Appendix No. **8**
to the Client Service Regulations

**Brokerage Company “Rioni Capital”**

# DECLARATION

## on Risks Related to Entering into Contracts on Various Derivatives

TBILISI
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***This Declaration on Risks Related to Entering into Contracts on Various Derivatives, the underlying assets of which are securities of foreign issuers or indices calculated on the basis of such securities (hereinafter – the Declaration) constitutes an appendix to and an integral part of the Client Service Regulations (hereinafter – the "Regulations") of the brokerage company "Rioni Capital" (hereinafter – the Company).***

The purpose of this Declaration is to warn the Client about possible losses, including losses that may exceed the amount of posted collateral (IM/MM/VM), as well as to explain the specific features of CCP risk models applied by the Broker.

At the same time, this Declaration does not disclose all risks related to such transactions (some of which may not be subject to prior forecasting).

## 1. Risks related to derivative financial instruments

Operations with derivative financial instruments are available only to those Clients who, based on the results of categorization and Risk Group assessment, are permitted access to the derivatives market (futures and options).

Derivative financial instruments have an increased level of risk compared to spot instruments, since:

- changes in the price of the underlying asset result in proportional or multiplicative changes in the value of the position;
- calculation of IM/MM/VM is performed daily in T+0 mode;
- under conditions of sharp volatility, a collateral deficit and automatic closing of positions (Close-Out Rule) may occur.

Selling option contracts, as well as entering into futures and forward contracts, is recommended only for experienced investors who possess significant financial capabilities and practical knowledge in the field of applying investment strategies.

This Declaration also applies to derivative financial instruments intended to reduce risks of other operations executed on the securities market.

Carefully assess how your derivative financial instruments correspond to the operations whose risks you intend to hedge, and ensure that the volume of your position on the derivatives market corresponds to the volume of the spot position being hedged.

**Rioni Capital** does not offer OTC derivative instruments (forwards, swaps) to its Clients and provides access only to contracts cleared by a CCP.

## 2. Market (price) risk

In addition to the general market (price) risk assumed by the Broker's Client when executing operations on the securities market, when entering into futures, forward and swap contracts, as well as when selling option contracts, you also assume the following risks:

1. **Price Risk** — changes in the price of the underlying asset lead to an increase or decrease in the Variation Margin (VM).
2. **Gap Risk** — the risk of sharp price jumps when the VM fails to keep pace with price movements.
3. **Volatility Risk** — for options: changes in expected volatility (implied volatility) affect the option premium.

The Client should take into account that, in the event of unfavorable price movements, it is possible to lose, within a relatively short period of time, the funds posted as collateral for derivative financial instruments.

**3. Liquidity risk**

If your investment strategy предусматривает the necessity to close a position in the relevant contract (or to enter into a transaction in another contract that reduces the risk of the given contract), pay attention to the liquidity of the relevant contracts, since closing positions in illiquid contracts may result in significant additional losses due to their low liquidity.

Please note that, as a rule, contracts with longer maturities are less liquid than near-term contracts.

If the derivative financial instrument contract entered into by you is illiquid and the need to close the position arises, be sure to consider alternative ways of eliminating risk, in addition to closing the position under the given contract, by executing operations with other derivative financial instruments or underlying assets.

The use of alternative options may result in lower losses.

Low-liquidity contracts may result in:

- widening of spreads;
- impossibility to close a position at the expected price;
- increased slippage;
- increase in Stress-Loss in CCP calculations.

Far-dated contracts are generally less liquid.

Your Stop-Order type orders aimed at limiting losses do not guarantee execution at the specified price during market gaps, and reduction of losses to the expected level may prove impossible.

**4. Restriction on disposal of collateral funds**

As a result of entering into a contract related to a derivative financial instrument, an asset owned by you (or part thereof) constitutes collateral for fulfillment of your obligations, as a result of which its disposal, i.e. the ability to execute transactions with it, will be restricted.

The CCP establishes mandatory margin requirements:

1. **Initial Margin (IM)** — base collateral required to open a position;
2. **Maintenance Margin (MM)** — minimum collateral level;
3. **Variation Margin (VM)** — daily (and in some cases intraday) changes in the value of the position subject to coverage by the Client.

If Equity falls below the MM level, a Margin Call arises and automatic closing of positions (Close-Out) may be triggered.

The Broker does not reduce IM parameters established by the CCP or the prime broker.

**5. Risk of forced position closing**

Unfavorable price movements may result in the need to deposit additional funds in order to bring collateral into compliance with legislative and regulatory requirements, which must be done within a short period of time that may prove insufficient for you.

The Broker is obliged to close part or all of the Client’s positions if:

- Equity has fallen below the Close-Out Level;
- a Variation Margin (VM) deficit has arisen;
- Risk Group limits have been breached;
- Position Limits established by the CCP have been exceeded.

Closing is carried out automatically, without separate confirmation from the Client, at the market price available at that moment.

Accordingly, the Broker enters into a transaction related to a derivative financial instrument, or purchases securities at the Client’s expense, or sells the Client’s securities.

This may be executed at prevailing prices, including unfavorable prices, and may result in losses for the Client.
Forced closing of positions is aimed at risk management.
You may incur significant losses despite the fact that subsequent price movements could have developed in a favorable direction for you and you would have made a profit if the position had not been closed.

**6. Risks related to the foreign origin of the underlying asset**
With respect to the underlying assets of derivative financial instruments — securities of foreign issuers and indices calculated on the basis of such securities — the following risks exist:

- changes in regulations in the jurisdiction of origin of the underlying asset;
- currency risk (FX Risk) affecting settlement of the position;
- differences in information disclosure standards (GAAP, IFRS);
- differences in trading and clearing rules of exchanges and CCPs.

**Rioni Capital** uses data only from official market data providers and CCPs.
Disclosure of information related to foreign securities that constitute the underlying assets of derivative financial instruments is carried out in accordance with the rules in force abroad and, as a rule, in the official language of the country of origin of the underlying asset.
Assess your readiness to analyze information presented in a foreign language, as well as your understanding of the differences between financial reporting rules adopted in your country and those under which the issuer of foreign securities discloses information.
Always take into account the possibility of translation errors, including the possibility of different translations of the same foreign words and phrases or the absence of an equivalent of a commonly used term in your native language.

***This Declaration is not intended to force the Client to refuse relations with the Broker, but is intended to assist the Client in assessing risks and responsibly approaching the terms of the agreement concluded between the Client and Rioni Capital.***
***The Client must ensure that the above information is clear and, if necessary, obtain clarification from Rioni Capital or from a consultant specializing in the relevant matters.***