out that the above-mentioned cases may occur.

The price of debt securities is influenced by market interest rates – as they grow, the price of debt securities falls, and vice versa, i.e. when market interest rates fall, the price of debt securities increases. The overall market interest rate level is influenced by the monetary policy of the central banks, as well as by the attitude of market participants towards the development of rates.

Due to the purchase of debt securities, the Client may have costs and expenses related to the purchase price of the debt securities and the cumulative coupon value (interest income) on the date of the transaction (the date of purchase of the security) that are investment-related and are free of any commission of the Bank or commission for services of a stock exchange, a depositary or other financial intermediaries. The amount of potential losses related to investment in debt securities is limited by the acquisition (purchase) value of the debt security, unearned interest income (if any) and commissions paid. Losses may occur due to, but not limited to, for example, Issuer's bankruptcy, improper performance of the Issuer's obligations, changes in market prices, decrease in demand for the Issuer's goods / services and other cases specified in Paragraph 4.1 of this Description.

### **Investment funds - simple FI**

The investment fund is, in essence, a combination of many investors with a view to gaining profit from the increase in investment value. The total assets of the fund are managed and supervised by the investment fund manager. When managing the fund's investments, the fund manager must invest in accordance with the fund's strategy – for example, investing in different equities, bonds, term deposits, other FI, real estate. Participation of the investor in the fund and the resultant rights are certified with the investment fund certificate, which may be issued in both tangible and intangible forms.

When purchasing the investment fund certificates, the investor becomes a shareholder of the fund and obtains the right to qualify for an appropriate share of the fund's profit, if any. The performance of the investment fund depends on changes in the value of the investments made by the fund.

The main risk that an investor must expect when purchasing the investment fund's certificates is the same as investing in equities or bonds, i.e., the purchase price of certificates and changes in the potential value of the investment fund's certificate. In connection with the purchase of investment funds' certificates, the Client may incur costs and expenses related to the purchase value of the investment fund's certificates determined in accordance with the respective prospectus, which have the nature of an investment and which are not commissions of the Bank or commission for services of a stock exchange, depositary or other financial intermediaries.

The amount of potential losses related to investment in the fund is limited by the acquisition (purchase) value of the investment fund's certificate and the share of the fund's return on those investment fund's certificates. Losses may occur due to, but not limited to, for example, the Issuer's bankruptcy, improper performance of the Issuer's obligations, changes in the market prices, decrease in demand for the Issuer's goods / services and other cases specified in Paragraph 4.1 of this Description.

### **Complex bonds - complex FI**

Complex bonds are bonds that involve additional conditions or derivative FI that affects the disbursement schedule and their maturities or may affect the disbursement procedure and obligations in the event the issuer is liquidated. For instance, the investor in the subordinated bonds invests the funds in the issuer's equity resulting in higher interest rate, but also the risk that should the issuer go into liquidation, the investor would rank below the other bond holders on the creditors' list, but above the shareholders. Usually the subordinated bonds have the highest yield rate. Subordinated bonds are not subject to the compensations from the Deposit Guarantee Fund as the subordinated bonds and subordinated loans are exempt from the state guarantee scheme. Depending on the issue prospectus the subordinated bonds may be exchanged to equities or written off to the Bank's capital altogether. Complex bonds may be also perpetual meaning that the bonds have no specific maturity date and are subject to a larger price fluctuation risk.

### **Structured ETF, complex FI, PRIIPs instruments**

Structured ETF fund that includes derivative FI that affect fluctuation of the fund's price through *leverage* or disbursement schedule. The range of FI included in ETF differs for each ETF with the numbers being vast and names not always reflecting the assets included in ETF and their operational mechanism. Therefore, prior to investing in structured ETF, the investor shall study carefully the documents binding to ETF, prospectus, the Fact Sheet, investment policy or strategy or others. It is important to note that ETF are funds and commission is withheld for their management from the Client that is not related to the Bank's commission.

### **Derivative financial instruments (hereinafter - DFI) - complex FI, PRIIPs instruments**

The transactions in DFI are highly risky and unsuitable for Clients lacking relevant experience and knowledge. DFI are FI with a price or terms derived from the price of other FI, other tangible or intangible assets, their groups or indices (underlying asset), or other indicators. Prior to conducting DFI transactions, the Client must assess the potential risks and assess the suitability of DFI in the light of past experience, objectives, financial position and other conditions. Trading in DFI usually takes place using financial leverage (the financial leverage resources shall not be credited to the Client's account), when the Client needs to provide only a small part of the transaction amount for carrying out the transaction, which may result in significant losses or profits in comparison with the invested funds. This means that relatively small changes in market prices may cause proportionally much more substantial changes in the investment value. Some DFI, especially the structured ones, are characterised by high market price volatility and low liquidity, which increases the risk of even higher losses. As a result of rapid changes in prices, there is a risk of losing all the financial assets invested in the insurance deposit required for the transaction, and financial losses may also exceed the amount of this deposit.

1) **Futures Contracts (Futures)** - DFI that include the obligation to buy or sell the contractual amount of the underlying asset at a certain price on a future date. Futures contracts can be exchange-traded and over-the-counter contracts.

Due to the futures transactions, the Client may incur such costs and expenses that have the nature of an investment and are not the Bank's commissions or commissions for services of a stock exchange, depositary or other financial intermediaries:

- insurance deposit (depending on the value of the underlying assets and determined by the stock exchange);
- additional insurance deposit required if the price of the futures contract changes negatively for the Client and the margin call situation arises or the margin requirements change,
- full transaction amount, if a full settlement is made at the end of the Futures contract,
- expenses related to the prohibition of the free disposal of the insurance deposit.

The amount of potential losses in relation to transactions in DFI is unlimited and may exceed the amount of the security several times when the underlying asset price is substantially increasing or decreasing.

Losses may occur due to, but not limited to, for example, changes in the market prices of the underlying asset, issuer's bankruptcy, improper performance of the issuer's obligations, changes in the market prices, decrease in demand for the issuer's goods / services, and other cases specified in Paragraph 4.1 of this Description.

2) **Options** are DFI that set an obligation of the option seller and right (but not an obligation) of the option buyer to buy (Call option) or to sell (Put option) the amount of the underlying asset specified in the contract at a fixed price on any date between the date of signing the option and the date of execution of the option (American option) or on the date of execution of the option (European option). The option buyer pays the premium for the right to claim the execution of the option. The amount of the premium paid depends on the volatility of the underlying asset (exchange rate, interest rate, stock or stock price indices, commodity price), option period, strike price, and other less significant factors. The option seller assumes price risks (including loss of collateral) in order to be able to secure the option buyer's right to claim the option. The option seller receives the premium for assuming the obligations.

Due to the option transactions, the Client may incur such costs and expenses that have the nature of an investment and are not the Bank's commissions or commissions for services of a stock exchange, depositary or other financial intermediaries:

- option premium (in case of purchase of an option),
- insurance deposit (fixed percentage of the transaction amount) if the Client acts as an option seller,
- full transaction amount, if a full settlement is made at the end of the Option contract,

- expenses related to the prohibition of the free disposal of the insurance deposit.

The amount of potential losses of the Client as an option buyer is limited to the option premium paid (purchase value). The amount of potential losses of the Client as an option seller is not limited. If the Client sells put options, that is, undertakes to buy from the option buyer a certain amount of the underlying asset at a certain price in the future, its losses may be unlimited if the price of the underlying asset decreases substantially during the option period. If the Client sells call options, that is, undertakes to sell to the option buyer a certain amount of the underlying asset at a certain price in the future, its losses may be unlimited if the price of the underlying asset increases substantially.

Losses may occur due to, but not limited to, for example, the changes in the market prices of the underlying asset, issuer's bankruptcy, improper performance of the issuer's obligations, changes in market prices, decrease in demand for the issuer's goods / services, and other cases specified in Paragraph 4.1. of this Description.

#### **REPO/REVERSE REPO transactions – complex FI intended for professional Clients only**

REPO transaction – a contract for the sale of securities at a specified price, with a condition of repurchasing these or similar securities at a specified price on the maturity date.

REVERSE REPO transaction – a contract for the purchase of securities at a specified price, with a condition of repurchasing these or similar securities at a specified price on the maturity date.

In either of the transactions, the ownership of the securities passes to the buyer of the securities. The security repurchase price is calculated on the basis of the interest rate specified in the transaction.

Due to REPO/REVERSE REPO transactions, the Client may incur such costs and expenses that have the nature of an investment and are not the Bank's commissions or commissions for services of a stock exchange, depository or other financial intermediaries: in REPO transactions:

- Client's interest payments to the Bank. The interest amount is included in the repurchase price of securities,
- the purchase value of the securities to be used in the transaction,
- insurance deposit for the REPO transaction (depending on the value of the securities),
- additional insurance deposit required if the securities price changes negatively for the Client and the margin call situation arises or the margin requirements change,
- expenses related to the prohibition of the free disposal of the insurance deposit.

in REVERSE REPO transactions:

- REVERSE REPO transaction amount for the purchase of securities from the Bank,
- insurance deposit for the REVERSE REPO transaction (depending on the value of the securities),
- additional insurance deposit required if the securities price changes negatively for the Client and the margin call situation arises or the margin requirements change,
- expenses related to the prohibition of the free disposal of the insurance deposit.

If during the REPO/REVERSE REPO transaction period the market value of the securities changes, the Bank has the right to request additional collateral from the Client or to terminate the transaction if the Client fails to provide it. The amount of potential losses in connection with the early closing or termination of Repo/Reverse Repo transactions may exceed the amount of the transaction. The Client may lose the insurance deposit for the Repo/Reverse Repo transaction. The Client may also incur losses as a result of early closing of Repo/Reverse Repo transactions – sale/purchase by the Bank of the Repo/Reverse Repo object (securities) at a price lower/higher than the price of securities at the moment of the conclusion of the Repo/Reverse Repo Transaction.

Losses may occur due to, but not limited to, for example, the Issuer's bankruptcy, improper performance of the Issuer's obligations, changes in the market prices, decrease in demand for the Issuer's goods / services and other cases specified in Paragraph 4.1. of this Description.

#### **Margin Transaction**

A margin transaction is a transaction that allows purchasing FI by using a financial leverage, for example, margin trading in currency contracts (Forex), margin trading with shares or margin lending in FI collateral. This means that the Client pays only a part of the transaction amount (insurance deposit), while the missing amount is lent to the Client (leverage resources shall not be credited to the Client's account, but their allocation allows the Client to execute a transaction for a higher amount than the insurance deposit amount), as a result of which both eventual benefits and losses increase. The margin call (insurance deposit amount) depends on the respective transaction amount and FI specification. Such transactions are high-risk and unsuitable for Clients lacking relevant experience and knowledge. If FI is purchased and sold on the same day, the Client does not have to pay interest on the use of financial leverage. If the Client purchases FI and does not want to sell them on the same day, the Client shall pay to the Bank interest on the use of financial leverage at the previously agreed interest rate. Other risks depend on the FI type purchased by the Client. Margin transactions are high-risk, and even the slightest changes in the price of the financial instrument would have a proportional impact on the amount of assets invested. The Client must carefully consider the risks of margin trading before making any investment decisions.

Within margin transactions, the Bank also offers its Clients to conduct foreign exchange transactions under the following conditions:

- **Currency swap transaction** – a fixed-term purchase of one currency, immediately agreeing on the resale of that currency on a fixed future date, at a certain rate and in the same amount, Swap transaction is actually a combination of two currency exchange transactions – spot (settlement today) and forward (future settlements),
- **Margin stock trading** – speculative stock transactions using borrowed funds provided to the Client by the Bank using security assets and other assets that are owned by the Client and kept in the Client's account with the Bank,
- **Forward transaction** – exchange of one currency to another currency on a fixed future date at a pre-specified exchange rate and in a specified amount,
- **Spot transaction** – a currency exchange transaction executed by the Client and for which the Bank ensures settlements not later than by the end of the second business day following the conclusion of the transaction, provided that that the funds kept in the Client's accounts opened with the Bank are sufficient to execute this transaction.

In order to carry out swap and/or forward transactions, the Client must deposit with the Bank the funds required for the transaction's collateral in the amount and currency which depend on the currency, term and amount of the transaction. In case of adverse exchange market price changes, the Bank has the right to request the Client to supplement the collateral to a certain amount depending on the transaction amount and the negative result of currency revaluation. If the Client does not complete the above-mentioned collateral supplement, the Bank has the right to terminate the relevant transaction before maturity, and the Client may incur losses and other additional expenses. If such transactions are carried out for gainful purposes, the Client should be aware that they are associated with high risk. As a result of unfavourable currency exchange rate fluctuations, the Client may incur unlimited losses and there is a risk that at the time of the transaction the currency exchange rate in the relevant market will be

better than the one agreed upon in the transaction, but the Client will not be able to use it.

While carrying out spot, forward or swap transactions, there is a risk that, at the time of the transaction, the currency exchange rate on the relevant market will be better than the one agreed in the transaction, but the Client will not be able to use it.

Due to forward or swap transactions, the Client may incur such costs and expenses that have the nature of an investment and are not the Bank's commissions or commissions for services of a stock exchange, depository or other financial intermediaries:

- insurance deposit for margin transactions,
- additional insurance deposit required if the FI price changes negatively for the Client and the margin call situation arises or the margin requirements change,
- expenses related to the prohibition of the free disposal of the insurance deposit,
- full transaction amount, if full settlement is performed upon expiry of the currency exchange agreement.

The amount of potential losses related to the spot, forward and swap transactions may arise if the Client wishes to terminate the transaction before its expiry or carries out a mark-to-market transaction by concluding / applying an identical opposite transaction before the residual maturity of the terminated / revalued transaction. It is affected by the current market situation and the exchange rates and interest rates offered by the Bank.

Due to margin transactions, including those that involve shares, the Client may incur such costs and expenses that have the nature of an investment and are not the Bank's commissions or commissions for services of a stock exchange, depository or other financial intermediaries:

- insurance deposit for margin transactions,
- additional insurance deposit required if the FI price changes negatively for the Client and the margin call situation arises or the margin requirements change,
- expenses related to the prohibition of the free disposal of the insurance deposit,
- interest on crediting the margin transaction.

The amount of potential losses related to the margin transactions, including those that involve shares, is unlimited and may exceed the amount of the security several times when the underlying asset price is substantially increasing or decreasing.

Losses may occur due to, but not limited to, for example, the Issuer's bankruptcy, improper performance of the Issuer's obligations, changes in the market prices, decrease in demand for the Issuer's goods / services, changes in the market value of collateral, and other cases specified in Paragraph 4.1. of this Description.

**The Bank warns that all types of risks referred to in Part 4 of this Description may be typical for transactions with all financial instruments.**

At the request of the Client the Bank's experts will, at the face-to-face meetings with the Client, carefully explain (in particular, by means of illustrated examples) to the Client each investment product's specifics, operating model, possible main risks and their possible impact on the Client.

## **6. Tariffs for Investment Services and Investment-related Services and Taxation**

### **6.1. Tariffs for investment services and investment-related services**

Information about the tariffs for the investment services and investment-related services is available at the Bank's home page on the Internet <https://www.pnbbanka.eu/lv/rates-fees>. If the Bank has additional expenses associated with provision of investment services and investment-related services to a Client, the Client shall reimburse the expenses in accordance with the terms and conditions of the agreement concluded between the Bank and the Client.

Withholding of the commissions of the Bank and third parties is outlined in the illustrative examples <https://www.pnbbanka.eu/files/pdf/mifid/>.

### **6.2. Taxation**

The Bank requests to consider that information laid down in this paragraph is of informative nature and it may not be considered as an advice in taxation matters, and it does not cover all the cases referred to in the Law on Personal Income Tax or other laws regulating taxation. It is recommended consulting with your tax advisor on application of taxes in every individual case. When providing the investment services and investment-related services to the Clients, the Bank complies with the obligation to withhold taxes specified in the Law on Personal Income Tax, the Law on Enterprise Income Tax and other laws of the Republic of Latvia regulating taxation.

#### **Withholding taxes on dividends**

The Bank withholds the personal income tax in the amount of 10% (*ten percent*) and transfers it to the state budget of the Republic of Latvia:

- 1) when transferring to the Clients (natural persons – both residents and non-residents of the Republic of Latvia) the dividends received from the share issuers registered in the Republic of Latvia;
- 2) when transferring to the Clients (natural persons – residents of the Republic of Latvia) the dividends received from the share issuers registered outside the Republic of Latvia.

If the Bank has information that the personal income tax has already been withheld from the dividends received from the share issuers registered outside the Republic of Latvia, it acts in the following way:

- 1) if the personal income tax has been withheld at a rate lower than 10% (*ten percent*), the Bank – when transferring the dividends to the Clients withholds the tax difference between the tax rate of 10% (*ten percent*) set in the Republic of Latvia and the tax rate already withheld outside the Republic of Latvia;
- 2) if the personal income tax has been withheld at a rate higher than 10% (*ten percent*), the Bank – when disbursing the dividends to the Clients does not withhold the tax.

If the dividends are disbursed by the share issuer registered in a country of the European Economic Area (including Latvia) and Bank possesses information that the dividends have been disbursed from the profit generated in the period starting on 1 January 2018, no tax is withheld.

If the dividends are disbursed by the share issuer not registered in a country of the European Economic Area (except for a share issuer registered in a low-tax or zero-tax country or territory) and Bank possesses information that the dividends have been disbursed from the profit generated in the period starting on 1 January 2018 and that a corporate income tax or equitable tax has been paid on the distributed earnings or that a personal income tax or equitable tax has been withheld from the dividends, no tax is withheld.

If legal or natural persons from low-tax or zero-tax countries or territories are disbursed dividends and extraordinary dividends, the Bank withholds the corporate income tax of 20% (*twenty percent*) from the amount of the dividends and transfers that amount to the state budget of the Republic of Latvia.

If the dividends are disbursed by the issuer registered in a low-tax or zero-tax country or territory, the Bank - when disbursing the dividends to a natural person (both the residents and non-residents of the Republic of Latvia), withholds the personal income tax of 20% (*twenty percent*) and transfers that amount to the state budget of the Republic of Latvia.

If the Bank possesses supporting documents evidencing withholding of the tax from the disbursed dividends, the Bank acts in the following way:

- 1) if the personal income tax has been withheld at a rate lower than 20% (*twenty percent*), then the Bank – when transferring the dividends to the Clients (natural persons – both residents and non-residents of the Republic of Latvia) withholds the tax difference between the tax rate of 20% (*twenty percent*) set in the Republic of Latvia and the tax rate already withheld outside the Republic of Latvia;
- 2) if the personal income tax has been withheld at a rate higher than 20% (*twenty percent*), the Bank – when disbursing the dividends to the Clients (natural persons – both residents and non-residents of the Republic of Latvia) does not withhold the tax.

The Bank requests to take into account that the Client is obliged to submit the documents (also repeatedly if there have been any changes), which confirm the Client's or the beneficial owner's (in case the Client has a nominal account opened) actual tax residence country, if the rules and regulations of the registration country of the securities' issuer, counterparty or depository or the country of FI circulation require submission of such documents, and that the Bank may submit the specified documents to the third parties to ensure correct calculation and deduction of taxes. If the Client has not submitted the specified documents, the calculation and deduction of taxes will be implemented at the rates which apply to such cases, in accordance with the rules and regulations of the respective country.

#### **Withholding taxes on revenues gained from selling capital assets**

The Clients shall calculate and transfer to the state budget the personal income tax of 20% (*twenty percent*) of the revenue from selling the capital assets within the accounting period themselves.

The Bank requests to take into account that, depending on the country of the Client's jurisdiction and the country of the FI issuer's jurisdiction and the country of FI circulation, the taxes of that other country may also be applicable. In the light of the above, we suggest consulting your tax advisor before carrying out the respective transaction.

## **7. Information on Safe Custody of Client's Financial Instruments and Cash Assets**

#### **Participation in the Deposit Guarantee System**

The Bank is a participant in the Deposit Guarantee System of the Republic of Latvia.

The Guarantee System of the Clients' Deposits covers the cash assets on the Client's investment account that were transferred to that account within the framework of provision of brokerage services, but does not refer to the cash assets transferred for management to the account recording the cash assets transferred under individual asset management.

The guaranteed compensation for one Client for the deposit on the investment account (taking into account also other deposits with the Bank) is the amount of the guaranteed deposit, but no more than 100 000 (*one hundred thousand euro*) in total (i.e. if the Client holds with the Bank several guaranteed deposits, all the guaranteed deposits are aggregated and considered as a single guaranteed deposit). The Client does not have to submit to the Bank an application and other documents evidencing the depositor's right to the guaranteed compensation. The Bank draws up a list of the Clients to whom the guaranteed compensation is to be disbursed.

As stipulated by the Deposit Guarantee Law, there are occasions when the guaranteed compensation is not disbursed to the depositors. For example, the guaranteed compensation is not disbursed for:

- the guaranteed deposits based on the claim that has been brought or might be brought against the Bank due to the Bank effecting transactions with the certificates of the bearer deposits or bearer bonds;
- the debt securities issued by the Bank with the initial maturity exceeding one year.

#### **Participation in Investor Protection System**

The Bank is a participant in the Investor Protection System of the Republic of Latvia. The Client receiving brokerage services is entitled to a compensation for irretrievably lost FI as well as losses incurred by the non-fulfilled investment service provided that it occurred when the Bank was incapable of full and timely fulfilment of the contractual obligations towards the Client due to the Bank's financial situation. The above does not apply to the situations when such non-fulfilment of investment services has occurred during the normal operation of the Bank. The Client is disbursed a compensation of 90% (*ninety percent*) of the value of the irretrievably lost FI or losses caused by non-fulfilment of the investment service, but shall not exceed 20 000 (*twenty thousand euro*). The compensation is disbursed only to those investors that have submitted a respective application to the Financial and Capital Market Commission. The compensation application must be submitted within a year since it has become known to the Client that the Bank has failed to fulfil its obligations, but not later than five years from the day of non-fulfilment of the obligations. Investor protection does not cover the cases where the Client has incurred losses due to the price fluctuations of the financial instruments or if FI have become non-liquid.

The Investor Protection Law stipulates the cases when the compensation is not disbursed to the investor, for example the compensation is not disbursed:

- to the licensed providers of investment services, insurance companies or professional investors and professional Clients;
- to the persons that have received high interest rates or financial concessions or have caused or used in their favour the circumstances that have created financial difficulties for the Bank or promoted deterioration of its financial position;
- on other cases referred to in the law.

#### **Holding of financial instruments**

In the course of providing the investment services or investment-related services the Bank ensures holding of the Clients' FI and cash assets (to be used to secure the Client's FI transactions) into segregated accounts that are distinguished from the accounts used to keep the assets owned by the Bank. The Bank ensures that:



- 1) it is possible at any time to separate FI belonging to one Client from FI belonging to another Client or FI belonging to the Bank;
- 2) records are reconciled regularly with FI records that are kept by the intermediary company in which the Bank holds the Clients' financial instruments;
- 3) the records and record keeping are accurate and commensurate to the FI amounts held by the Clients.

The Bank holds FI owned by the Client on the client's or nominal account opened in the name of the Bank with the counterparty provided that the Client's FI can be distinguished from FI belonging to the counterparty or Bank itself. The financial instruments of several Clients may be kept on one nominal account at the same time. The Bank may hold FI owned by the Client only with an intermediary that is subject to the requirements regarding segregated keeping of the Client's FI effective in the respective country and whose operation is supervised.

The Bank may transfer FI owned by the Client to an intermediary registered in the third country if holding of FI on behalf of the third parties is not regulated in that country provided at least one of the following provisions has been complied with:

- the nature of FI or FI related investment service requires for it to be transferred for holding to the intermediary in that (third) country;
- FI are held on behalf of professional Client and Client has requested the Bank in writing to transfer the respective FI for holding with the intermediary in that (third) country.

The Bank notifies that as regards FI and cash assets held with a foreign intermediary and rights arising therefrom, as well as regarding the act or omission and responsibility of foreign intermediary, the legal acts and market practice of the registration country of the intermediary may be applied that might differ materially from the legal instruments and market practice of the Republic of Latvia; hence the Client is informed that no favourable treatment will be applied to the Client's FI or protection of the cash assets stipulated by EU laws and regulations.

The intermediary may have the right to encumber the FI and cash assets owned by the Client and held by it and perform offsetting with regard to these FI and cash assets unless the legal instruments applicable in the intermediary's legal system where FI are held provide for it. The Client is informed that on the occasions when the Bank is obliged to conclude an agreement establishing such collateral related interests, encumbrances (pledge rights) or netting rights, the Client's FI may be subject to additional risks. In this case the Bank ensures in FI accounting a clear reference to the ownership status of the Client's FI.

The Bank performs transactions with FI owned by the Client in its name or on the account of another Client, including the securities financing transactions - solely with a prior explicit consent of the Client. The Bank does not conclude agreements with the private Clients about financial collateral with transfer of ownership rights with the purpose of guaranteeing the current or upcoming, existing, conditional or contingent obligations of these Clients.

The Bank shall not be liable for the Client's losses or expenses that may occur due to the act or omission of the intermediary (for example, inappropriate accounting for FI and cash assets, negligence and bad management, fraud), except for the cases when the Client has incurred losses due to gross negligence or malpractice of the Bank.

## 8. Description of Policy on Prevention of Conflict of Interest in Provision of Investment Services and Associated Investment Services

Following the requirements of the laws and regulations of the Republic of Latvia and laws and regulations of the European Union binding upon the Republic of Latvia, the Bank has developed and implemented the *Policy on Prevention of the Conflict of Interest in Provision of Investment Services and Associated Investment Services* aimed at identification and prevention or solving of the conflicts of interest so that to ensure equal treatment of all the Clients in provision of the investment services. The Bank's *Policy on Prevention of the Conflict of Interest in Provision of Investment Services and Associated Investment Services* defines the principles for prevention of the Bank's conflicts of interest, procedure for identification, management and prevention of the conflicts of interest as well as procedure for their disclosing.

The full text of the Bank's *Policy on Prevention of Conflict of Interest in Provision of Investment Services and Associated Investment Services* is posted on the home page of the Bank at: <https://www.pnbbanka.eu/lv/mifid>.

## 9. Information about EMIR and MIFID 2

On 4 July 2012, the European Parliament adopted the European Market Infrastructure Regulation No 648/2012 on *Over-The-Counter* (hereinafter referred to as OTC) *DFI* (hereinafter referred to as EMIR), *Markets in Financial Instruments Regulation* No 600/2014 and *Markets in Financial Instruments Directive* No 2014/65/EU, both together referred to as *MIFID 2*. *EMIR* and *MIFID 2* establish common rules for FI transactions aimed to reduce the risk for these types of transactions. EMIR requirements are applicable also to the DFI transactions (such as forwards, swaps and options (see the complete list of derivatives in the Financial Instruments Market Law) concluded on the regulated market.

EMIR requirements are binding on the legal entities registered in the European Union, which perform DFI transactions. Requirements imposed by EMIR depend on the classification of the counterparty. EMIR requirements do not apply to private individuals.

Under EMIR, the Bank classifies the Clients (counterparties) which enter into the OTC DFI transactions as follows:

- financial counterparty – banks, credit institutions and insurance companies, authorized investment and pension funds as well as fund management companies,
- non-financial counterparty – persons other than the financial counterparty.

Reporting obligations are applicable to all the aforementioned Clients performing transactions with DFI.

The main EMIR requirements are:

- providing trade repository with report on each DFI transaction,
- centralized clearing of all the transactions matching the criteria,
- application of risk mitigation to any transactions with OTC DFI.

The European Union residents and non-residents covered by EMIR and *MIFID 2* requirements are obliged to get LEI (Legal Entity Identifier) – a unique 20-digit combination of letters and numbers which allows identifying the legal entity entering into any transactions with DFI.



The Bank generates at its own discretion a unique transaction identifier (UTI) and provides the Client (counterparty) with that by means of PNB Internetbanka system on the next business day of the Bank following the conclusion of the transaction, while specifying the basic parameters of the transaction. Upon receipt of UTI the Client itself provides the chosen trade repository with information about the transaction, unless the Bank and Client have agreed otherwise.

As per EMIR terms, the Clients that the Bank has classified as a non-financial counterparty, are obliged to reconcile their outstanding OTC DFI contract's portfolio with the Bank. Portfolio reconciliation should be performed every day, every week, every quarter or every year (or in other periods) as per the terms of EMIR. Reconciliation periodicity depends on classification (financial counterparty, non-financial counterparty, non-financial counterparty exceeding clearing thresholds) and amount of outstanding contracts.

For financial counterparties or non-financial counterparties exceeding clearing thresholds, portfolio reconciliation should be performed:

- each business day of the Bank if the party and the Bank have at least 500 OTC DFI contracts outstanding with each other,
- once per week if the party and Bank have between 51 and 499 OTC DFI contracts outstanding with each other at any time during the week;
- once per quarter if the party and the Bank have 50 or less OTC DFI contracts outstanding with each other at any time during the quarter.

If you are classified as a non-financial counterparty, portfolio reconciliation should be performed:

- once per quarter if the party and Bank have more than 100 OTC DFI contracts outstanding with each other at any time during the quarter;
- once per year if the party and Bank have 100 or less OTC DFI contracts outstanding with each other.

To perform the above obligations the Bank will provide the Client with reports (as per the Client's classification outlined below) about the Client's portfolio via the on-line bank PNB Internetbanka. If, in the opinion of the Client, such report contains incorrect data, the Client should notify the Bank thereof immediately. If the Client does not notify the Bank about any discrepancies in the report within 5 (five) business days of the Bank as from the receipt date (date of report formation in PNB Internetbanka), the data in the report shall be considered as correct, full and approved by the Client.

A financial counterparty or non-financial counterparty with at least 500 OTC FI contracts outstanding with the Bank which are not centrally cleared, shall analyse them in cooperation with the Bank at least 2 (twice) a year and, if required, test a possibility to conduct portfolio compression in order to mitigate the Bank's counterparty credit risk.

The Client bears the whole responsibility for calculation of its minimum clearing limits as the Bank may not have all the information on all the transactions concluded by Client.

The Client approves the OTC DFI transactions concluded between the Bank and the Client according to the procedure specified in the Bank's General Provisions for Transactions and Agreement on Brokerage Services. However, sending of UTI to the Client will be considered as the Bank's approval of the OTC DFI transactions.

In addition to the general order of dispute resolution stated in the Bank's General Provisions for Transactions and Agreement on Brokerage Services, in case of a dispute between the Client and Bank regarding the executed DFI transaction, the Bank shall register the time period during which this dispute remains unresolved, the parties involved in the dispute, amount of the dispute and also hereby notify that if the parties fail to reach an agreement regarding the dispute within 5 (five) business days of the Bank, the Board of the Bank shall also be involved in the dispute resolution. If the dispute concerns a transaction the amount of which exceeds 15 (fifteen) million euro, and it remains unresolved for 15 (fifteen) business days of the Bank, the Bank shall notify the Financial and Capital Market Commission of the Republic of Latvia about such dispute.

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