

Description of financial instruments and services

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Contents

Shares	4
Exchange Traded Funds (ETF)*	8
Debt Instruments	10
Corporate Action (Events)	16
Futures contracts	18
Stock Options and Options on Futures	23
Options Strategies	27
Rolling Spot FX	29
Currency Forwards	31
Fund Shares	32
UCITS investment funds (regulated mutual funds)	32
Non-UCITS Funds	34
Money Market and Structured Deposits	36
Ordinary Money Market Instruments	36
Structured Deposits	38
Use of Margin Loans	40
Financial Instruments Individual Portfolio Management	42

Shares

Shares are securities, which represent the capital of a company. By buying these securities, the owner of shares (shareholder) acquires a share of the company's own capital, which entitles him to a part of the company profits in the form of dividends, indirect participation in the management of the company, and part of the assets in the event of the company's liquidation (in proportion to the number of shares, following the satisfaction of all creditors' claims).

Ordinary shares present the right to participate in the voting of shareholders, in accordance with the principle that **one share equals one vote**. There are cases when the right of vote concerning ordinary shares can be transferred to a third party for participation in the voting. Additionally, the company may grant the right to the current shareholders to purchase more company shares at a price below the market price, with an additional issue of shares. In this case, the rights to purchase new shares will be traded on the market along with the shares.

Preferred shares are shares without voting rights or with limited voting rights (depending on the charter of the joint-stock company). The absence or restriction of rights is compensated by additional privileges received by the owner of shares of this type. Usually, these privileges include the ability to receive a guaranteed income (dividends), seniority to the holders of common stock in the case of the company's liquidation, and others.

Depository receipt – this is a financial instrument, issued by banks, which certifies and guarantees the ownership of shares in a foreign company. The main purpose of depository receipts is to attract foreign capital and increase the liquidity of the stock. The most popular types of depository receipts are: ADR (American Depository Receipt) and GDR (Global Depository Receipt).

ADR (American Depository Receipt) – is a receipt issued for trading in the capital markets in the United States, by a depository bank that is located in the United States. **GDR (Global Depository Receipt)** is a receipt issued by any other depository bank. The currency in which ADR and GDR are circulated is the US Dollar, less often the euro. It should also be noted that the face value of the depository receipt may not correlate to the share in the ratio of 1:1 (one receipt equals one share), and can be either more or less than that.

Separately, we should note the additional commission costs, which can be incurred to the investor by the ownership of the depository receipts. Since the issuing bank of the receipt carries costs when issuing and maintaining receipts, an additional commission is charged from the client for the servicing of the receipt (DR service fee). This commission is debited directly by the issuing bank. The depository commission is debited once a month on a certain date set by the issuing bank and its amount may vary.

Sample calculation of the commission for servicing the depository:

On the 20th day of each month 0.02\$ is written off by the issuing bank for each receipt which the client owns. On 18 July 2021 an investor purchases 1,000 receipts. Consequently, on 19 July 2021 the client will have to pay 20\$ ($1,000 \times 0.02\$ = 20\$$).

In addition to the commission for servicing the depository, there are several other commissions set by the issuing bank (the principle of settlement is the same as for the commission for servicing the depository):

- Inspectional commission – for the inspection of the local stock register. The commission is debited once a year to cover the costs of the issuing bank.
- Conversion commission – written off at the conversion of receipts. For example, from the 144A series and vice versa.
- Insurance commission – written off by the agent for the insurance of the depository receipts.
- Dividend commission – written off when dividends are paid on the depository receipts.

Please take into consideration that the issuing bank's commission and their amount are unique for each depository receipt. For many receipts, the commission of the issuing bank may be absent or only partially present (i.e. the ADRs of Sanofi S.A. only contain the commission on dividends).

Risks specific to the financial instrument:

Issuer risk, price risk, market risk, liquidity risk, risk related to changes in legislation and/or tax regime, risk of application of foreign legislation, risk of default, risk of holding financial instruments registered outside the European Union, risk of internal recapitalization, etc.

Examples of investment in stock (shares):

Investment with subsequent profit.

On 25 June 2021 an investor acquired 1,000 shares of Apple Inc. for 133.11\$ per share. The costs of this purchase amount to:

- 1) $1,000 \times 133.11\$ = 133,110\$$ (cost of shares).
- 2) 50\$ – minimum commission of the bank for the acquisition of shares in the American exchange. When calculating a commission of 2.50 cents per share, in this case you get 25\$, but since the minimum commission is 50\$, the client will be charged the minimum commission nonetheless.

Total purchase cost: $133,110 + 50 = 133,160\$$.

By 16 August 2021 the shares of Apple Inc. have risen to 151.12\$ per share. The investor decides to sell the shares (close with a profit). The income from the sale:

- 3) $1,000 \times 151.12 = 151,120\$$
- 4) 50\$ – minimum commission of the bank for the sale of shares in the American exchange.
- 5) 101.92\$ – servicing of the investment account (0.5% per annum of the total assets on the investment account, in this example there is only one asset in the portfolio). When calculating this amount, the constant increase in portfolio value was 392.35\$ per day during the period of ownership of the asset. The formula for the calculation is $V \times 0.5\% / 360$, where V is the value of the asset on a specific date (the first, as well as the last date for the calculation will be the settlement date, which is usually the second day after the share transaction and exchange traded funds (ETF)).

This example is based on the assumption that the share value on the transaction date and the settlement date coincides).

Total income from the sale: $151,120 - 50 - 101.92 = 150,968.08\$$.

Net profit from the deal, including all commissions and storage costs, $150,968.08 - 133,160 = \mathbf{17,808.08\$}$.

Investment with subsequent loss.

On 4 June 2021 an investor acquired 10,000 shares of Commerzbank AG at 6.78\$ per share. The costs of this purchase are:

- 1) $10,000 \times 6.78\text{€} = 67,800\text{€}$ (cost of shares).
- 2) 135.60€ – commission of the bank for the acquisition of shares on the German exchange in Frankfurt (Xetra Frankfurt). In this case, the commission is equal to 0.2% of the transaction amount ($67,800 \times 0.2\%$).

Total cost of the purchase: $67,800 + 135.60 = 67,935.60\text{€}$.

By 13 August 2021 Commerzbank AG's share price fell to 5.31€ per share. The investor decides to sell the shares (record a loss). The income from the sale is:

- 3) $10,000 \times 5.31\text{€} = 53,100\text{€}$ (cost of shares).
- 4) 106.20€ – commission of the bank for the sale of shares on the German exchange in Frankfurt (Xetra Frankfurt).
- 5) 58.77€ – servicing of the investment account. When calculating this amount, the constant decrease in the portfolio value was – 213.04€ per day during the asset holding period.

Total income from the sale: $53,100 - 106.20 - 58.77 = 52,935.03\text{€}$.

Net loss from the deal, including all commissions and storage costs, $52,935.03 - 67,935.60 = -\mathbf{15,000.57\text{€}}$.

Examples of investment in depositary receipts:

Investment with a subsequent profit.

On 4 May 2021 an investor acquired 1,000 depositary receipts (ADR) of Sanofi S.A. for 50.42\$ per receipt. The costs of this purchase are:

- 1) $1,000 \times 50.42\$ = 50,420\$$ (cost of receipts).
- 2) 50\$ – the minimum commission of the bank for the acquisition of the receipts on the American exchange.

Total costs of the purchase: $50,420 + 50 = 50,470\$$.

By 26 May 2021 Sanofi's depository receipts rose in price to 53.91\$ per receipt. The investor decides to sell the receipts (close with a profit). The income from the sale:

- 3) $1,000 \times 53.91\$ = 53,910\$$.
- 4) 50\$ – the minimum commission of the bank for the sale of the receipts on the American exchange.
- 5) 15.94\$ – servicing of the investment account (0.5% per annum of the total assets on the investment account, in this example there is only one asset in the portfolio). When calculating this amount, the constant increase in the value of the portfolio was equal to 166.19\$ / day during the period of ownership of the asset. The formula for the calculation is $V \times 0.5\% / 360$, where V is the value of the asset on a specific date.

Total income from the sale: $53,910 - 50 - 15.94 = 53,844.06\$$.

Net profit from the deal, including all commissions and storage costs, $53,844.06 - 50,470 = \mathbf{3,374.06\$}$.

Investment with subsequent loss.

On 11 June 2021 an investor acquired 1,000 depository receipts (ADR) of Sanofi S.A. at 53.80\$ per receipt. The costs of the given purchase:

- 1) $1,000 \times 53.80\$ = 53,800\$$ (cost of receipts).
- 2) 50\$ – the minimum commission of the bank for the acquisition of the receipts on the American exchange.

Total costs of the purchase: $53,800 + 50 = 53,850\$$.

By 23 June 2021 the depository receipts of Sanofi fell in price and now cost 52.08\$ per receipt. The investor decides to sell his receipts (record a loss). The income from the sale:

- 3) $1,000 \times 52.08\$ = 52,080\$$.
- 4) 50\$ – the minimum commission of the bank for the sale of the receipts on the American exchange.
- 5) 8.82\$ – servicing of the investment account. When calculating this amount, the constant decrease in the value of the portfolio was equal to $-156.36\$ / \text{day}$ during the period of ownership of the asset.

Total income from the sale: $52,080 - 50 - 8.82 = 52,021.18\$$.

Net loss from the deal, including all commissions and storage costs, $52,021.18 - 53,850 = \mathbf{-1,828.82\$}$.

Exchange Traded Funds (ETF)*

Exchange Traded Funds (Exchange Traded Funds, ETF's) is the fund whose shares are freely traded on the exchange. The ETF's are structured that way so the correlation between the fund and the underlying index (or asset) is positive or negative (if the fund is opposite correlation with index). With shares of the funds you can perform the same operations as with ordinary shares (i.e. purchase / sale). In addition to the usual ETF funds, there are also **funds with a built-in lever** (leveraged ETF). The difference between these funds is the presence of the so-called "lever". The presence of the financial leverage allows the ETF to generate a larger profit or loss than the index on which it is based. This is achieved through the use of various derivatives and debt instruments. Use of the derivatives in the structure of the fund also adds the need to transfer the derivative position to the next active month upon the expiry of the contract. This can lead to a situation when the value of ETF's shares decreased, even on a stable market. It should also be noted that funds with a lever **tend** to correlate with the base index (or asset) as accurately as possible, given the declared multiplier, but **do not guarantee** it. It should also be considered that the funds include the commissions of the managing firm for the administration of the fund (indicated in the description of the instrument and usually makes from 0.5% to 1.5% per annum of the total value of the fund's assets), which affects the potential amount of the profit or loss.

Risks specific to the financial instrument:

Issuer risk/credit risk, country or political risk, market risk, currency risk, legal risk (legislative, tax risk), liquidity risk.

There is a risk that the investment may lose the part of its value or all of the invested amount. Depending on the chosen exchange-traded fund's leverage index and the structure of the exchange-traded fund, the risk levels may vary. Exchange-traded funds with leverage (doubled and tripled) and short (short) exchange-traded funds are much riskier than ordinary exchange-traded funds due to their complex structure. The client is also obliged to familiarize with the description of the most common risks, especially considering market risk, issuer risk, liquidity risk, country risk, information risk, systemic risk, credit risk, tax risk, price risk, currency risk, interest rate risk and legal risk.

Examples of Investment in ETFs:

Investment with subsequent profit.

On 31 May 2021 an investor acquired 1,000 shares of SXXPIEX GY (iShares STOXX Europe 600 UCITS ETF) at 44.70€ per share. The costs of the given purchase are:

- 1) $1,000 \times 44.70\text{€} = 44,700\text{€}$ (cost of shares).
- 2) 89.40€ – the commission for the acquisition of the shares, if the rate is 0.2% of the transaction volume ($44,700\text{€} \times 0.2\% = 89.40\text{€}$).

Total costs of the purchase: $44,700 + 89.40 = 44,789.40\text{€}$.

By 17 June 2021 the shares of SXXPIEX rose to 45.63€ per share. The investor decides to sell the shares (close with profit). The income from the sale is:

- 3) $1,000 \times 45.63€ = 45,630€$.
- 4) 91.26€ – the commission for the sale of the shares, if the rate is 0.2% of the transaction volume ($45,630€ \times 0.2\% = 91.26€$).
- 5) 10.66€ – (0.5% per annum of the total assets on the investment account, in this example there is only one asset in the portfolio). When calculating this amount, a constant increase in portfolio value of 58.13€ / day was used during the asset ownership period. The formula for the calculation is $V \times 0.5\% / 360$, where V is the value of the asset on a specific date.

Total income from the sale: $45,630 - 91.26 - 10.66 = 45,528.08€$.

Net profit from the deal, including all commissions and storage costs, $45,528.08 - 44,789.40 = 738.67€$.

Investment with subsequent loss.

On 14 July 2021 an investor acquired 1,000 shares of SXXPIEX GY (iShares STOXX Europe 600 UCITS ETF) for 45.68€ per share. The costs of the given purchase are:

- 1) $1,000 \times 45.68€ = 45,680€$ (cost of shares).
- 2) 91.36€ – the commission for the acquisition of the shares, if the rate is 0.2% of the transaction volume ($45,680€ \times 0.2\% = 91.36€$).

Total costs of the purchase: $45,680 + 91.36 = 45,771.36€$.

By 19 July 2021 the shares of SXXPIEX fall in price and now cost 44.04€ per share. The investor decides to sell his shares (record a loss). The income from the sale is:

- 3) $1,000 \times 44.04€ = 44,040€$ (cost of shares).
- 4) 88.08€ – the commission of the bank for the sale of the shares, if the rate is 0.2% of the transaction volume ($44,040€ \times 0.2\% = 88.08€$).
- 5) 3.12€ – servicing of the investment account. When calculating this amount, a constant decrease in the value of the portfolio equal to $-410€ / \text{day}$ was used in the period of ownership of the asset.

Total income from the sale: $44,040 - 88.08 - 3.12 = 43,948.80€$.

Net loss from the deal, including all commissions and storage costs, $43,948.80 - 45,771.36 = -3,822.56€$.

Debt Instruments

A debt instrument is a documented (paper or electronic) financial liability between a borrower and a creditor that can be traded between one or more legal entities. Debt instruments include bonds, depository certificates and commercial paper.

A bond is a debt security, which the borrower (issuer) undertakes to pay the lender (investor) a loan amount with a percentage that is paid within a certain period of time.

There are coupon bonds and zero-coupon bonds (discount bonds). **Coupon bonds** are interest bearing, for which the borrower pays interest (coupon) until maturity. The coupon is not paid out for **zero coupon bonds**, however, they are sold at a price below their nominal value (initial price set by the issuer), i.e. the holder's income is the discount – difference between the issue price and the face value (if the bond is held until maturity). Additionally, bonds differ by their respective issuer – there are government, municipal and corporate bonds. Most investors prefer bonds with the highest credit rating, which is determined by a rating agency – an organization engaged in assessing the creditworthiness of enterprises. Despite the large number of credit agencies, the most powerful are the “Big Three” – Fitch, Moody's and Standard & Poor's.

Risks specific to the financial instrument:

Issuer risk/credit risk, market risk, liquidity risk, risk of interest rate fluctuations, currency risk, country or political risk, legal risk (legislative, tax risk), risk of early redemption of debt securities.

There is a risk that the investment may lose the part of its value or all of the invested amount - including if the issuer is unable to fulfill its obligations (for example in case of bankruptcy) or its ability to fulfill its obligations is reduced. There is also the risk of not receiving part or all of the interest income. The probability of the issuer's bankruptcy is assessed by independent credit rating agencies. Rating changes significantly affect the bond's market value. Smaller companies do not always request a rating for their bonds, which makes it difficult for the investor to assess the risk of such securities. An abnormally high interest rate on a bond means that the issuer is having financing problems, and such bonds are considered risky in the market. Considerable fluctuations in the market value of the bond can also be caused by circumstances that are not directly related to the issuer of the bond, but to changes in interest rates in general (interest rate risk). In general, the prices of longer-dated bonds are more exposed to changes in interest rates.

Examples of investments in bonds:

Bond parameters:

Each bond has certain parameters, knowledge of which is necessary to complete the transaction. Despite a large number of nuances, the main parameters present in each bond are:

ISIN – international securities identification number consists of a 12-digit alphanumeric code. This code is assigned to various financial instruments (stocks, bonds, etc.). At the same time, ISIN is not the only identifier (although the most common one), there are other identifiers in the world, usually assigned by national regulators (for example, VALOR).

Minimum transaction amount – the minimum amount at face value required to complete the transaction.

Increment – the step after the minimum transaction amount. With a minimum transaction amount, equal to 100 000 at face value, and with an increment of 1 000, the investor can buy bonds at face value of 100 000, 101 000, 102 000, 103 000, etc.

Name	T 2.25 15 August 2046
ISIN	US912810RT79
Coupon	2.25%
Frequency of coupon payment	2 times per year
Currency	USD
Maturity	15 August 2046
Minimum transaction amount	100
Increment	100

Investment with subsequent profit.

On 15 June 2021 the investor decided to acquire 230,000 bonds (at face value) of US Treasury with a coupon of 2.25% per annum and maturity on 15 August 2046. The price of the purchase is 105% of the face value. The costs of the purchase are:

- 1) $230,000 \times 105\% = 241,500\$$ (market value).
- 2) 1,729.77\$ – the accumulated coupon from the date of the previous payment (121 days*).

*The accumulated coupon is paid to the previous holder of the bond and is calculated based on the settlement date for the transaction. In this case, the bond is calculated in 1 day after the conclusion of the transaction, that is, on June 16. The last date of the coupon payment is 15 February 2021, so in total we have 121 days in between (16 June 2021 – 15 February 2021 = 121 days). Consequently, the coupon for 230,000 per day in 2021 is 14.29558014\$. In 121 days, we have $14.295580 \times 121 = 1,729.77\$$.

- 3) 243.23\$ – bank’s commission for the deal with state bonds denominated in US dollars. It is calculated as 0.10% of the transaction amount (face value + accumulated coupon).

Total cost of the purchase: $241,500 + 1,729.77 + 243.23 = 243,473\$$.

By 26 July 2021 the bond’s price rose up to 111% from its face value, and the investor decided to close with profit. The income from the sale:

- 4) $230,000 \times 111\% = 255,300\$$ (market value).
- 5) 2,315.88\$ – the accumulated coupon from the date of the previous payment (162 days, because settlement is on 27 July 2021).
- 6) 257.62\$ – bank’s commission for the deal with state bonds, denominated in US dollars.
- 7) 149.35\$ – servicing of the investment account (0.5% per annum of the total assets on the investment account, in this example there is only one asset in the portfolio). When calculating this amount, the constant increase in portfolio value was 341.46\$ per day during the asset ownership period. The formula for the calculation is $V \times 0.5\% / 360$, where V is the value of the asset at a specific date.

Total income from the sale: $255,300 + 2,315.88 - 257.62 - 149.35 = 257,208.91\$$.

Net profit from the deal, including all commissions and storage costs, $257,208.91 - 243,473 = \mathbf{13,735.91\$}$.

Investment with subsequent loss.

On 14 June 2021 an investor decided to acquire 230,000 bonds (at face value) of US Treasury with a coupon of 2.25% per annum and maturity on 15 August 2046. The price of the purchase is 105% of the face value. The costs of the purchase are:

- 1) $230,000 \times 105\% = 241,500\$$ (market value).
- 2) 1,729.77\$ – the accumulated coupon from the date of the previous payment (121 days).
- 3) 243.23\$ – bank commission for the deal with state bonds denominated in US dollars.

Total costs of the purchase: $241,500 + 1,729.77 + 243.23 = 243,473\$$.

By 26 July 2021 the bond fell in price to 102% of the face value and the investor decided to record a loss. The income from the sale is:

- 4) $230,000 \times 102\% = 234,600\$$ (market value).
- 5) 2,315.88\$ – the accumulated coupon from the date of the previous payment (162 days, because settlement is on 27 July 2021).
- 6) 236.92\$ – bank's commission for the deal with state bonds, denominated in US dollars.
- 7) 143.42\$ – servicing of investment account. When calculating this amount, a constant decrease in the value of the portfolio equal to $-153.9973\$ / \text{day}$ was used in the period of ownership of the asset.

Total income from the sale: $234,500 + 2,315.88 - 236.92 - 143.42 = 236,535.54\$$.

Net loss from the deal, including all commissions and storage costs, $236,535.54 - 243,473 = -\mathbf{6,937.46\$}$.

In addition to bonds with simple methodology of calculation, instruments with various variables are also common on the debt market. These variables can be both external and internal factors affecting the company or the economic situation as a whole; as well as additional conditions that the company establishes by itself (at the time of issuance). The most common variables include instruments with:

- Early redemption of bonds (CALL) – the company has the right to redeem the bond prior to the maturity date, at a predetermined price, if the market price at the date of possible redemption is lower.
- Early sell right (PUT) – the investor has the right to demand early repayment of the principal. This type of bond is typical for emerging markets, e.g. Brazil.
- Variable coupon rate – the bond rate may be floating, dependent on specific parameter (i.e. central bank rate, LIBOR, indexes and other indicators).
- Amortization of the principal amount of debt – often the company will pay a part of the face value along with the coupon in order to avoid paying the full amount at maturity. This can be done if the bond considers amortization.
- Extension of the maturity period – the maturity of the bond may be extended to a later date.
- Conversion to another financial instrument – the bond can be converted into another instrument, both into shares and into a debt instrument with an increased maturity.

Bonds with variables are considered complex bonds as they require the investor to have deeper knowledge of financial markets and are more demanding in awareness of the increased risks.

Examples of investment in bonds:

Bond parameters:

Name	NSANY 4.81 17 September 2030
ISIN	USJ57160DZ32
Coupon	4.81%
Frequency of coupon payment	2 times per year
Currency	USD
Maturity	17 September 2030
Minimum transaction amount	200,000
Increment	1,000

The given bond has the following variables:

Possibility of early redemption on 17 June 2030 at 100% of the face value.

Investment with subsequent profit.

On 1 October 2021 the investor decided to acquire 500,000 bonds (at face value) of Nissan with a 4.81% coupon rate per annum and maturity on 17 September 2030. The cost of the purchase amounts to 110% of the face value. The costs of the purchase are:

- 1) $500,000 \times 110\% = 550,000\$$ (market value is the same as face value).
- 2) 1,202.50\$ – the accumulated coupon from the date of the previous payment (18 days*).

*The accumulated coupon income is paid to the previous holder of the bond and is calculated based on the settlement date for the transaction. In this case, the bond is calculated in 2 days after the conclusion of the transaction, that is, on October 5. The last date of the coupon payment is 17 September 2021, so in total there are 18 days in between (5 October 2021 – 17 September 2021 = 18 days). Coupon per day makes $500,000 \times 4.81\% / 360 = 66.8055555\$$. Consequently in 17 days we have $66.8055555 \times 18 = 1,202.50\$$.

- 3) 826.70\$ – the commission of the bank for the transaction with corporate bonds, denominated in US Dollars. It is calculated as 0.15% of the transaction amount (face value + accumulated coupon).

Total costs of the purchase: $550,000 + 1,202.50 + 826.80 = 552,029.30\$$.

By 20 October 2021 the bond rose in price to 115% of its face value, and the investor decided to close with a profit. The income from the sale is:

- 4) $500,000 \times 115\% = 575,000\$$ (market value).
- 5) 2,338.19\$ – the accumulated coupon (for 35 days).
- 6) 866.01\$ – the commission of the bank for the transaction with corporate bonds, denominated in US Dollars.
- 7) 148.72\$ – servicing of the investment account (0.5% per annum of the total assets on the investment account, in this example there is only one asset in the portfolio). This amount was calculated by using the constant increase in portfolio value 1,537.39\$ per day during the asset ownership period. The formula for the calculation is $V \times 0.5\% / 360$, where V is the value of the asset at a specific date.

Total income from the sale: $575,000 + 2,338.19 - 866.01 = 576,472.18\$$.

Net profit from the deal, including all commissions and storage costs: $576,472.18 - 552,029.30 = \mathbf{24,442.88\$}$.

Investment with subsequent loss.

On 1 October 2021 the investor decided to acquire 500,000 bonds (at face value) of Nissan with a 4.81% coupon rate per annum and maturity on 17 September 2030. The cost of the purchase amounts to 110% of the face value. The costs of the purchase are:

- 1) $500,000 \times 110\% = 550,000\$$ (market value).
- 2) 1,202.50\$ – the accumulated coupon from the previous payment date (18 days*).

*The accumulated coupon income is paid to the previous holder of the bond and is calculated based on the settlement date for the transaction. In this case, the bond is calculated in 2 days after the conclusion of the transaction, that is, on 5 October 2021. The last date of the coupon payment is 17 September 2021, totalling 18 days (5 October 2021 – 17 September 2021 = 18 days). Coupon per day makes $500,000 \times 4.81\% / 360 = 66.8055555\$$. Consequently, in 18 days we have $66.8055555 \times 18 = 1,202.50\$$.

- 3) 826.80\$ – the commission of the bank for the purchase of corporate bonds, denominated in US Dollars. It is calculated as 0.15% of the transaction amount (face value + accumulated coupon).

Total cost of the purchase: $550,000 + 1,202.50 + 826.80 = 552,029.30\$$.

By 20 October 2021 the bond's price fell to 40% of its face value, and the issuer decided to exercise early redemption, for which he received 50% of the face value. The income from the redemption:

1. $500,000 \times 50\% = 250,000\$$ (face value).
2. 1,202.50\$ – the accumulated coupon (for 18 days*).

*The accumulated coupon income is paid to the previous holder of the bond and is calculated based on the settlement date for the transaction. In this case, the bond is calculated in 2 days after the conclusion of the transaction, that is, on 5 October 2021. The last date of the coupon payment is 17 September 2021, totaling 18 days (5 October 2021 – 17 September 2021 = 18

days). Coupon per day makes $500,000 \times 4.81 \% / 360 = 66.8055555\$$. Consequently, in 18 days we have $66.8055555 \times 18 = 1,202.50\$$.

3. 107.96\$ – servicing of the investment account. When calculating this amount, a constant decrease in the value of the portfolio equal to $-6,250\$ / \text{day}$ during the asset holding period was used up to the date of early redemption (at the date of cancellation of the bond, the calculations are based on the early redemption price).

Total income from the sale: $250,000 + 1,202.50 - 107.96 = 251,094.54\$$.

Net loss from the deal, including all commissions and storage costs, $251,094.54 - 576,522.18 = -325,427.64\$$.

Please take into consideration that depending on the bond prospectus, the bond can be partially paid off or not repaid at all – the ability to pay off the bond is the right, and not the obligation of the company. In the case of partial repayment, the distribution of funds is most often proportional (pro rata), i.e. the received sums are distributed proportionately between the holders according to a certain rule.

Corporate Action (Events)

Corporate action is any event of corporate governance that can affect the material condition of the company, shareholders or debt holders. These actions and events are usually approved by the board of directors of the company and in many corporate events shareholders have the right to participate and vote. Some corporate events require mandatory participation of shareholders. The absence of a shareholder in a corporate event results in consequences, e.g., the shareholders meeting may consider his vote to be abstained or in favor of the motion. Separately, it must be noted that an investment firm (in our case – a bank) is not obliged to notify its clients of the coming corporate event - the tracking of such events is entirely the prerogative of the shareholders (investors). In addition, due to the fact that the client shares are held by a custodian (depository) on collective accounts (i.e. “omnibus” type), and not on personal ones, the bank may not have the opportunity to vote on behalf of the client since the stock storage format may not provide for a separate voting, whilst the shareholder register indicates the bank as the nominal owner. In turn, the bank sends out notices received by the depository about the occurrence of corporate events, if possible. Such notifications in most cases come in the form of standardized messages on the SWIFT system, which include basic information about the corporate event, voting aspects among others. The language of the notification is English in most cases. In case the client wishes to receive a further explanation regarding the nature of the notification sent, the bank is ready to provide a summary of such notice as a paid service.

The most common corporate events include:

- Stock split or stock consolidation – a reduction (consolidation) or an increase (stock split) in the number of shares traded on the market. During a stock split, the price per share falls, while during a stock consolidation, it rises.

Example: A company announces a stock split, in the ratio of 2:1, where for each issued share, the company will issue one more. Therefore, if a client had 1,000 shares that traded at 100\$ apiece, then after the stock split, the number of shares will increase to 2,000 while the price will fall to 50\$. During a stock merge, the reverse occurs – the number of shares decreases while the price increases.

- Dividends – income from payment of securities. Payment can be made at the expense of the received profit or using the issue of additional shares.

Example: When dividends are paid out at the expense of the received profit, the company announces the amount of funds to be paid to each shareholder. If an investor has 1,000 shares in his portfolio and declared dividends of 0.50\$ per share, the investor will receive 50\$.

When dividends are paid in shares, the company declares how many shares will be received by the investor. If the company pays 0.1 share for each share of which the investor owns, and the investor has 1,000 shares, then after the payment the number of shares of the investor will increase to 1,100.

- Rights issue – the company may issue rights to purchase additional shares for current shareholders under preferential terms. Each shareholder is allocated a certain number of rights that can be sold or used to obtain new shares at a discount price.

Example: An investor has 2,000 shares in his portfolio. The company announces a rights issue for current shareholders at a certain date. Furthermore, 10 rights can be used to purchase 1 share at a predetermined price. Accordingly, the investor will receive 2,000 rights, which he can use to purchase 200 shares, at a discounted price.

- Mergers and Acquisitions – this is a common phenomenon in modern financial markets. A merger is the formation of two or more different companies into a single entity by mutual agreement. An acquisition, on the contrary, implies a buy-out of a controlling stake, with the establishment of control over the company, but without the merger of two stocks into one.

Example: An investor owns 100,000 shares of company X. The management of companies X and Z decides to merge together and form a new company U. According to the merger agreement, holders of shares of the company X will receive shares of the new company U with a coefficient of 1 to 4. At the date of the merger, the investor will receive 25,000 shares of the new company U.

- Corporate spin-off – a separation of a subsidiary from the parent company. In a spin-off, shares of the new company are issued, while holders of shares of the parent company receive new shares in proportion to their original holdings.

Example: An investor owns 250,000 shares (2.5% of the total number of shares) of the parent company X, the total number of shares issued is 10,000,000. A new company Z will be separated from the parent company. At the separation, the company Z produces 1 million shares. Proportionally, the investor gets a 2.5% stake in the new company Z or 25,000 shares.

The expenses of the clients incurred by participation in a corporate event depend on the type of corporate event. Most corporate actions do not require additional costs; however, some may increase storage costs (i.e. exercise of rights to purchase shares at a discount, etc.). In a number of cases (rarely) companies provide compensation for participation or a certain action at the voting, which depends on the amount of the asset (the number of shares or the nominal value of the debt).

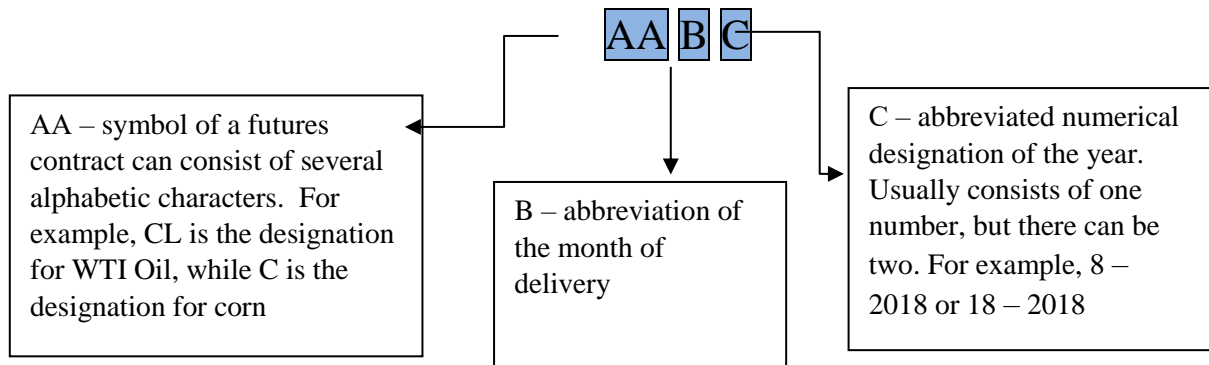
It should also be considered that there are many other corporate events that can affect not only the number and price of shares / bonds, but also the future of the company, and consequently the success of investments. Therefore, these events are essential for market participants.

Futures contracts

Exchange traded futures contract. The essence of the transaction is the delivery of a certain asset in a certain place on a specific date in the future. When buying futures, neither the transfer of this asset nor the payment for it occurs. The price of the contract at a particular point in time is the current value of the asset plus the interest for the time remaining until payment, that is, until the contract is realized. Thus, futures markets are a kind of auction, trade on which reflects the latest data on the correlation of demand and offers for specific assets. There are two types of futures contracts – delivery and settlement (non-delivery). At the expiration of delivery futures, raw materials (oil, grain, gasoline, etc.) are delivered, while a settlement future does not imply physical delivery, and a settlement takes place instead, where the contractual parties settle the difference between the price under the opening of the contract and the official price at the contract's expiration. By buying and selling futures, investors tend to predict the direction of price movements of certain underlying assets and thus to receive profit. Futures contracts are traded by month of delivery. The corresponding month is mentioned in the contract name and may have the following abbreviations:

Abbreviation	Deciphering
F	January
G	February
H	March
J	April
K	May
M	June
N	July
Q	August
U	September
V	October
X	November
Z	December

According to generally accepted standards, the abbreviated name of the futures contract is based on the following principle:



Futures contracts are characterized by a high degree of standardization – according to the specification, quantity, place and time of delivery of the goods. Due to standardization, contracts are similar not only in the calculation methodology and structure, but also in the terminology used to describe the main parameters. The main terms include:

- Contract size – the number of units of weight or volume in one contract. Can be measured in different mass / volume units (troy ounces, bushels, barrels, etc.)
- Value of 1.0 pt – the cost of changing the contract price by one point (for example, from 15.4 to 16.4, etc.)
- Tick size – the minimum change in the price of the contract. Also called the minimum step.
- Tick value – the price of the price change in the currency of the contract (US dollar, euro, yen, etc.) with a minimum price change.
- Contract price – the current market price of the futures contract.
- Contract value – contract price multiplied by the size of the contract.
- Up Limit and Down Limit:
 - Up Limit – the maximum value of the contract price during the day. The upper limit is set by the exchange and serves as a kind of restrictor, above which the price cannot go. This limitation exists to control panic states and excessive volatility. When the upper limit is reached, the trade under the contract can be suspended. The exchange revises the upper limit daily, based on the closing price of the contract.
 - Down Limit – the minimum value of the contract price during the day. The lower limit is set by the exchange and serves as a sort of restrictor, below which the price cannot go. This limitation exists to control panic moods and excessive volatility. When the lower limit is reached, trade under the contract can be suspended. The exchange revises the lower limit daily, based on the closing price of the contract.

***N.B.** It should be noted that many exchanges set restrictive limits also for other classes of financial instruments, as well as for the whole stock exchange trade. Thus, exchanges can stop trading in case of significant (10 or more percent) changes in stock indices.*

- Initial margin – the required amount of money to open a futures position.
- Notification dates under the contract:
 - Last trade – the last day when a futures contract is traded or may be closed before the delivery of the underlying asset or cash settlement. This parameter is present for all futures contracts.
 - First notice – on this day the holder of the contract can receive a notice of the need to receive delivery of the underlying asset. In order to avoid the risk of delivery, clients close or transfer positions to the next active month on the day before the first day of the delivery notification. This parameter is present only for contracts for which the physical delivery of the underlying assets is provided.
 - First delivery date – the beginning date of the physical delivery under the futures contract. This parameter is present only for contracts for which the physical delivery of the underlying assets is provided.

N.B. Brokers can independently set the end dates until which they are willing to hold the position of their clients, without fear of the risk of delivery and related administrative costs and cancellation formalization difficulties. In this case, they can force the client to close the position ahead of schedule on such instrument.

Since not all basic assets submit to standardized, futures exist only for the main assets, in particular, futures on stock indices, stocks, currencies, agricultural commodities, metals, oil products, etc. are widespread. The counterparty is not known to the investor, nor is it needed, since there exists a system of security deposits that operates to provide for the mechanism of bidding. When opening a long (purchase) or short (sale) position, the client must provide a guarantee that usually ranges from 2% to 10% of the current market value of the asset. Thus, in the futures market there are a lot of bilateral deals.

Risks specific to the financial instrument:

Country or political risk, market risk, systemic risk, currency risk, legal risk (legislative, tax risk, liquidity risk). The amount of losses is unlimited. The Bank can use other assets of the client in the Bank to settle the client's obligations. There is a risk of suffering significant losses if the transaction market the value changes in an unfavorable direction for the client, including the risk of losing part or all of the collateral, as well as there is a risk that the amount of losses may exceed the amount of the provided collateral.

If the client is unable to provide initial collateral or additional collateral at the Bank's request, the Bank may close the client's position and use the collateral to clear the client's obligations.

Examples of trade with futures contracts:

Description of the contract:

CLQ1 – WTI CRUDE OIL August 2021	
Contract size	1,000 Barrels
Price of 1.0 point	1,000\$
Minimum movement size	0.01
Price of minimum movement	10\$
Contract price	65.11\$/bbl. (dollars per barrel)
Contract value	65,110\$
Initial reserve requirement	5,610\$
Up Limit	N/A
Down Limit	N/A

Purchase of futures:

% P/L	Opening price	Closing price	Commission (19\$ per side)	Profit/Loss (including paid commissions)
+ 3%	65.11	67.06	38\$*	$= (67.06 - 65.11) \times 1,000 - 38 = 1,912\$$
- 3%	65.11	63.16	38\$*	$= (63.16 - 65.11) \times 1,000 - 38 = -1,988\$$

*commission of 19\$ for the contract per side means that by buying and reselling one contract, the client pays 38\$.

Sale of futures:

% P/L	Opening price	Closing price	Commission (19\$ per side)	Profit/Loss (including paid commissions)
+ 3%	65.11	63.16	38\$*	$= (65.11 - 63.16) \times 1,000 - 38 = 1,912\$$
- 3%	65.11	67.06	38\$*	$= (65.11 - 67.06) \times 1,000 - 38 = -1,988\$$

* commission of 19\$ for the contract per side means that by buying and reselling one contract, the client pays 38\$.

Trade with margin instruments, which includes futures, is associated with the need to maintain a certain level of margin. In case of insufficient coverage of margin requirements, a margin call may occur on the account, in case of occurrence of which the investor needs to refill the account to fully cover all of the margin requirements. With further deterioration of the situation, a stop-loss situation may also arise. It should be considered that when the situation of margin calls arises, the bank has the right to close the client's position, without waiting for the onset of a stop-loss situation.

N.B. Often, the opening price of trading of financial instruments can be lower (opening with a gap down) or higher (opening with a gap up) in comparison with closing price of the previous day. When trading starts with a gap, there may be a situation in which the requirements to the client may exceed the security deposit. In this case, the client will be required to provide additional funds to cover the difference between loss and security deposit.

Determining the level of margin call and stop loss:

Available funds prior to the opening of the position	15,000\$
Opened position	Purchase of 1 CLQ1
Price of purchase	70
Initial reserve requirement	5,610\$
Commission for opening the contract	19\$
Available funds after the opening of the contract	$= 15,000 - 5,610 - 19 = 9,371\$$
Margin call level in points from the position entry price	$= 9,371 / 1,000 / 1 = 9.37$
Margin call level	$= 70 - 9.37 = 60.63^*$
Stop loss level in points from the position entry price	$= (9,371 + 0.70 \times 5,610) / 1,000 / 1 = 13.298$
Stop loss level	$= 70 - 13.298 = 56.70^{**}$

*because the minimum movement under the contract is 0.01; the margin call will occur at a price of 60.63.

** since the minimum movement under the contract is 0.01; stop-loss will occur at a price of 56.70.

Stock Options and Options on Futures

An option is a derivative that allows the option buyer (the owner or holder of a long position of the option) the right, but not the obligation, to buy or sell the underlying asset or financial instrument at the strike price of the option, depending on the option type (European or American). It should be considered that when buying an option, a premium is received by the counterparty (the seller of the option). In regard to this, the maximum loss of the holder of a long position can be equal only to the premium paid for the option. For a holder of a short position on an option (the seller), the loss is unlimited (except for the sale of PUT options, since the underlying asset cannot be below zero), but profit is limited to the initial amount of premium received for the sale.

In addition to being either CALL or PUT, options can also be divided by their duration – weekly and monthly, where weekly options expire each week, and monthly options expire each month. For liquid stock and futures contracts, three weekly options and one monthly option expire per month (totalling four working weeks or one month). Some options for the underlying asset do not provide for the trading of weekly options – in most cases this is due to the demand for the underlying asset (the availability of options for the base contract is determined by the issuer of the contract, in most cases it is the exchange).

A holder of a long position in American-type options during the option may request for the underlying asset to be delivered (CALL option), or sell the underlying asset at the strike price (PUT option). For European-type options, delivery can only occur on the maturity date of the option. The holder of the short position (the seller) is, on the contrary, obliged to fulfil the requirements of the other party either to sell the asset (CALL option) or buy the option (PUT option). When delivering the underlying asset by option, one must take into account the need to provide an initial reserve requirement for a futures contract, or cash for the supplied shares.

It should be noted that a standard stock option on the exchange contains 100 shares, while a futures option contains one contract. However, the number of shares/futures may vary depending on the specification of the option.

Risks specific to the financial instrument:

Country or political risk, market risk, systemic risk, currency risk, legal risk (legislative, tax risk, liquidity risk). The option price (premium) is affected by changes in the price of the underlying asset and the volatility of these prices. The stock option price may change until the option expiration date. Options the buyer's potential total loss is limited to the amount of the premium paid, while retaining the opportunity to profit as a result of favorable changes in the price of the security. The maximum profit of the option seller is the premium received. The option seller has unlimited losses, which can exceed the amount of the premium received and the amount of collateral provided. Unexercised options after expiry of the validity period expire and lose value accordingly. Financial instruments serving as collateral for an option may be written off without prior notice. In some cases, if options are sold without collateral, the amount of loss may be unlimited.

Examples of trade with stock and futures options:

Contract Description (futures option):

CLQ1 P55 – Crude oil option August 2021	
Base Contract	CLQ1
Number of contracts	1 contract CLQ1
Size of the contracts	1,000 barrels
Price of 1.0 point	1,000\$
Minimum movement size	0.01
Price of minimum movement	10\$
Price	1.41
Contract value	1,410\$
Initial reserve requirement	2,250\$ (collected only at sale)
Option type	American
Option side	PUT
Strike	55

Purchase of option (futures):

Profit/Loss calculation using option price

% P/L	Opening price	Closing price	Commission (19\$ per side)	Profit/Loss (including paid commissions)
+ 30%	1.41	1.833	38\$	$= (1.83 - 1.41) \times 1,000 - 38$ $= 385$$
- 30%	1.41	0.987	38\$	$= (0.987 - 1.41) \times 1,000 - 38$ $= - 461$$

Profit/Loss calculation using option premium

% P/L	Premium paid upon opening of the position	Premium received upon the sale	Commission (19\$ per side)	Profit/Loss (including paid commissions)
+ 30%	$= 1.41 \times 1,000$ $= 1,410$$	$= 1.833 \times 1,000$ $= 1,833$$	38\$	$= 1,833 - 1,410 - 38 = 385$$
- 30%	$= 1.41 \times 1,000$ $= 1,410$$	$= 0.987 \times 1,000$ $= 987$$	38\$	$= 987 - 1,410 - 38 = - 461$$

Sale of option (futures):

Profit/Loss calculation using option price

% P/L	Opening price	Closing price	Commission (19\$ per side)	Profit/Loss (including paid commissions)
+ 30%	1.41	0.987	38\$	$= (1.41 - 0.987) \times 1,000 - 38 = 385\$$
- 30%	1.41	1.833	38\$	$= (1.41 - 1.833) \times 1,000 - 38 = - 461\$$

Profit/Loss calculation using option premium

% P/L	Premium received upon opening of the position	Premium paid upon the sale	Commission (19\$ per side)	Profit/Loss (including paid commissions)
+ 30%	$= 1.41 \times 1,000 = 1,410\$$	$= 0.987 \times 1,000 = 987\$$	38\$	$= 1,410 - 987 - 38 = 385\$$
- 30%	$= 1.41 \times 1,000 = 1,410\$$	$= 1.833 \times 1,000 = 1,833\$$	38\$	$= 1,410 - 1,833 - 38 = - 461\$$

Contract Description (stock option):

AAPL US 06/19/21 C150	
Base contract	Shares of Apple Inc.
Base number of shares	100 shares of Apple Inc.
Price of 1.0 point	100\$
Minimum movement size	0.05
Price of minimum movement	5\$
Price	8.56
Initial reserve requirement	856\$ (collected only at sale)
Option type	American
Option side	CALL
Strike	150

Purchase of option (stock):

Profit/Loss calculation using option price

% P/L	Opening price	Closing price	Commission (35\$ per side) *	Profit/Loss (including paid commissions)
+ 30%	8.56	11.13	70\$	$= (11.13 - 8.56) \times 100 - 70 = 187\$$
- 30%	8.56	5.99	70\$	$= (5.99 - 8.56) \times 100 - 70 = - 327\$$

*minimum commission 35\$. When exceeding minimum threshold, the commission is 3.5\$ per option.

Profit/Loss calculation using option premium

% P/L	Premium paid upon opening of the position	Premium received upon the sale	Commission (35 \$ per side) *	Profit/Loss (including paid commissions)
+ 30%	$= 8.56 \times 100$ $= 856\$$	$= 11.13 \times 100 =$ $1,113\$$	70\$	$= 1,113 - 856 - 70 = 187\$$
- 30%	$= 8.56 \times 100$ $= 856\$$	$= 5.99 \times 100 =$ $599\$$	70\$	$= 599 - 856 - 70 = - 327\$$

*minimum commission 35\$. When exceeding minimum threshold, the commission is 3.5\$ per option.

Sale of option (stock):

Profit/Loss calculation using option price

% P/L	Opening price	Closing price	Commission (35\$ per side) *	Profit/Loss (including paid commissions)
+ 30%	8.56	5.99	70 \$	$= (8.56 - 5.99) \times 100 -$ $70 = 187\$$
- 30%	8.56	11.13	70 \$	$= (8.56 - 11.13) \times 100 -$ $70 = - 327\$$

*minimum commission 35\$. When exceeding minimum threshold, the commission is 3.5\$ per option.

Profit/Loss calculation using option premium

% P/L	Premium paid upon opening of the position	Premium received upon the sale	Commission (35\$ per side) *	Profit/Loss (including paid commissions)
+ 30%	$= 8.56 \times 100$ $= 856\$$	$= 5.99 \times 100$ $= 599$	70 \$	$= 856 - 599 - 70 = 187\$$
- 30%	$= 8.56 \times 100$ $= 856\$$	$= 11.13 \times 100 =$ $1,113\$$	70 \$	$= 856 - 1,113 - 70 =$ $- 327\$$

*minimum commission 35\$. When exceeding minimum threshold, the commission is 3.5\$ per option.

Options Strategies

An option strategy is a combination of various options, which can either be paired with an underlying asset of the option, or without it. An option strategy is determined by the investor, based on his goals and aims, which can include increasing profit of the position (with market growth) or limiting losses (hedging). Since option strategies are related to the movement of the market, they can be divided into two types – Bull and Bear. The main principle of the Bull strategy is to increase the value of the underlying asset, while a Bear strategy bets on the reduction of an underlying asset's value. For effective use of option strategies, you need to understand where the payback point is (the price level at which the income and expense for the option position, including commission costs, is 0). Despite a large number of optional strategies, the most common ones are:

- Bull (CALL) Spread – this strategy involves the purchase of a CALL option with the simultaneous sale of a CALL option, but with a higher strike. The premium received from the sale will partially offset the premium paid for the purchase. Using this strategy, the investor assumes that the price for the underlying asset will go up (above the strike of the long position), but not above a certain level (strike of the short position).
- Bear (PUT) Spread – this strategy is the opposite of a bull spread. The strategy involves the purchase of a PUT option with the simultaneous sale of a PUT option, but with a lower strike. As in the above paragraph, the sales premium partially covers the premium paid. Using this strategy, the investor assumes that the price for the underlying asset will go down (below the strike of the long position), but not below a certain level (strike of the short position).
- Covered CALL/PUT options – the main idea of this strategy is either the sale of a CALL option against a long position on the underlying asset, or the sale of a PUT option against a short position of the underlying asset. When an option is sold, the investor receives a premium. Due to this premium, a kind of airbag is created that reduces the risk of a price fall on the underlying asset (for a long position on the underlying asset) or growth (for a short position on the underlying asset), and also increases the yield on the position if the price of the underlying asset remains within certain limits.

For example, an investor's portfolio has 100 shares of Apple Inc. bought for 300\$ apiece. In order to increase a profit, he sells CALL options with a strike price of 305\$. The received profit is 2\$. In this case, the border at which the investor will suffer a loss from below will be 298\$ per share (the price of entry into the underlying asset minus the premium). However, the maximum profit will also be limited to 7\$ per share (with a trade above 307\$ at the expiration date of the option, the investor will have to place the shares to the counteragent).

- Straddle – this strategy is based on the purchase of the same number of long options CALL and PUT with the same strike price and the same maturity date for one underlying asset. A straddle purchase is useful in cases when high price volatility is expected due to which the profit on options will exceed the premium paid for the purchase.

For example, the shares of Tesla Inc. currently trade at 1,265\$ per share. The investor expects high price volatility after the release of quarterly financial reports. As a result, he buys a CALL option and a PUT option with a strike price of 1,265 for 40.50\$ per share. In total, the investor pays 90\$ for both options. If at the maturity date the share will be traded below 1,224.50\$ or over 1,305.50\$, the option strategy will make a profit.

- Strangle – the given strategy uses the same principle as Straddle but is used instead with options that are “out of the money” (options whose strike price is distanced from the current market price). The option is “out of the money”, when there is no sense to make a delivery, because to buy or sell the underlying asset at a market price is more profitable. Options that are “out of money” are, as a rule, cheaper. The main advantage of strangle option strategies is the presence of a smaller premium. However, with a decrease in costs, the profitability margins increase (the upper and lower levels of the strategy payback).

An example of using a Strangle strategy would be a purchase of a CALL option with a strike of 270 for 3\$ each and a PUT option with a strike of 260 for 5\$ each, when the market offer is 265. The maturity date of both options must be the same, just like the underlying asset. The aggregate premium will be equal to 8\$. If the price of the underlying asset at maturity date will be lower than 252\$ ($260 - 8$) or higher 278\$ ($270 + 8$) the strategy will bring a profit.

Rolling Spot FX

Please note! The given product can be considered as Contracts for differences (CFDs). CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. 91.7% of retail investor accounts lose money when trading CFDs with the Bank. You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.

The given product allows to speculate using leverage on the increase or decrease of currency quotations. The distinct features of the Forex market include **high leverage and high volatility**. The operation with the currency pair (i.e. EUR/USD) is a simultaneous purchase and sale of two currencies. An investor can buy (long position) if he believes that's the base currency (EUR) will grow in value in comparison with the quoted currency (USD), or sell (short position) if he believes that the base currency price will fall. Rolling spot Forex trading **does not imply a physical delivery** and has an open settlement date. Compared with other products, this instrument **carries the highest level of risk**.

The margin requirements of the Forex market are one of the lowest (up to 3.33%), which should encourage investors to be especially cautious. Margin trading allows to have large exposures with a relatively small deposit account. If the account does not have enough funds to maintain the position and the investor can't replenish the account on time, **the positions will be automatically closed at the first available price**. The possibility of high profits also carries the risk of high losses, which, in case of extreme price movements, **may exceed the initial deposit of the account**. (*Starting from 1 August 2018 a negative balance protection has been applied to retail investors.)

The client's costs include commissions as well as commissions in the form of a spread and a transfer fee for the position with which the client is required to familiarize himself/herself before concluding the transaction. If the position remains open at the end of day, then a position transfer fee (swap, rollover fee) is either charged or debited. The transfer fee is calculated on the basis of the differences between the interest rates of both currencies, as well as the remuneration of the bank.

The Forex market is not centralized and essentially depends on the liquidity providers with which the bank operates. **The formation of prices is carried out outside the regulated market**, therefore the current prices may differ from broker to broker. Liquidity providers can significantly expand the market spread, which is reflected in the Forex market and is a significant risk for short-term trading. **Marginal currency trading is possible only on the Rietumu FX platform (Metatrader 4)**.

In addition, it should be noted that due to the peculiarities of Forex market (is not centralised, depends on the liquidity provider), at the most unfavourable market changes, the liquidity provider will not be able to fulfil its obligations under the transaction (counterparty's risk of bankruptcy).

Risks specific to financial instruments:

State or political risk, market risk, systemic risk, currency risk, legal risk (legislative, tax risk), liquidity risk (at certain transaction volumes or relevant market conditions).

Losses are unlimited. The Bank may use other assets of the client in the Bank to settle the client's liabilities. There is a risk of suffering significant losses if the market value of the transaction changes in an unfavorable direction for the client, including the risk of losing part or all of the collateral, as well as there is a risk that the amount of losses may exceed the amount of the provided collateral.

If the client is unable to provide initial collateral or additional collateral at the Bank's request, the Bank may close the client's position and use the collateral to clear the Client's obligations.

Example of trading on Rietumu FX platform

Currency pair EUR/USD		
Operation type	Purchase	
Opening price	1.12	Position opening price
Position size	1 lot	1 lot = 100 000 of base currency
Transaction amount	100,000	100,000 EUR purchase for USD
Margin requirements	3.33% (1:30)	Available funds required to open the position
Margin requirements (USD)	3,729.60\$	$100,000 \times 3.33\% \times \text{EUR/USD rate} = 3,729.60$
Commission	0.028%	$100,000 \times 0.028\% = 28\$$ (full turnover)
Account balance	6,000\$	Account deposit
Stop-Out level	50%	Stop-Out level determined by the broker. When this level is reached, the positions will be automatically liquidated

Scenario	Price change	P/L (P/L – commission)	Assets (Account balance + P/L)	Available funds (Assets – margin requirements)	Margin level (Assets / margin requirements)	Account compliance with margin requirements
Favorable	+ 2%	2,240 – 28 = 2,212\$	6,000 + 2,212 = 8,212\$	8,212 – 3,729.60 = 4,482.40\$	8,212 / 3,729.60 = 220.18%	220.18% > 50% = OK
Unfavorable	– 1.5%	– 1,680 – 28 = – 1,708\$	6,000 – 1,708 = 4,292\$	4,929 – 3,729.60 = 199.40\$	4,292 / 3,729.60 = 115.08%	115.08% > 50% = OK
Extreme	– 4%	– 4,480 – 28 = – 4,508\$	6,000 – 4,508 = 1,492\$	1,492 – 3,729.60 = – 2,237.60\$	1,492 / 3,729.60 = 40.00%	40.00% < 50% = Stop Out

Currency Forwards

A currency forward is a contract whereby one party (the seller) must exchange the other party (the buyer) a certain amount of money at a predetermined exchange rate on a certain day in the future (unilaterally).

Risks specific to the financial instrument:

Country or political risk, market risk, systemic risk, currency risk, legal risk (legislative, tax risk), liquidity risk (at certain transaction volumes or relevant market conditions).

Foreign exchange (spot) transactions are less suitable for future cash flow hedging, given that settlement takes place only two business days after the conclusion of the transaction and thus requires quick availability of funds. Therefore, forward contracts are more suitable for this purpose. There is a risk of suffering significant losses if the market value of the transaction changes in an unfavorable direction for the client, including the risk of losing part or all of the security in the event that the settlement day of the transaction does not coincide with the day of conclusion of the transaction. The amount of loss may also exceed the amount of collateral provided.

Examples of a forward transaction:

In one month, a client needs to buy equipment for conducting business activities for US Dollars. Since the company operates in the Eurozone, the main income is in euros. If one makes a conversion at the time of the transaction (in a month), it is unclear how much money will be needed, since the rate may change.

In order to protect the company from foreign exchange risk and allocate the necessary amount of money for the transaction, the client decides to fix the exchange rate, which will occur in a month by using a forward transaction.

Transaction parameters:

- The required amount of US dollars for the acquisition of equipment is – 1,000,000\$.
- Security deposit 70,000\$ – 7% of the forward amount to be collected in one of the forward contract currencies and calculated individually.
- The fixed exchange rate is 1.17.
- Necessary amount of euro for converting in a month: $1,000,000 / 1.17 = 854,700.86\text{€}$.

If in a month the market exchange rate is equal to 1.15\$ per euro, the client will earn 17,094.02\$ on the deal (the forward rate is better than the market rate). With a market rate of 1.19\$ per euro, the client will lose 17,094.02\$ on the deal (the market exchange rate is better than the forward rate). It should be noted that even with an, exchange rate loss, the forward contract allows you to plan future costs, which has a positive effect on the company's activity as a whole.

Fund Shares

UCITS investment funds (regulated mutual funds)

An UCITS fund is an investment fund corresponding to the provisions of the European Union regulation of the same name. The UCITS standard offers additional benefits for both the manager and the investor. One of the most important advantages of these funds is a high degree of awareness, transparency and high standards of risk management (limitations on the range of instruments in which investment can be made, etc.). Each UCITS fund has a “passport” that allows the fund to sell its shares in different EU countries. Bear in mind that many funds have a threshold of entry – that is, a minimum amount of investment.

UCITS funds like non-UCITS funds can have different classes (Class A, Class B, etc.). The division by classes and the number of these classes is determined by the fund itself and can depend on various factors. For example, class A may have a higher entry threshold and is intended for institutional investors, and class B for private ones with a lower entry threshold for private clients. It should, however, consider that, despite the division into classes, the shareholders of the fund own the same financial instrument (the same ISIN, profitability by shares).

Risks specific to the financial instrument:

Issuer risk/credit risk, country or political risk, market risk, currency risk, legal risk (legislative, tax risk), liquidity risk. There is a risk that the investment may lose the part of its value or all of the invested amount. The UCITS regulation defines a methodology for calculating the fund's risk level, based on a synthetic risk-benefit indicator on a 7-point scale, according to which a lower indicator usually means lower benefit and lower risk for the investor, while a higher indicator usually means higher benefit and higher risk. The client is obliged to familiarize himself/herself with the risk description of the specific fund in the fund prospectus.

Examples of investment in UCITS funds:

Investment with subsequent profit.

On 19 September 2021 an investor acquires 1,000 shares in a UCITS fund: Rietumu Asset Management Cash Reserve Fund – USD. This fund is created with the purpose to obtain a relatively stable income in the medium or long term. The sub-fund offers investors the opportunity to receive a relatively stable return over the target period, by investing into high-quality investment grade debt securities. The minimum investment in this fund is 1,000\$. The purchase costs are:

- 1) $1,000 \times 1,110.75\$ = 1,110,750\$$ (cost of fund shares).
- 2) Purchase commission (0.2%) = $1,110,750\$ \times 0.2\% = 2,221.50\$$ (*).

* The standard minimum commission in the Bank for the purchase / sale of third-party funds is 500 EUR. This commission does not apply to the funds of JSC “Rietumu Asset Management” IPS.

Total costs of the purchase: $1,110,750 + 2,221.50 = 1,112,971.50\$$.

By 6 October 2021 the price of shares of the UCITS Rietumu Asset Management Fund – Fixed Income Investment Grade USD rises to 1,125.15\$. The investor decides to close with a profit. The income from the sale:

- 3) $1,000 \times 1,125.15\$ = 1,125,150\$$ (costs of fund shares).
- 4) 2,372.54\$ – servicing of the investment account (0.2% per annum of the market value of all fund shares). When calculating this amount, the constant increase in portfolio value was 37.80\$ / day in the period of ownership of the shares. The formula for the calculation is $V \times 0.2\% / 360$, where V is the value of the asset for a specific date.
- 5) 7,117.62\$ – management fee (0.6% per annum of the market value of all fund shares). When calculating this amount, the constant increase in portfolio value was 37.08\$ / day in the period of ownership of the shares. The formula for the calculation is $V \times 0.6\% / 360$, where V is the value of the asset for a specific date.
- 6) Sales commission: 0%

Total income from sale: $1,125,150 - 2,372.54 - 7,117.62 = 1,115,659.84\$$.

Net profit from the deal, including all commissions, storage and management costs, $1,115,659.84 - 1,112,971.50 = \mathbf{2,688.34\$}$.

Investment with subsequent loss.

On 19 September 2021 an investor acquires 1,000 shares of UCITS Rietumu Asset Management Fund – Fixed Income Investment Grade USD. The minimum investment in this fund is 1,000\$. The costs of this purchase are:

- 1) $1,000 \times 1,110.75\$ = 1,110,750\$$ (cost of fund shares).
- 2) Purchase commission (0.2%) = $1,110,750\$ \times 0.2\% = 2,221.50\$$

Total cost of purchase: $1,110,750 + 2,221.50 = 1,112,971.50\$$.

By 6 October 2021 the share price of UCITS Rietumu Asset Management Fund – Fixed Income Investment Grade USD falls to 1,105\$. The investor decides to record a loss. The income from the sale is:

- 3) $1,000 \times 1,105\$ = 1,105,000\$$ (cost of fund shares).
- 4) 2,345.85\$ – servicing of the investment account. When calculating this amount, the constant decrease in portfolio value was – 28.22\$ / day in the period of ownership of the shares.
- 5) 7,037.55\$ – management fee. When calculating this amount, the constant decrease in portfolio value was –14.63\$ / day in the period of ownership of the shares.
- 6) Sales commission: 0%

Total income from the sale: $1,105,000 - 2,345.84 - 7,037.55 = 1,095,616.61\$$.

Net loss from the deal, including all commissions, storage and management fees, $1,095,616.60 - 1,112,971.50 = -\mathbf{17,354,90\$}$.

Non-UCITS Funds

Funds can be considered non-UCITS if they did not receive the so-called “UCITS passport”. In general, they are not so transparent and are not strictly regulated by the European regulator, but they have more opportunities regarding the structure and financial instruments that they can buy. These funds are created and regulated by the local supervisory authority depending on the country of registration (SICAV, SICAF, FCP, etc.). It should be considered that any non-UCITS fund can receive UCITS accreditation, but for this it must fulfil a number of conditions.

Risks specific to the financial instrument:

Issuer risk/ credit risk, country or political risk, market risk, currency risk, legal risk (legislative, tax risk), liquidity risk. There is a risk that the investment may lose the part of its value or all of the invested amount.

Examples of investment in shares of non-UCITS funds:

Investment with subsequent profit.

On 19 June 2021 an investor acquires 2,500 shares of Thibault worldwide FLEX-A fund for 114.05\$ per share. This fund aims at a return of + 5% to the Consumer Price Index (US Consumer Price Index for Urban Consumers Seasonally Adjusted). The minimum investment in this fund is 150,000\$. The acquisition costs were as follows:

- 1) $2,500 \times 114.05\$ = 285,125\$$ (cost of fund shares)
- 2) 4,276.88\$ – a commission for the purchase of this fund (1.5% of the transaction amount).

Total costs of the purchase: $285,125 + 4,276.88 = 289,401.88\$$.

By 6 August 2021 the share price of Thibault worldwide FLEX-A fund rises to 117.96\$. The investor decides to close with a profit. The income from the sale is:

- 3) $2,500 \times 117.96\$ = 294,900\$$ (cost of fund shares).
- 4) 2,949\$ – a commission for the purchase of this fund (1% of the transaction amount).
- 5) 193.34\$ – servicing of the investment account (0.5% per annum of the market value of all fund shares). When calculating this amount, the constant increase in portfolio value was 207.98\$ / day in the period of ownership of the shares. The formula for the calculation is $V \times 0.1\% / 360$, where V is the value of the asset for a specific date.

In this example, there is no management fee.

Total income from the sale: $294,900 - 2,949 - 193.34 = 291,757.66\$$.

Net profit from the deal, including commission, storage and management costs, $291,757.66 - 289,401.88 = \mathbf{2,349.78\$}$.

Investment with subsequent loss.

On 11 March 2021 an investor acquires 2,500 shares of Thibault worldwide FLEX-A fund for 115.87\$ per share. The minimum investment in the given fund is 150,000\$. The acquisition costs are as follows:

- 1) $2,500 \times 115.87\$ = 289,675\$$ (price of fund shares).
- 2) 4,345.13\$ – a commission for the purchase of this fund (1.5% of the transaction amount).

Total costs of the purchase: $289,675 + 4,345.13 = 294,020.13\$$.

By 8 June 2021 the share price of Thibault worldwide FLEX-A fund falls to 107.16\$. The investor decides to record a loss. The income from the sale is:

- 3) $2,500 \times 107.16\$ = 267,900\$$ (cost of fund shares).
- 4) 2,679\$ – a commission for the sale of this fund (1% of the transaction amount).
344.61\$ – servicing of the investment account (0.5% per annum of the market value of all fund shares). When calculating this amount, the constant decrease in portfolio value was – 247.44\$ / day in the period of ownership of the shares.

In this example, there is no management fee.

Total income from the sale: $267,900 - 2,679 - 344.61 = 264,876.39\$$.

Net loss from the deal, including commission, storage and management costs, $264,876.39 - 289,675 = -24,798.61\$$.

Money Market and Structured Deposits

The money market along with the capital market is part of the financial market. The main differences in the money market are its borrowing term – up to one year, and low financial risk. Since borrowing takes place in the short term, money market instruments have a small interest income and mainly serve short-term borrowing or investing funds.

Money market instruments include:

- Short-term securities (bills, bank checks, depository receipts)
- Short-term loans (commercial and interbank)
- REPO transactions

Ordinary Money Market Instruments

The simplest and most popular instruments are short-term US Treasury bills (maturity up to one year, inclusive). These bills are one of the most liquid and ultra-reliable financial instruments. The difference between the US bills from all others is the price, which is below its face value, and the absence of a coupon payment. Since US Treasury bills are non-coupon discount securities, the yield on paper is its current price.

Risks specific to the financial instrument:

Issuer risk/credit risk, country or political risk, market risk, currency risk, legal risk (legislative, tax risk), liquidity risk, risk of interest rate fluctuations. The value of debt security depends on the annual interest rate prevailing in the relevant market. As the interest rate increases, the price of the debt security decreases, while as the interest rate decreases, the price of the debt security increases.

Examples of investment in US Treasury bills:

Investment with subsequent profit.

On 2 February 2021 an investor acquired 100,000 short-term US Treasury bills at face value with maturity on 1 March 2021. At the time of purchase the given bill was traded with a yield of 1.2625% (99.7475%). The costs of the purchase are:

- 1) $100,000 \times 99.7475\% = 99,747.50\$$ (face value of the bill).
- 2) 99.75\$ – the bank's commission for the purchase of the given bills (0.1% from the transaction amount).

Total cost of the purchase: $99,747.5 + 99.75 = 99,847.25\$$

The investor decides to hold the given bills until maturity. Since repayment occurs at 100% of face value, the income from the redemption of the bill are:

- 3) $100,000 \times 100\% = 100,000\$$ (face value of the bill).
- 4) $0\$$ – a commission of the bank at the repayment of the bill (commission for the repayment of the bond is not levied).
- 5) $37.45\$$ – servicing of the investment account (0.5% per annum of the total assets on the investment account, in this example only one asset is in the portfolio).

When calculating this amount, the constant increase in the value of the portfolio was equal to $9.71\$/\text{day}$ during the period of ownership of the asset. The formula for the calculation is $V \times 0.5\% / 360$, where V is the value of the asset for a specific date.

Total income from the redemption: $100,000 - 37.45 = 99,962.55\$$.

Net profit from the deal, including all commissions and storage costs: $99,962.55 - 99,747.50 = \mathbf{215.05\$}$.

Investment with subsequent loss.

On 1 February 2021 an investor acquires 100,000 short term US Treasury bills at face value with maturity on 1 March 2021. At the time of the purchase, the given bill was traded with a yield of 1.895% (99.621%). The costs of the purchase are:

- 1) $100,000 \times 99.621\% = 99,621\$$ (face value of the bill).
- 2) $99.62\$$ – the bank's commission for the purchase of the given bills. (0.1% of the transaction amount).

Total costs of the purchase: $99,621 + 99.62 = 99,720.62\$$

By 22 February 2021 the yield on bills increases to 2.15% (99.57%). The investor decides to record a loss and sell the position. The income from the sale is:

- 3) $100,000 \times 99.57\% = 99,570\$$ (face value of the bill).
- 4) $99.57\$$ – the bank's commission for the sale of the given bills.
- 5) $29.05\$$ – servicing of the investment account. When calculating this amount, the constant decrease in the value of the portfolio was equal to $-2.55\$/\text{day}$ during the period of ownership of the asset.

Total income from the sale: $99,570 - 99.57 - 29.05 = 99,441.38\$$

Net loss from the deal, including all commissions and storage costs, $99,441.38 - 99,621 = -\mathbf{179.62\$}$.

Structured Deposits

Structured deposits are a popular type of investment in countries with a highly developed financial system. This type of deposit guarantees the depositor the safety of the principal amount of the deposit with the possibility to receive additional income, which considerably exceeds the standard rate on deposits. This income is possible due to the structure of the deposit. The bank invests most of the principal amount in low-yield, but ultra-reliable money market instruments (treasury bills, agency bills, etc.), while the rest is invested in high-risk instruments with large potential income (options, futures, etc.). This structure allows you to keep the initial capital and provides an opportunity, under favorable conditions, to gain high profit.

Risks specific to the financial instrument:

Risk of interest rate fluctuations, counterparty risk, country or political risk, market risk, systemic risk, currency risk, liquidity risk.

Examples of investment in structured deposits:

A client decides to invest 100,000\$ into a structured deposit until 31 November 2021. The deposit's structure is made up of 2 assets – a two-year US Treasury note with a coupon of 1.75% per annum with maturity on 30 November 2021; and a call option on WTI oil with a strike price of 42\$ (maturity on 17 October 2021). On the purchase date (12 August 2018) the yield on the Treasury note is 1.794% per annum and the option price is 1.5\$. The funds will be allocated in the following manner: 97,000\$ invested into the short-term US Treasury note and 3,000\$ invested into options (with an option price of 1.5\$ two options will be purchased).

Investment with subsequent profit.

At maturity /for the period of holding of the Treasury note, the investor will receive:

- 1) Face value – 97,000\$.
- 2) Coupon + discounted profit (purchase price is below 100% of the face value) – 3,480.36\$.

If the price of options rises to 5\$ each, the investor will receive:

- 3) $5 \times 2 \times 1,000 = 10,000$ \$ (for 2 options).

Total income from the structured deposit: $97,000 + 3,480.36 + 10,000 = 110,480.36$ \$. In this case the yield on the deposit was 10.48% for two years, or 5.24% per annum.

Investment with subsequent loss.

Since the short-term US Treasury notes are highly liquid and super-reliable, the case of non-payment on their face value is not considered.

At maturity/for the period of holding of the Treasury note, the investor will receive:

- 1) Face value – 97,000\$.
- 2) Coupon + discounted profit (purchase price is below 100% of the face value) – 3,480.36\$.

If the price of the options is 0 at the time of maturity, the option holder will receive nothing.

Total income from the structured deposit: $97,000 + 3,480.36 = 100,480.36\$$. In this case, the yield on the deposit is 0.48% for 2 years, or 0.24% per annum.

Use of Margin Loans

Margin loans secured by securities allow an investor to increase the profitability of his portfolio by increasing the number of assets that are available to the client for acquisition. Also, such a loan allows you to get quick access to funds and use them in other transactions if necessary. Margin loans can be issued for a portfolio of securities consisting of shares, bonds, ETF-funds, UCITS-funds, etc., which meet the criteria for granting a loan.

With the presence of borrowed funds, the portfolio becomes marginal. When buying securities using a margin loan, the investor must provide a deposit that will serve as collateral for the transaction. The relationship can be written as follows: “The market value of a security = margin loan + security deposit”. With a decrease in the price of an asset, there may be a situation of a shortage of money to maintain marginal parameters – a margin call. If this situation arises, the investor must restore the balance between the margin loan and the client's deposit by means of a cash inflow or by selling part of the asset. In case of a margin call, the bank has the right, but not the obligation, to close the position.

Risks specific to the financial instrument:

State or political risk, market risk, systemic risk, currency risk, legal risk (legislative, tax risk), liquidity risk (at certain transaction volumes or relevant market conditions).

Losses are unlimited. The Bank may use other assets of the client in the Bank to settle the client's liabilities. There is a risk of suffering significant losses if the market value of the transaction changes in an unfavorable direction for the client, including the risk of losing part or all of the collateral, as well as there is a risk that the amount of losses may exceed the amount of the provided collateral.

Investment with a margin loan and subsequent profit.

On 20 April 2021 an investor decides to acquire shares of Tesla Inc. using 200,050\$ of his own money and a marginal loan. Shares of Tesla Inc. are financed in the proportion of 80% / 20%, where 80% is the financing of the Bank, and 20% is the client's deposit. Financing of the Bank will be 800,000\$ and at a rate of 3.5%* per year.

*The rate may vary depending on the amount of funding, the assets used as collateral, the interest rate situation on the markets and various other factors.

The price per share is 500\$. The cost of the purchase was:

- 1) $2,000 \times 500\$ = 1,000,000\$$ (cost of shares).
- 2) $2,000 \times 0.025 = 50\$$.

Total cost of the purchase: $1,000,000 + 50 = 1,000,050\$$.

On 31 July 2021 the shares of Tesla Inc. rose in price to 680\$ per share. The investor decides to sell his shares (close with a profit). The income from the sale are:

- 3) $2,000 \times 680\$ = 1,360,000\$$ (price of shares).
- 4) $2,000 \times 0.025 = 50\$$ (as the minimum commission for the purchase of shares on US stock exchange is 50\$, the commission of that amount will be applied).
- 5) 1,688.06\$ – servicing of the investment account (0.5% per annum of the total assets on the investment account, in this example only one asset is in the portfolio). When calculating this amount, the constant increase in the value of the portfolio was equal to 3,529.41\$ / day during the period of ownership of the asset. The formula for the calculation is $V \times 0.5\% / 360$, where V is the value of the asset for a specific date.
- 6) 7,793.33\$ – interest on the issued loan for the period of use (3.5% per annum of the amount of the margin loan – 800,000\$). The calculation formula is $K \times 3.5\% / 360$, where K is the size of the margin loan for a specific date.

Total income from the sale: $1,360,000 - 50 - 1,688.06 - 7,793.33 = 1,350,468.61\$$.

Net profit from the deal, including all commissions and storage costs, $1,350,468.61 - 1,000,050 = \mathbf{350\ 418,61\$}$.

Investment with a margin loan and subsequent loss.

On 20 April 2021 an investor decides to acquire shares of Tesla Inc. using 200,000\$ of his own money and a marginal loan. Shares of Tesla Inc. are financed in the proportion of 80% / 20%, where 80% is the financing of the Bank, and 20% is the client's deposit. Financing of the Bank will be 800,000\$ and at a rate of 3.5% per year. The price per share is 500\$. The cost of the purchase was:

- 1) $2,000 \times 500\$ = 1,000,000\$$ (cost of shares).
- 2) $2,000 \times 0.025 = 50\$$ (minimum commission for the purchase).

Total cost of the purchase: $1,000,000 + 50 = 1,000,050\$$

By 30 June 2021 shares of Tesla Inc. fell to 420\$ per share. The investor decides to sell the shares (record a loss). The income from the sale is:

- 3) $2,000 \times 420\$ = 840,000\$$ (cost of shares).
- 4) $2,000 \times 0.025 = 50\$$ (as the minimum commission for the purchase of shares on US stock exchange is 50\$, the commission of that amount will be applied).
- 5) 920\$ – servicing of the investment account. When calculating this amount, the constant decrease in the value of the portfolio was equal to 2,253.52\$ / day during the period of ownership of the asset.
- 6) 5,522.22\$ – interest on the issued loan for the period of use (3.5% per annum of the amount of the margin loan).

Total income from the sale: $840,000 - 50 - 920 - 5,522.22 = 833,507.78\$$.

Net loss from the deal, including commission and storage costs, $833,507.78 - 1,000,050 = -\mathbf{166\ 542,22\$}$.

Financial Instruments Individual Portfolio Management

Financial instruments individual portfolio management service – your cash funds and financial instruments are managed on your behalf by the Portfolio manager (hereinafter – manager), and you rely on the decisions and choices left to the discretion of the manager. The manager will not contact you every time he makes the trades on your behalf. However, the manager regularly reports to you on the activities that he has taken on your behalf. This service is most suitable for investors who are satisfied with delegating the investment decisions to a knowledgeable and competent person.

When you choose to receive management service, you rely on the manager to a greater extent than if you choose to invest without receiving such support. Therefore, you and the manager must be sure that you both have understood and agreed on your individual wishes and circumstances in order to be able to buy and sell products that are most suitable for you in your goals. It is important for the manager to obtain complete and accurate information from you so that he can choose products that suit your goals most accurately. It is in your interest to provide the manager with correct, up-to-date and complete information. You should also inform the manager about any significant changes in your financial situation. The manager has a duty to take care of the confidentiality of this information.

The manager will ask you more questions that are part of the so-called suitability assessment. These questions are focused on your investment goals, your financial situation, knowledge and experience in the field of financial instruments. The manager will adjust the recommendations according to your answers. In order to understand the objectives of your investment, questions will be asked on the following topics:

- investment goal;
- investment amount;
- investment horizon;
- risk tolerance.

In order to assess your **financial situation**, the Portfolio Manager will ask questions about:

- income;
- assets;
- liabilities.

To determine your **knowledge and experience** with financial instruments, you will be asked questions about

- investment services that are well known to you;
- investment transactions and types of products you have experience with;
- the nature of the transactions previously carried out;
- volume and frequency;
- level of education;
- occupation.

Always remember that it is in your interest to provide the manager with the information as complete as possible about your financial situation and investment goals. This is required in order for the manager to have all the necessary information to compile an individual portfolio that is right for you. If the manager managing the individual portfolio does not obtain or cannot obtain the information necessary to assess suitability, he cannot manage your assets and make decisions on your behalf. If you provide only partial or erroneous information, this will affect the type of services that the manager may provide.

Financial instruments individual portfolio service is designed for clients with the following **status**

- retail clients,
- professional clients,
- eligible counterparties.

Each specific client, receiving a service of an individual portfolio management that is suitable for himself/herself, will at the same time be the object of the **target market**. The risk level of an individual portfolio can range from 1 to 5, and for the clients of a portfolio created, their risk profile is determined. The risk profile of these clients is determined individually according to their individual and unique circumstances. In order to assess which financial instruments may be included in the portfolios of these clients, the level of clients' knowledge and experience with financial instruments is assessed. If the client has a high level of knowledge and extensive experience in working with complex tools, these tools can be included in the client's portfolio. In order for derivatives, for example, to be included in clients' portfolio, a client besides the experience in working with these instruments needs to understand concepts such as leverage as well as the risks associated with margin trading. By assessing the financial condition of the client, it is determined whether the client is able to suffer losses from those funds that he/she transfers for Portfolio Management. In order to avoid situations where the client's funds are invested in instruments or portfolios that may incur losses for the client, it is assessed whether the client is able to financially tolerate losses in his/her individual portfolio.

In order to assess whether the **client is aware of the risk** to which his/her portfolio will be exposed, the client is offered to choose the price fluctuations that he/she is ready to see in his/her portfolio, as well as the amount of losses that may be at such a level of risk that the client wants to see in his/her portfolio.

In addition to all the criteria described, the client's investment **goals and needs** are determined, which is discussed with the client by signing an Investment declaration, where all guidelines and all criteria for how the client's portfolio will be managed are reflected.