

General risks related to investment

The following is a description of the general risks related to different financial instruments and investment services.

Country risk

Country risk is the risk that in the state where securities have been registered or where the issuer of the securities that the client has invested in has seat or is registered events affecting the political or economic stability or further development of the state or region occur and as a result whereof there may be a threat that the client, in part or in full, loses its investments in the state or region or suffers considerable losses on investments made. Country risk includes, for instance, radical changes in the economic and legal policy environment (e.g. nationalisation processes), social and internal policy crisis situations (e.g. mass disorders), etc.

Liquidity risk

Liquidity risk is associated with the market risk and lies primarily in the fact that the client may suffer losses due to absence of liquidity in the respective regulated market, which impedes the sale of securities at the time desired by the client or the securities cannot be sold at a price close to the market price or at a price desired by the client.

Foreign currency risk

In the case of investments denominated in a foreign currency there is a risk that the client suffers losses on such investments due to unfavourable changes in the exchange rates of various currencies.

Market risk

Market risk is a risk that the client suffers losses due to overall adverse price movements in the securities market or in a certain area thereof. Adverse price movements may be caused, for instance, by poor economic indicators of the relevant state or branch of the economy, unstable economic environment, unstable securities market, etc.

Price risk

Price risk is the risk that the client suffers losses on adverse changes in the value of a financial instrument or other asset which it has invested in. The price of financial instruments may both decrease as well as increase.

Credit risk (issuer risk)

The client may suffer losses due to the fact that the value of financial instruments acquired by it falls in connection with the poor financial performance, economic difficulties or other similar indicators of the issuer of the securities. The issuer's poor economic performance may cause, among other things, the inability of the relevant issuer to perform obligations arising from the securities before the investors.

Settlement system risk

Settlement system risk is the possibility that (primarily) technical failures in the systems and accounts or communications channels of registers of financial instruments, stock exchanges, clearing houses and other institutions or other problems may cause cancellation of trades, delay of post-trade settlements, false transfers and other events, which may result in losses for the client.

Counterparty risk

Although the managers of market venues created for trading in financial instruments (e.g. a stock exchange or another regulated market) have usually precluded the risk by taking various measures, there is a risk that the person who has conducted a trade with the client via a bank does not perform its obligations arising from the trade.

Legal risk

Legal risk is the risk that the client suffers losses due to an adverse restriction or obligation established by legislation or a rule of a competent institution following making an investment. The

client may not have a full overview or any overview of legislation effective in the state where the issuers whose securities the client has invested in are located. The client's rights regarding securities which are governed by the legislation of a third state may differ from those provided for in Estonian or European Union legislation. Thus, the client may not be aware of its obligations and may thereby suffer losses or sanctions arising from law may be imposed on the client. Furthermore, through amendment of legislation adverse restrictions or obligations may be established with regard to the client following an investment being made. If securities are kept on an account opened in the name of a bank, the client cannot personally exercise its rights and obligations.

Information risk

The client may not have the chance to receive adequate and correct information about securities or the receipt of such information is difficult, as a result whereof the client may not have the opportunity to make reasoned decisions regarding its investments.

Communication channel risk

Although giving transaction orders by phone is an internationally recognised practice, which is a general practice in provision of financial services there is a risk that the level of care and attention exercised by the parties and the security elements are insufficient to prevent a situation where a person taking advantage of the absence of a direct contact between the bank and the client may assume, against the will of the client, obligations that are binding on the client.

Interest risk

The interest risk is related to the market risk and lies in the fact that the client may suffer losses from adverse developments on the market, which may be manifested in changes in interest rates, interest rate volatility, interest rate gap between investment objects of different risk levels, early repayment of debts, etc.

Tax risk

Depending on the regulation or practice applicable on a specific market or on the services provided by the depository operating on the relevant market, the client may not always be able to enjoy the incentives arising from a double taxation prevention treaty made between its country of residence and the country where the securities are kept. Also, taxation may be influenced by the fact that the client's securities are kept, with the client's consent, on an account opened in the depository in the name of the bank, as a result of which the client's securities are treated as those of the bank.

Depository risk

Regardless of the fact that upon selection of persons (depository) who provide securities' custody, registration and/or settlement services used by the bank, the bank proceeds from a procedure established for that purpose and thereby exercises professional diligence, the separation of the securities and other assets of the client kept on nominee accounts in the depository from the securities and other assets of the depository may not, due to deficiencies in legal regulation and/or absence of respective court practice, be fully ensured in certain states or regions in the event of a possible bankruptcy of the depository. Proceeding from the aforementioned there is a risk that in the event of bankruptcy of the depository or upon taking coercive measures with regard to it the client will suffer losses due to a loss or withholding of the securities kept on the nominee accounts opened in the relevant depository.

Risks relating to keeping securities on a nominee account

On certain markets it may be difficult or impossible to participate or vote in the general meeting of shareholders based on securities kept on a nominee account.

Risks relating to keeping securities in the name of the bank, in the event that there is no regulation regarding keeping assets on another person's account

Upon keeping the securities of the client in the name of the bank on an account opened with a third person in Estonia or another country, there is a risk that, for instance, the creditors of the account

holder, i.e. the bank, or other persons may treat the securities registered on such account as the assets of the account holder. In addition, the separation of the clients' assets from the bankruptcy estate of the account holder may be not regulated or less regulated in some markets when compared to the regulation on holding the assets in a nominee account. Therefore, it cannot be excluded that the owners of the securities must participate in the bankruptcy proceedings of the account holder and verify their ownership of the securities. During this, disposal of the securities or exercising of the rights arising from the securities may be obstructed.

By keeping securities of various clients, upon the client's consent, on one account opened in the name of the bank, the client may not have the chance to personally participate in the general meetings of issuers. The client can participate in the general meetings of issuers only in the event that the bank offers such service. In some markets, there may apply a requirement that the account holders may vote in the general meeting of issuers with all their securities registered in their securities account in the same way (i.e. they may vote only provided that all clients whose securities are held together on the account, wish to vote in the same way).

Upon keeping the securities of different clients together, there is a risk that as a result of a mistake securities belonging to the client that do not constitute the object of the relevant transaction are transferred or encumbered. There is also the risk that one client of the account holder fails to perform the legal obligations of the shareholders (e.g. notification of relevant authorities of changes in the qualifying holding). As a result of such mistakes or violations the securities account may be seized or blocked and no client may be able to dispose of or use their securities and the client may also be deprived of the voting right based on these securities.

To exercise certain rights arising from the securities or to participate in corporate events the bank may be asked for documents and/or confirmations, which the bank cannot issue. As a result, the client may have difficulties in exercising certain rights arising from the securities or the client may lose them.

Risks related to currency and OTC derivative instruments

Currency and OTC derivative instruments incur certain risks and trading therewith requires certain knowledge. Risks related to currency derivative instruments and OTC derivative instruments are, among other things, different depending on the type of the derivative instrument. The client is personally liable for the risks and must therefore examine, through the institution issuing the securities or through its portfolio manager, the characteristic features of the instruments and the terms and conditions applicable to the trading of the aforementioned instruments. The client must observe, on a regular basis, the investments (positions) that it has made in such instruments. Furthermore, in its own interests the client must be ready to act immediately, if necessary, e.g. provide collateral or terminate investment in derivative agreements (repurchase or close its positions). If the client does not provide adequate collateral, the bank shall generally have the right to immediately terminate the investment agreement (close the position) without notifying the client thereof in order to retain the loss as minimum as possible. The client must therefore carefully monitor the effect of price movements on its collateral obligation, in order to avoid an involuntary closing of the position.

Unless any precautionary measures are taken for limiting the risks, the holder of the option runs, for example, the risk that the option value may decrease or the option may lose its value by the maturity term thereof. In the latter case the premium payable upon purchasing of the option will be lost. Unless any precautionary measures are taken, the risk borne by the issuer of the option may be unlimited. The term of derivative instruments may be different and derivative instruments of both very short term as well as with a term of several years are issued, which affect the leveraged effect and thereby also the risk borne by the client. Therefore, the client must observe the term of derivative instruments carefully.