

Description of the Target Market for Financial Instruments in Portfolio Management



Guidelines on determination of target markets for financial instruments

Joint-stock company "Rietumu Banka" (hereinafter – the Bank) Complying with the requirements of the Directive 2014/65/EU of the European Parliament¹ and of the Council (hereinafter – MiFID II) to determine the target market for financial instruments or providing related services, the Bank has developed guidelines which allow the client to assess whether he/she belongs to the target market for a particular financial instrument when receiving an individual portfolio management service.

The Bank shall determine the target market for the financial instruments it develops and/or distributes, specifying the types of clients whose needs, characteristics and purposes correspond to these financial instruments. In some cases, the Bank is not able to ascertain whether a particular client belongs to the target market of the corresponding financial instrument. If the client wants to purchase a financial instrument on his own initiative, the Bank shall provide the client with the minimum set of information according to the rules of MiFID II, therefore, the client must independently assess whether he/she belongs to the target market for a particular financial instrument.

This material is for general informational purposes only and cannot be considered as an offer, consultation or recommendation on the purchase, holding or sale of financial instruments mentioned in it or on the entering into any investment service agreements. In case of any questions clients of the Bank as well as distributors of Bank's products may contact the Bank by phone +371 6 700 5525, E-mail address: invest@rietumu.lv.

¹ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

Criteria for target market and distribution strategy

| CRITERIA | DESCRIPTION | DESIGNATIONS | | | | | | |
|---|--|--|------------------------|---------------------|--------|---|--|---|
| CLIENT STATUS | Client status according to the requirements of the Financial Instruments Market Law of Republic of Latvia | <ol style="list-style-type: none"> 1. Retail client 2. Professional client 3. Eligible counterparty | | | | | | |
| CLIENT'S KNOWLEDGE AND EXPERIENCE | Knowledge/experience related to the respective financial instrument, which helps to understand the type, characteristics, risks of the financial instrument | <p>1. Basic investor: An investor that meets the following criteria:</p> <ul style="list-style-type: none"> - no or minimal knowledge of the financial instruments - no experience in the financial sector, i.e. an investor with no previous investment experience <p>2. Informed investor: An investor that meets the following criteria:</p> <ul style="list-style-type: none"> - Intermediate knowledge of the respective financial instruments - (informed investor is able to make an investment decision based on the information provided in the documentation of the offer; is able to understand the nature/risks of financial instruments based on existing knowledge) - Has prior investment experience <p>3. Advanced investor: An investor that meets the following criteria:</p> <ul style="list-style-type: none"> - Good knowledge of the respective financial instruments and products - Has professional experience in financial sector, which is combined with providing professional consultations on investment services/portfolio management services | | | | | | |
| FINANCIAL POSITION OF THE CLIENT AND THE ABILITY TO BEAR LOSSES | Client's ability to make financial commitments | <ol style="list-style-type: none"> 1. Client has no regular income and liabilities are greater than assets 2. Client has regular income; and the Client's liabilities and projected expenses are greater than assets 3. The Client's assets are greater than liabilities and projected expenses | | | | | | |
| ACCEPTABLE RISK LEVEL AND PRODUCT RISK, AND COMPLIANCE OF TARGET YIELD WITH THE TARGET MARKET | Client's general attitude towards investment risks | <p>Internal methodology based risk indicator value:</p> <ol style="list-style-type: none"> 1. Low risk 2. Medium-low risk 3. Medium risk 4. Medium-high risk 5. High risk | | | | | | |
| CLIENT'S OBJECTIVES AND NEEDS | Client's investment objectives and term of investment | <table> <tr> <td>Investment objectives:</td><td>Term of investment:</td><td>Other:</td></tr> <tr> <td> <ol style="list-style-type: none"> 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk </td><td> <ol style="list-style-type: none"> 1. Less than 3 years 2. At least 3 years, but less than 5 years 3. Long term, over 5 years </td><td> <ol style="list-style-type: none"> 1. Marginal lending 2. </td></tr> </table> | Investment objectives: | Term of investment: | Other: | <ol style="list-style-type: none"> 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | <ol style="list-style-type: none"> 1. Less than 3 years 2. At least 3 years, but less than 5 years 3. Long term, over 5 years | <ol style="list-style-type: none"> 1. Marginal lending 2. |
| Investment objectives: | Term of investment: | Other: | | | | | | |
| <ol style="list-style-type: none"> 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | <ol style="list-style-type: none"> 1. Less than 3 years 2. At least 3 years, but less than 5 years 3. Long term, over 5 years | <ol style="list-style-type: none"> 1. Marginal lending 2. | | | | | | |
| SUSTAINABILITY | Client's sustainability-oriented objectives | <ol style="list-style-type: none"> 1. Yes. The client expressed specific objectives for sustainable investments 2. Neutral. The client agrees that his/her portfolio will be managed in accordance with the Bank's approach to sustainability risk management, but has not expressed specific preferences 3. No. The client does not want his/her portfolio to be managed in accordance with the Bank's sustainability risk management approach | | | | | | |
| DISTRIBUTION STRATEGY | Distribution of a financial product to a specific target market | <ol style="list-style-type: none"> 1. Portfolio management (suitability test) | | | | | | |

Simple Financial instruments*

Shares, UCITS funds, UCITS ETFs**, which are included in the European Union regulated market, Multilateral trading facility or an equivalent foreign market, except for shares containing a derivative instrument or which structure makes it more difficult for the client to understand the risk associated with the relevant financial instrument

Debt instruments, which are included in the European Union regulated market, Multilateral trading facility or an equivalent foreign market, with the exception of those that contain a derivative instrument or which structure makes it difficult for the client to understand the risk associated with the relevant financial instrument

Money market instruments – deposits, etc., with the exception of those that contain a derivative instrument or whose structure is such that it is difficult for the client to understand the risk associated with the financial instrument in question

| CRITERIA | TARGET MARKET | NEGATIVE TARGET MARKET | NEUTRAL |
|--|--|---------------------------|---------|
| CLIENT STATUS | <ol style="list-style-type: none"> 1. Retail client 2. Professional client 3. Eligible counterparty | | |
| CLIENT'S KNOWLEDGE AND EXPERIENCE | <ol style="list-style-type: none"> 1. Basic investor 2. Informed investor 3. Advanced investor | | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | <ol style="list-style-type: none"> 1. Client has no regular income and liabilities are greater than assets 2. Client has regular income; and the Client's liabilities and projected expenses are greater than assets 3. The Client's assets are greater than liabilities and projected expenses | | |
| ACCEPTABLE RISK LEVEL AND PRODUCT RISK, AND COMPLIANCE OF PROFITABILITY WITH THE TARGET MARKET | <ol style="list-style-type: none"> 1. Low risk 2. Medium-low risk 3. Medium risk 4. Medium-high risk 5. High risk | | |
| CLIENT'S OBJECTIVES AND NEEDS | <ol style="list-style-type: none"> 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | | |
| TERM OF INVESTMENT | <ol style="list-style-type: none"> 1. Less than 3 years 2. At least 3 years, but less than 5 years 3. Long term, over 5 years | | |
| DISTRIBUTION STRATEGY | <ol style="list-style-type: none"> 1. Portfolio management (suitability test) | | |
| SUSTAINABILITY | <ol style="list-style-type: none"> 1. Yes. The client expressed specific objectives for sustainable investments 2. Neutral. The client agrees that his/her portfolio will be managed in accordance with the Bank's approach to sustainability risk management, but has not expressed specific preferences 3. No. The client does not want his/her portfolio to be managed in accordance with the Bank's sustainability risk management approach | | |

* The category of the financial instrument corresponds to the classification set out in the MiFID II Directive

** Undertakings for collective investment in transferable securities

Complex Financial instruments

Shares that are not simple, Non-UCITS funds, Structured products

| CRITERIA | TARGET MARKET | NEGATIVE TARGET MARKET | NEUTRAL |
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| CLIENT STATUS | 1. Retail client 2. Professional client 3. Eligible counterparty | | |
| CLIENT'S KNOWLEDGE AND EXPERIENCE | 2. Informed investor 3. Advanced investor | 1. Basic investor | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | 1. Client has no regular income and liabilities are greater than assets 2. Client has regular income; and the Client's liabilities and projected expenses are greater than assets 3. The Client's assets are greater than liabilities and projected expenses. | | |
| ACCEPTABLE RISK LEVEL AND PRODUCT RISK, AND COMPLIANCE OF PROFITABILITY WITH THE TARGET MARKET | 1. Low risk 2. Medium-low risk 3. Medium risk 4. Medium-high risk 5. High risk | | |
| CLIENT OBJECTIVES AND NEEDS | 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | | |
| TERM OF INVESTMENT | 1. Less than 3 years 2. At least 3 years, but less than 5 years 3. Long term, over 5 years | | |
| DISTRIBUTION STRATEGY | 1. Portfolio management (suitability test) | | |
| SUSTAINABILITY | 1. Yes. The client expressed specific objectives for sustainable investments 2. Neutral. The client agrees that his/her portfolio will be managed in accordance with the Bank's approach to sustainability risk management, but has not expressed specific preferences 3. No. The client does not want his/her portfolio to be managed in accordance with the Bank's sustainability risk management approach | | |

Complex Financial instruments

Debt instruments with an Investment Grade credit rating. They can have complex built-in mechanisms (early cancellation, floating rate, etc.)

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| CLIENT'S KNOWLEDGE AND EXPERIENCE | 2. Informed investor 3. Advanced investor | 1. Basic investor | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | 1. Client has no regular income and liabilities are greater than assets 2. Client has regular income; and the Client's liabilities and projected expenses are greater than assets 3. The Client's assets are greater than liabilities and projected expenses. | | |
| ACCEPTABLE RISK LEVEL AND PRODUCT RISK, AND COMPLIANCE OF PROFITABILITY WITH THE TARGET MARKET | 1. Low risk 2. Medium-low risk 3. Medium risk 4. Medium-high risk 5. High risk | | |
| CLIENT OBJECTIVES AND NEEDS | 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | | |
| TERM OF INVESTMENT | 1. Less than 3 years 2. At least 3 years, but less than 5 years 3. Long term, over 5 years | | |
| DISTRIBUTION STRATEGY | 1. Portfolio management (suitability test) | | |
| SUSTAINABILITY | 1. Yes. The client expressed specific objectives for sustainable investments 2. Neutral. The client agrees that his/her portfolio will be managed in accordance with the Bank's approach to sustainability risk management, but has not expressed specific preferences 3. No. The client does not want his/her portfolio to be managed in accordance with the Bank's sustainability risk management approach | | |

Complex Financial instruments

All other debt instruments, that are not simple debt instruments (may have complex built-in mechanisms)

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| CLIENT STATUS | 1. Retail client 2. Professional client 3. Eligible counterparty | | |
| CLIENT'S KNOWLEDGE AND EXPERIENCE | 2. Informed investor 3. Advanced investor | 1. Basic investor | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | 2. Client has regular income; and the Client's liabilities and projected expenses are greater than assets 3. The Client's assets are greater than liabilities and projected expenses | | 1. Client has no regular income and liabilities are greater than assets |
| ACCEPTABLE RISK LEVEL AND PRODUCT RISK, AND COMPLIANCE OF PROFITABILITY WITH THE TARGET MARKET | 2. Medium-low risk 3. Medium risk 4. Medium-high risk 5. High risk | | 1. Low risk |
| CLIENT OBJECTIVES AND NEEDS | 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | | 1. Preservation of the investment amount takes priority over profitability |
| TERM OF INVESTMENT | 1. Less than 3 years 2. At least 3 years, but less than 5 years 3. Long term, over 5 years | | |
| DISTRIBUTION STRATEGY | 1. Portfolio management (suitability test) | | |
| SUSTAINABILITY | 1. Yes. The client expressed specific objectives for sustainable investments 2. Neutral. The client agrees that his/her portfolio will be managed in accordance with the Bank's approach to sustainability risk management, but has not expressed specific preferences 3. No. The client does not want his/her portfolio to be managed in accordance with the Bank's sustainability risk management approach | | |

Complex Financial instruments

Derivative instruments (Futures, Options, Options contracts on futures and shares)

| CRITERIA | TARGET MARKET | NEGATIVE TARGET MARKET | NEUTRAL |
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| CLIENT STATUS | <ol style="list-style-type: none"> 1. Retail client 2. Professional client 3. Eligible counterparty | | |
| CLIENT'S KNOWLEDGE AND EXPERIENCE | <ol style="list-style-type: none"> 2. Informed investor 3. Advanced investor | <ol style="list-style-type: none"> 1. Basic investor | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | <ol style="list-style-type: none"> 3. The Client's assets are greater than liabilities and projected expenses | <ol style="list-style-type: none"> 1. Client has no regular income and liabilities are greater than assets 2. Client has regular income; and the Client's liabilities and projected expenses are greater than assets | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | <ol style="list-style-type: none"> 3. Medium risk 4. Medium-high risk 5. High risk | <ol style="list-style-type: none"> 1. Low risk 2. Medium-low risk | |
| ACCEPTABLE RISK LEVEL AND PRODUCT RISK, AND COMPLIANCE OF PROFITABILITY WITH THE TARGET MARKET | <ol style="list-style-type: none"> 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | <ol style="list-style-type: none"> 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk | |
| CLIENT OBJECTIVES AND NEEDS | <ol style="list-style-type: none"> 1. Less than 3 years 2. At least 3 years, but less than 5 years 3. Long term, over 5 years | | |
| DISTRIBUTION STRATEGY | <ol style="list-style-type: none"> 1. Portfolio management (suitability test) | | |
| SUSTAINABILITY | <ol style="list-style-type: none"> 2. Neutral. The client agrees that his/ her portfolio will be managed in accordance with the Bank's approach to sustainability risk management, but has not expressed specific preferences 3. No. The client does not want his/her portfolio to be managed in accordance with the Bank's sustainability risk management approach | | <ol style="list-style-type: none"> 1. Yes. The client expressed specific objectives for sustainable investments |

Complex Financial instruments

Currency (FX) Forward Contract

| CRITERIA | TARGET MARKET | NEGATIVE TARGET MARKET | NEUTRAL |
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| CLIENT STATUS | 1. Retail client 2. Professional client 2. Eligible counterparty | | |
| CLIENT'S KNOWLEDGE AND EXPERIENCE | 2. Informed investor 3. Advanced investor | 1. Basic investor | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | 3. The Client's assets are greater than liabilities and projected expenses | 1. Client has no regular income and liabilities are greater than assets 2. Client has regular income; and the Client's liabilities and projected expenses are greater than assets | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | 3. Medium risk 4. Medium-high risk 5. High risk | 1. Low risk 2. Medium-low risk | |
| ACCEPTABLE RISK LEVEL AND PRODUCT RISK, AND COMPLIANCE OF PROFITABILITY WITH THE TARGET MARKET | 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk | |
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| DISTRIBUTION STRATEGY | 1. Portfolio management (suitability test) | | |
| SUSTAINABILITY | 2. Neutral. The client agrees that his/her portfolio will be managed in accordance with the Bank's approach to sustainability risk management, but has not expressed specific preferences 3. No. The client does not want his/her portfolio to be managed in accordance with the Bank's sustainability risk management approach | | 1. Yes. The client expressed specific objectives for sustainable investments |

Marginal lending

| CRITERIA | TARGET MARKET | NEGATIVE TARGET MARKET | NEUTRAL |
|--|--|---|--|
| CLIENT STATUS | 1. Retail client 2. Professional client 3. Eligible counterparty | | |
| CLIENT'S KNOWLEDGE AND EXPERIENCE | 2. Informed investor 3. Advanced investor | 1. Basic investor | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | 3. The Client's assets are greater than liabilities and projected expenses | 1. Client has no regular income and liabilities are greater than assets 2. Client has regular income; and the Client's liabilities and projected expenses are greater than assets | |
| FINANCIAL POSITION OF THE CLIENT AND THE OPPORTUNITY TO INCUR LOSSES | 3. Medium risk 4. Medium-high risk 5. High risk | 1. Low risk 2. Medium-low risk | |
| ACCEPTABLE RISK LEVEL AND PRODUCT RISK, AND COMPLIANCE OF PROFITABILITY WITH THE TARGET MARKET | 3. Earning returns above the rate of inflation 4. Earning higher returns 5. Maximizing profit with high risk | 1. Preservation of the investment amount takes priority over profitability 2. Maintaining the purchasing power of the investment, earning income close to average inflation and low risk | |
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