DESCRIPTION OF DIFFERENT TYPES OF INVESTMENT RISKS

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1. Margin disclosure

LHV Bank is furnishing this document to provide some basic facts about purchasing securities on margin, and to alert you to the risks involved with trading securities in a margin account. Before trading in a margin account, please review this statement and our margin agreement carefully and contact LHV Bank regarding any questions you may have about your margin account.

When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from LHV Bank. If you choose to borrow funds from LHV Bank, you will need to open a margin account. The securities purchased with the borrowed funds are LHV Bank's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan. As a result, LHV Bank can take action, such as issue a margin call and/or sell securities in your account, in order to maintain the required equity in the account.

You should understand that pursuant to the LHV Bank's terms and conditions, LHV Bank may not issue margin calls, that LHV Bank will not credit your account to meet intraday margin deficiencies, and that LHV Bank may liquidate positions in your account in order to satisfy margin requirements without prior notice to you and without an opportunity for you to choose the positions to be liquidated or the timing or order of liquidation. There are a number of additional risks that all investors need to consider in deciding to trade securities on margin.

1.1 Risks

You can lose more funds than you deposit in the margin account. A decline in the value of securities that are purchased on margin may require you to provide additional funds to LHV Bank that has made the loan to avoid the forced sale of those securities or other securities in your account.

LHV Bank can force the sale of securities in your account. If the equity in your account falls below the maintenance margin requirements under LHV Bank's higher requirements LHV Bank can sell the securities in your account to cover the margin deficiency. You will also be responsible for any short fall in the account after such a sale.

LHV Bank can sell your securities without contacting you. Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the firm cannot liquidate securities in their accounts to meet the call unless the firm has contacted them first. This is not the case. As a matter of good customer relations, most firms will attempt to notify their customers of margin calls, but they are not required to do so.

You may have to deposit additional cash or securities in your account on short notice to cover market losses. You are not entitled to an extension of time on a margin call. While an extension of time to meet initial margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension. In addition, a customer does not have a right to an extension of time to meet a maintenance margin call.

You are not entitled to choose which security in your margin account is liquidated or sold to meet a margin call. Because the securities are collateral for the margin loan, LHV Bank has the right to decide which security to sell in order to protect its interest.

LHV Bank can increase its "house" maintenance margin requirements at any time and is not required to provide you with an advance written notice. These changes at LHV Bank can take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause LHV Bank to liquidate or sell securities in your account.

It is important that investors take time to learn about the risks involved in trading securities on margin, and investors should consult their brokers regarding any concerns they may have with their margin accounts.

2. Day trading risk disclosure statement

You should consider the following points before engaging in a daytrading strategy. For purposes of this notice, a "day-trading strategy" means an overall trading strategy characterized by the regular transmission by a customer of intraday orders to effect both purchase and sale transactions in the same security or securities.

Day trading can be extremely risky. Day trading generally is not appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. You should be prepared to lose all of the funds that you use for day trading. In particular, you should not fund day-trading activities with retirement savings, student loans, second mortgages, emergency funds, funds set aside for purposes such as education or home ownership, or funds required to meet your living expenses. Further, certain evidence indicates that an investment of less than $50,000 will significantly impair the ability of a day trader to make a profit. Of course, an investment of $50,000 or more will in no way guarantee success.

Be cautious of claims of large profits from day trading. You should be wary of advertisements or other statements that emphasize the potential for large profits in day trading. Day trading can also lead to large and immediate financial losses.

Day trading requires knowledge of securities markets. Day trading requires in-depth knowledge of the securities markets and trading techniques and strategies. In attempting to profit through day trading, you must compete with professional, licensed traders employed by securities firms. You should have appropriate experience before engaging in day trading.

Day trading requires knowledge of a firm's operations. You should be familiar with a securities firm's business practices, including the operation of the firm's order execution systems and procedures. Under certain market conditions, you may find it difficult or impossible to liquidate a position quickly at a reasonable price. This can occur, for example, when the market for a stock suddenly drops, or if trading is halted due to recent news events or unusual trading activity. The more volatile a stock is, the greater the likelihood that problems may be encountered in executing a transaction. In addition to normal market risks, you may experience losses due to system failures.

Day trading will generate substantial commissions, even if the per trade cost is low. Day trading involves aggressive trading, and generally you will pay commissions on each trade. The total daily commissions that you pay on your trades will add to your losses or significantly reduce your earnings. For instance, assuming that a trade costs $16 and anaverage of 29 transactions are conducted per day, an investor would need to generate an annual profit of $111,360 just to cover commission expenses.

Day trading on margin or short selling may result in losses beyond your initial investment. When you day trade with funds borrowed from LHV Bank or someone else, you can lose more than the funds you originally placed at risk. A decline in the value of the securities that are purchased may require you to provide additional funds to the firm to avoid the forced sale of those securities or other securities in your account. Short selling as part of your daytrading strategy also may lead to extraordinary losses, because you may have to purchase a stock at a very high price in order to cover a short position.

Potential Registration Requirements. Persons providing investment advice for others or managing securities accounts for others may need to register as either an investment advisor or as a broker or dealer under the respective securities legislation. Such activities may also trigger state registration requirements.

3. Generic risk disclosure statement for futures and options

This brief statement does not disclose all of the risks and other significant aspects of trading in futures and options. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in futures and options is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

3.1. Futures

Effect of "Leverage" or "Gearing"

Transactions in futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the firm to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be held liable for any resulting deficit.

Risk-reducing orders or strategies

The placing of certain orders (e.g. "stop-loss" orders, where permitted under local law, or "stop-limit" orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as "spread" and "straddle" positions may be as risky as taking simple "long" or "short" positions.

3.2. Options

Variable degree of risk

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin (see the section on Futures above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Selling ("writing" or "granting") an option generally entails a considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a future, the seller will acquire a position in a future with associated liabilities for margin (see the section on Futures above). If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

3.3. Additional risks common to futures and options

3.3.1 Terms and conditions of contracts

You should ask the firm with which you deal about the terms and conditions of the specific futures or options which you are trading and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying interest of a futures contract and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

3.3.2 Suspension or restriction of trading and pricing relationships

Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or "circuit breakers") may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions, if you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the future, and the underlying interest and the option may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to judge "fair" value.

3.3.3 Deposited cash and property

You should familiarize yourself with the protections accorded money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

3.3.4 Commission and other charges

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

3.3.5 Transactions in other jurisdictions

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subject to regulations which may offer different or diminished investor protection. Before you trade you should enquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available to both your home jurisdiction and other relevant jurisdictions before you start to trade.

3.3.6 Currency risks

The profit or loss in transactions in foreign currency-denominated contracts (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

3.3.7 Trading facilities

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms. Such limits may vary: you should ask the firm with which you deal for details in this respect.

3.3.8 Electronic trading

Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all.

3.3.9 Off-exchange transactions

In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off-exchange transactions. The firm with which you deal may be acting as your counterparty to the transaction. It may be difficult or impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. For these reasons, these transactions may involve increased risks. Off-exchange transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarize yourself with applicable rules and attendant risks.

4. Risks of after-hours trading

There are special characteristics and unique risks associated with trading in securities at times that are outside the ordinary trading hours for the exchange(s) upon which such securities are traded ("After-Hours Trading" or “Extended Hours Trading”). Customers must familiarize themselves with these risks and determine whether After-Hours Trading is appropriate in light of their objectives and experience. Customers are responsible for familiarizing themselves with the hours of the relevant markets upon which they trade and for determining when to place orders for particular securities, how they wish to direct those orders, and what types of orders to use. LHV Bank’s offer of After-Hours Trading does not constitute a recommendation or conclusion that After-Hours Trading will be successful or appropriate for all customers or trades.

Some risks associated with After-Hours Trading are as follows:

4.1 Risk of Lower Liquidity

Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower liquidity in extended hours trading as compared to regular market hours. As a result, your order may only be partially executed, or not at all.

4.2 Risk of Higher Volatility

Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in extended hours trading than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in extended hours trading than you would during regular markets hours.

4.3 Risk of Changing Prices

The prices of securities traded in extended hours trading may not reflect the prices either at the end of regular market hours, or upon the opening of the next morning. As a result, you may receive an inferior price in extended hours trading than you would during regular market hours.

4.4 Risk of Unlinked Markets

Depending on the extended hours trading system or the time of day, the prices displayed on a particular extended hours system may not reflect the prices in other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive an inferior price in one extended hours trading system than you would in another extended hours trading system.

4.5 Risk of News Announcements

Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.

4.6 Risk of Wider Spreads

The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.

4.7 Risk of Lack of Calculation or Dissemination of Underlying Index Value or Intraday Indicative Value ("IIV")

For certain Derivative Securities Products, an updated underlying index value or IIV may not be calculated or publicly disseminated in extended trading hours. Since the underlying index value and IIV are not calculated or widely disseminated during the pre-market and post-market sessions an investor who is unable to calculate implied values for certain Derivative Securities Products in those sessions may be at a disadvantage to market professionals.

During After-Hours Trading, LHV Bank may provide quotations from and execute customer trades through various Electronic Communications Networks ("ECNs"), exchanges or other trading systems ("After-Hours Trading Facilities"). Quotations provided during After-Hours Trading may be different than quotations provided during exchange trading hours. Likewise, it is possible that the quotations displayed by LHV Bank from After-Hours Trading Facilities on which LHV Bank can execute customer trades may be less favorable than those on other After-Hours Trading Facilities to which LHV Bank does not have access. Last sale information provided by LHV Bank may not reflect the prices of the most recent trades on all of the various After-Hours Trading Facilities.

5. Risk disclosure statement for forex trading

5.1 General Risk Information

Customer must understand and acknowledge that buying and selling securities, options, futures and other financial products that are denominated in foreign currencies or traded on foreign markets is inherently risky and requires substantial knowledge and expertise. Customers wishing to engage in Forex trading represent that they are aware of and understand the risks involved in trading foreign currencies and that they have sufficient financial resources to bear such risks.

5.2 Customer Responsibility for Investment Decisions

Customer acknowledges that LHV Bank’s representatives do not provide investment, trading or tax advice and therefore will not provide advice or guidance on trading or hedging strategies. Customers must evaluate carefully whether any particular transaction is appropriate for them in light of their investment experience, financial objectives and needs, financial resources, and other relevant circumstances and whether they have the operational resources in place to monitor the associated risks and contractual obligations over the term of the transaction. In making these assessments, LHV Bank strongly recommends that customers obtain independent business, legal, and accounting advice before entering into any transactions.

5.3 Exchange Rate Risk

Exchange rates between foreign currencies can change rapidly due to a wide range of economic, political and other conditions, exposing the customer to the risk of exchange rate losses in addition to the inherent risk of loss from trading the underlying financial product. If a customer deposits funds in a currency to trade products denominated in a different currency, the customer's gains or losses on the underlying investment therefore may be affected by changes in the exchange rate between the currencies. If a customer is trading on margin, the impact of currency fluctuation on the customer's gains or losses may be even greater.

5.4 Currency Fluctuation

When customer uses the spot foreign exchange facility provided by LHV Bank or service providers of LHV Bank to purchase or sell foreign currencies, fluctuation in currency exchange rates between the foreign currency and the base currency could cause substantial losses to the customer, including losses when the customer converts the foreign currency back into the base currency.

5.5 Nature of Foreign Currency Exchange Transactions Between a customer and LHV Bank

When a customer enters into a foreign exchange transaction through LHV Bank, the customer will be entering into a privately negotiated transaction with one of LHV Bank’s service providers or with a third party bank. In such transactions, LHV Bank’s service provider or the third party bank (“the Forex Counterparty”) is acting solely in the capacity of an arm's length contractual counterparty in connection with the transaction and not in the capacity of a financial adviser or fiduciary. Customer should be aware that the Forex Counterparty may from time to time have substantial positions in, and may make a market in or otherwise buy or sell instruments similar or economically related to, foreign currency transactions entered into with customer. The Forex Counterparty may also undertake proprietary trading activities, including hedging transactions related to the initiation or termination of foreign exchange transactions with customer that may adversely affect the market price or other factors underlying the foreign currency transaction entered into with customer and consequently, the value of such transaction.

5.6 Trades are Not Executed or Cleared by an Exchange

Foreign exchange transactions executed by a customer through LHV Bank are not executed on an exchange and are not cleared by a central clearing organization. Consequently, any foreign currency transaction contract through LHV Bank will be an obligation of the Forex Counterparty (as opposed to an obligation of a clearing house as in the case of an exchange-traded contract) and the customer will not be afforded the regulatory and financial protections offered by exchange-traded contracts. Moreover, the prices quoted by LHV Bank to customers for foreign exchange transactions will be determined based on Forex counterparty quotes and are not determined by a competitive auction as on an exchange market. Prices quoted by LHV Bank for foreign currency exchange transactions therefore may not be the most competitive prices available. LHV Bank will charge transaction fees as specified by LHV Bank for foreign currency exchange transactions. The Forex Counterparty will try to earn a spread profit on these transactions (differential between the bid and ask prices quoted for various currencies).

5.7 Other Risks

The general risks involved in investing (as described in the document "Information on Investment Services", available on LHV Bank's website) also apply with regard to trading foreign currencies. Generally, currency transactions involve exposure to a combination of the following risk factors: market risk, credit risk, settlement risk, liquidity risk, operational risk and legal risk. For example, there can be serious market disruptions if economic or political or other unforeseen events locally or overseas affect the market. In addition to these types of risks there may be other factors such as accounting and tax treatment issues that customers should consider.

6. Risk disclosure statement for trading CFDs

6.1 Trading Of CFDs Is Risky And You May Lose More Than You Deposit

Trading Contracts for Differences ("CFDs") is highly risky due to the speculative and volatile markets in these products and the leverage (margin) involved. Trading these products may result in loss of funds greater than you deposited in the account. ***You must carefully consider your financial circumstances and risk tolerance before trading CFDs, and you should not trade CFDs unless you are an experienced investor with a high risk tolerance and the capability to sustain losses if they occur.*** Trading shares of stock without using margin is less risky than trading CFDs on margin.

6.2 No Investment, Tax Or Trading Advice

Although LHV Bank makes it possible for you to trade CFDs, LHV Bank does not provide you investment, tax or trading advice. Our service is "execution only", meaning we are only acting on your instructions and will not advise you on any transaction, nor will we monitor your trading decisions to help you avoid losses. LHV Bank encourages you to obtain your own financial, legal, taxation and other professional advice when trading CFDs.

6.3 CFDs Are Not Traded On A Regulated Exchange And Are Not Cleared On A Central Clearinghouse

CFDs are contracts with LHV Bank or a service provider of LHV Bank as your counterparty, and are not traded on a regulated exchange and are not cleared on a central clearinghouse. Thus, exchange and clearinghouse rules and protections do not apply to trading CFDs with or via LHV Bank.

6.4 You Are Subject To Counterparty Credit Risk On CFD Trades

Since LHV Bank or a service provider of LHV Bank is the counterparty to your CFD trades, you are exposed to the financial and business risks, including credit risk, associated with dealing with or via LHV Bank. That is, should LHV Bank or a service provider of LHV Bank become insolvent, it may be unable to meet its obligations to you. You should note, however, that LHV Bank is a participant in the Estonian Guarantee Fund and you may be entitled to compensation from the Guarantee Fund in the event we cannot meet our obligations. Further information about compensation is available from the Guarantee Fund website at www.tf.ee/eng, as well as from the document "How are customers' assets protected in LHV Bank" on LHV Bank's website.

6.5 CFDs Do Not Give You Any Rights In The Underlying Asset

A CFD is to secure a profit or avoid a loss by reference to fluctuations in the price of the underlying asset, rather than by taking delivery of any underlying asset. No CFD transaction shall confer on you any right, voting right, title or interest in any underlying asset or entitle or oblige you to acquire, receive, hold, vote, deliver, dispose of or participate directly in any corporate action of any underlying asset.

6.6 CFD Markets Are Speculative And Volatile

Derivative markets such as markets for CFDs can be highly volatile. The prices of CFDs and their underlying assets (shares or indices) may fluctuate rapidly and over wide ranges. The prices of CFDs will be influenced by, among other things, the market price of the underlying asset of the CFD, the earnings and performance of the company or companies whose shares comprise the underlying asset or a related index, the performance of the economy as a whole, the changing supply and demand relationships for the underlying asset or related instruments and indices, governmental, commercial and trade programs and policies, interest rates, national and international political and economic events and the prevailing psychological characteristics of the relevant marketplace.

6.7 Example of Margin Losses On CFDs

Using margin means that you may lose more than you have actually deposited in your account if the price of the CFD moves significantly against you. For example, if you purchase a CFD position on shares of ABC and the total value of the CFD position is €50,000, and if the margin requirement is 20%, you will be required to deposit €10,000 as margin. If the value of the CFD position in ABC then drops to €35,000, you will have lost your original €10,000 deposit, plus an additional €5,000, which you will be required to pay to LHV Bank (this excludes commissions, spreads and financing costs).

6.8 LHV Bank Has The Right To Liquidate Your Positions Without Notice In The Event Of A Margin Deficiency

You must monitor your account so that at all times the account contains sufficient equity to meet LHV Bank's margin requirements. LHV Bank does not have to notify you of any failure to meet margin requirements prior to LHV Bank exercising its rights under its agreement(s) with you, including but not limited to its right to liquidate positions in your account(s). You cannot assume that LHV Bank's general policy to liquidate positions with a margin deficiency will prevent you from losing more than you have deposited with LHV Bank. Among other things, markets may "gap" down and LHV Bank may not be able to close out a position at a price that would avoid losses greater than your margin deposit. Likewise, LHV Bank may at its sole discretion delay or decide not to liquidate a position with a margin deficit. ***If you wish to avoid further losses on any CFD position, you must close out the position yourself and not rely on LHV Bank to do so.***

6.9 LHV Bank Has The Right To Change Or Increase Its Margin Requirements At Any Time

In order to protect the firm and all of our customers, LHV Bank may modify margin requirements for any or all customers for any open or new positions at any time, at LHV Bank's sole discretion. If we increase our margin requirements, it may prevent you from adding positions or hedging existing positions if you have insufficient equity. If margin requirements increase on your existing CFDs, you will have to deposit additional equity in advance or your positions may be liquidated as described in Section 8 above.

6.10 CFDs Carry Liquidity Risk

LHV Bank is not obligated to provide quotes for any CFD at any time, and LHV Bank does not guarantee the continuous availability of quotations or trading for any CFD. ***LHV Bank may at its sole discretion cease quoting CFDs and/or cease entering new CFD transactions at any time*** based on lack of market data, halts or suspensions or errors or illiquidity or volatility in the market for the underlying asset, LHV Bank's own risk or profit parameters, technical errors, communication problems, market or political or economic or governmental events, *force majeure* events, or for other reasons.

6.11 You Will Pay Commissions, Spreads And Financing Charges Among Other Costs Of Trading CFDs

LHV Bank will charge commissions on your CFD trades. In addition, you will pay a spread on your CFD transactions, meaning that the price you pay to buy a CFD generally will be some amount higher than the theoretical market value of the CFD and the price you receive when you sell a CFD generally will be some amount lower than the theoretical market value of the CFD. You will also pay financing charges (interest) on your long CFD positions (you may receive a rebate on your short CFDs or pay interest, depending on interest rates). All of these costs will lower the total return (or increase the loss) on your investment in the CFD.

6.12 Risk Of Foreign Currency Fluctuation

When you deal in a CFD that is denominated in a currency other than the base currency or currency you have deposited in your LHV Bank account, all margins, profits, losses and financing credits and debits in relation to that CFD are calculated using the currency in which the CFD is denominated. Thus, your profits or losses will be further affected by fluctuations in the exchange rates between the account currency and the currency in which the CFD is denominated. LHV Bank applies a margin "haircut" to reflect this risk, and so the margin requirement on the CFD will effectively increase.

6.13 Risk Of Interest Rate Fluctuation

Interest rates fluctuate, which will affect the financing charges (or rebates) you will pay (or may receive) on your long (or short) CFD positions. This will also affect your total profits or losses.

6.14 Risk Of Regulatory And Taxation Changes

Changes in taxation and other laws, government, fiscal, monetary and regulatory policies may have an adverse effect on the value of your CFDs, the tax you pay on your CFDs, and the total return on your CFDs.

6.15 LHV Bank Has The Right To Correct Trade Errors

LHV Bank can cancel, adjust or close out CFD transactions after confirmation to you to correct errors, including but not limited to CFD transactions executed at a time and price at or near which trades in the market for the underlying asset were cancelled or adjusted by exchanges or market centers, CFD transactions subject to technical errors in LHV Bank's platform, and CFD transactions not reasonably related to the correct market price for the underlying asset or CFD.

6.16 You May Be Unable To Short CFDs Or May Suffer Forced Closeout Of An Open Short Position

Depending on regulations, stock loan and borrowing market conditions, or other factors, short sales of CFDs may or may not be allowed depending on the underlying asset. Further, LHV Bank reserves the right, at any time at its sole discretion, to close out your open short CFD transaction.

6.17 LHV Bank's Rights To Adjust, Modify And/Or Close-Out CFD Transactions In The Event Of A Corporate Action Affecting The Underlying Asset

In the event of a corporate action affecting the underlying asset of a CFD (e.g. splits, spin-offs, rights offerings, mergers and acquisitions, etc.): i) LHV Bank at its sole discretion will determine the appropriate adjustment or modification or action to take, if any, and when, with respect to the CFD to preserve the economic equivalent of the rights and obligations of the parties; ii) As an addition or alternative to the foregoing, LHV Bank reserves the right at its sole discretion to close out your open CFD position in the underlying asset prior to the corporate action.

6.18 Risk Of Disruption Or Interruption Of Access To LHV Bank's Electronic Systems And Services

LHV Bank relies on computer software, hardware and telecommunications infrastructure and networking to provide its services to customers, and without these systems LHV Bank cannot provide the services. These computer-based systems and services such as those used by LHV Bank are inherently vulnerable to disruption, delay or failure, which may cause you to lose access to the LHV Bank’s trading platform or may cause LHV Bank not to be able to provide CFD quotations or trading, or may negatively affect any or all aspects of LHV Bank's services. Under the service agreement(s) you have concluded with LHV Bank, you accept the LHV Bank’s systems and services "as is" and our liability to you is limited.

7. Risks of exchange traded investments

7.1 General

Like all stock market investments the value of an exchange traded investment will rise or fall and neither the capital nor income is guaranteed.

Anyone investing in an exchange traded investment must accept these are relatively new and "unproven". The high risk nature of exchange traded investments was exemplified in 2008 when the American insurance company, AIG, failed and dealing in a number of Exchange Traded Commodities (ETCs) was effectively suspended for a week.

Below we describe some of the more common risks, but before you invest please read the prospectus for the exchange traded investment you are considering. Exchange traded investments may not be suitable for all investors. If you are unsure of their suitability please seek advice.

7.2 Tracking errors

Exchange traded investments seek to replicate the performance of an index, currency or commodity. However, after accounting for charges, cash drag, and the other factors described below, there will always be a difference between the performance of the exchange traded investment and the investment it tracks. This difference is referred to as the tracking error. When the market is volatile the tracking error is likely to be higher than normal. Occasionally, a tracking error may benefit the investor but it often works against them.

7.3 Types of tracking error

Charges

The provider will levy an annual charge for managing the exchange traded investment. Other charges, such as dealing costs for acquiring and disposing of the underlying investments, will also be charged to the exchange traded investment. If the underlying investments track the market accurately, and there are charges involved, the performance of a tracker will fall behind that of the index.

Optimisation

Some indices contain shares which can be difficult to deal. These are typically smaller companies’ shares or companies listed in emerging markets. However, it can affect any company where the value of shares traded daily is low. The provider may choose to ignore these companies and instead purchase larger companies within the same index which can be acquired more easily. No two shares perform in the same way and the divergence in performance creates the tracking error.

Cash drag

When dividends or other cash payments are received the exchange traded investment may hold cash. The cash may receive a small daily interest payment but this is unlikely to match the return if that money had been invested.

Index changes

The constituents of an index can change and the Excahnge Traded Fund (ETF) provider will need to restructure the ETF. This can carry transaction charges and there may also be a delay between the index being updated and the date on which the ETF's holdings are changed. Both of these factors can create a disparity.

Maintaining positions

Exchange traded investments that use the futures market to track, short or leverage an index, commodity or currency will need to rebalance the underlying holdings on a daily basis to reflect price movements and the new weightings of the index. Every time a fund is rebalanced a tracking error occurs, which over time can have a material effect on the performance of the fund.

Rolling future positions

There are two types of commodity exchange traded investments; those that track the 'spot' price of a commodity directly and those that attempt to replicate the movement using the futures market.

The spot price is the market price. When newspapers report that crude oil has risen beyond $100 a barrel or gold has risen beyond $1,000 an ounce, they are usually referring to the spot price.

Exchange traded investments which **track the spot price** typically **hold the physical commodity.** They track the spot price because the manager can buy and sell the commodity in the market to meet demand.

Some commodities lend themselves more easily to this method of replication than others. Gold, for example, is easy to buy and store. However, **in some cases holding the underlying physical commodities would be extremely difficult.** Wheat, for example, would spoil if held for any length of time, and the costs of storing millions of barrels of oil would be prohibitive. Therefore, rather than taking delivery of the physical commodities, and tracking the price directly, **some exchange traded investments use the futures market to gain exposure to movements in the price.** Please note however, the use of futures is not confined to commodities which are difficult to store. Each exchange traded investment's prospectus offers details.

A future is a contract that allows someone to buy a fixed amount of a specific commodity at a set date in the future.

The price of a future often offers a good proxy to the spot price, but they do not always move in tandem. **The futures price can differ from the spot price for a number of reasons**, for example interest rates, the cost of storing a commodity, and market expectations. For example, if oil has a spot price of $100 per barrel and it costs $2 per month to store and insure a barrel of oil, the futures price for delivery of a barrel of oil in a month's time may be $102.

The situation where the **futures price is higher than the spot price** is known as **'contango'**, and the opposite is known as **'backwardation'.**

Contango in particular causes problems for exchange traded investments which use futures contracts. Most futures contracts expire on a rolling monthly basis and, as it costs significantly more to store and insure a barrel of oil for a month than for a day, these costs fall as the end of the contract approaches and the price of the future moves towards the spot price.

In this example, which assumes the spot price remains at $100 per barrel, an exchange traded investment purchases a futures contract for one barrel of oil which expires in a month's time for $102. After a month, the exchange traded investment will need to 'roll-over' the futures contract - effectively selling the old future and buying a new one for a month's time. If the old future was not sold, the exchange traded investment would have to take delivery of the physical oil (which it has no need of). The futures contract purchased for $102 has reduced in price to $100 as it nears expiry. The cost of a new contract is $102, so the exchange traded investment has made a loss of $2 even though the spot price has remained constant.

7.4 Counterparty risk

Exchange traded investments do not always hold the physical assets. They may use futures and options to provide exposure. If the investment bank providing the option fails, the exchange traded investment will lose part or all of the money it has invested with that institution (Lehman Brothers is the obvious example).

7.5 Stock lending

Exchange traded investment providers can generate further revenue by lending holdings to other institutions. The third party institution will pay for the loan and part of this payment will be made into the exchange traded investment and part retained by the provider. If the third party were to fail, and the exchange traded investment is unable to recover its holdings, investors would suffer a loss.

As an example of counterparty risk, a number of ETCs were temporarily suspended in September 2008 as the futures used to price the ETCs were provided by AIG, an American insurance company, which failed. This caused the market makers, who essentially determine the quoted price of the shares, to suspend dealing until the US Government stepped in to support AIG.

In light of this issue many exchange traded investment providers revised their collateral policy in an attempt to reduce possible counterparty risk. Investors should check the providers' prospectus for further details and ensure they are comfortable with the arrangements before they invest.

7.6 Conflicts of interest

Conflicts of interest can arise with synthetic exchange traded investments when a bank has the dual role as ETF provider and derivative counterparty. In this case the exchange traded investment provider is, in effect, buying the contract from itself, and can set out the terms of the contract itself. As the bank can set and agree to the contracts without external intervention, a conflict of interest could arise between the performance of the exchange traded investment and the revenue to the bank. The prospectus of the exchange traded investment will detail the counterparty used and also any potential conflicts of interest. Potential investors should ensure they are comfortable with the arrangements before they invest.

7.7 Currency

If the exchange traded investments' underlying holdings are in a currency different to the denominated currency, investors will face currency risk.

7.8 Short/leveraged ETFs

Short and leveraged exchange traded investments are more complicated investments which carry greater risk. Leveraged investments will exaggerate market movements and therefore be very volatile, carrying a higher level of risk and potential reward.

Most leveraged exchange traded investments work on a double leverage basis so that if the price of the underlying index/commodity rises by 1% in a day then the corresponding exchange traded investment will rise by 2% in a day (excluding costs). Equally, if the index falls by 1% then, all other things being equal, the exchange traded investment will fall by 2%. Therefore losses can be accumulated much more quickly than traditional investments. However, it is not possible to lose more than you invest.

Leveraged ETFs are intended for institutional and sophisticated investors and you should read the prospectus carefully and ensure you are comfortable with the risks before you invest.

7.9 Volatility

ETCs are generally higher risk investments because commodity prices can move by more than 10% in a single day. Movements of this order are unusual, but they do occur, and are further magnified by leveraged or geared exchange traded investments. Other more mainstream exchange traded investments will also experience volatility but it's likely to be to a lesser extent.

7.10 Tax

The tax treatment of an exchange traded investment is subject to change, which could affect your investment in the future. In some cases, the returns from trading ETFs may potentially be subject to income tax rather than capital gains tax. The ongoing tax liabilities are determined by both your individual circumstances and the continued status of the exchange traded investment. If you are unsure of your tax liabilities you should consult a qualified tax advisor.

7.11 More on the risks of ETFs

The prospectus will give more information on the risks of the exchange traded investment you're interested in.