Freedom Finance Armenia

Risk Disclosure Notice

Introduction:

Each type of Financial Instrument has its own characteristics and contains different risks. This Notice includes information about Financial instruments, as well as the risks associated with their trading, and before concluding Brokerage transactions with them, it is necessary to familiarize yourself with their risks, the general rules and regulations for the provision of services in the Securities Market. Considering that it is not possible to identify or list all the risks, only those that could be identified or mentioned at the given moment are mentioned here. This Notice generally explains the nature of the risks associated with trading in Financial Instruments, it is intended to help you understand the nature and risks of the Financial Instrument, acknowledge them and make further investment decisions.

However, this Notice does not disclose all types of risks associated with trading in a financial instrument. Given the risks involved, you should only enter into such transactions if you understand the nature of the financial instruments you will be trading. Trading in high-risk financial instruments such as futures, options, swaps, forward rate agreements, repos and other derivative contracts is not comfortable for most of the public. You should independently assess whether trading in financial instruments is suitable for you, taking into account your experience, goals, financial resources and other similar circumstances.

Please take into account and realize that the value of the financial instrument purchased by you may both increase and decrease depending on the market situation and you may not always be able to recover your initial investment. Past success does not guarantee future success. If you doubt the comfort of any financial instrument, you can contact an independent consultant.

1. General Risks and Warnings for Transactions in Financial Instruments

The customer is warned of the following risks

• The Company does not guarantee and cannot guarantee the Client's investment in any financial instrument,

• The Client should be aware that the value of his investment in any financial instrument may increase, may decrease and may be equal to zero at all.

• The Client accepts and undertakes the risk of possible losses as a result of the purchase and sale of financial transactions,

• The Client should not invest in such financial instruments, the risks of which he does not know or do not understand,

• Previous information about the increase or decrease in the price of a financial instrument does not guarantee that the price of the financial instrument will continue to increase or decrease.

• Some financial instruments may not have high liquidity and the Client may not be able to sell them or may bear additional risks.

• If the financial instrument is denominated in a currency of a country different from the Client's residence, fluctuations in foreign exchange rates may adversely affect the Client's income.

• A derivative financial instrument (such as an option, futures, forward, swap, etc.) may not have a spot transfer and may depend on foreign exchange, interest rates, commodity, stock market indices or stock prices.

• The client should not invest in these instruments without understanding the nature and risks of derivatives.

• Prices and nature of over-the-counter transactions are different and they do not form a single price and additional risks are possible in connection with transfers.

• Execution of orders may be difficult or impossible in some markets;

• Placing stop orders is designed to limit your losses. However, in some cases Stop orders may be executed at a worse price than you expected and you may suffer more losses than you expected.

• Insolvency of the Company or correspondent bank may force the Company to close your positions against your will.

• The Client's income may become subject to additional taxation as a result of changes in laws and legal acts,

• The Company's investment advice is not an invitation to buy or sell any financial instrument, all investment decisions are taken and undertaken only by the Client.

• There is no guarantee that you will make a profit when trading a financial instrument. The Customer will not receive such a guarantee either from the Company or related persons,

• In case of any technical error, including when entering orders, the responsibility of the risk is borne by the Customer alone, the Company may compensate the losses incurred by the Customer, if it is proved that such losses were incurred by the fault of the Company.

• Before concluding a transaction, the Client should study the Company's tariffs and other possible fees. If any type of tariff is unclear, the Customer may request additional clarification from the Company.

• Before opening an account for the Client, the Company recommends filling out the Company's questionnaire, which also includes warnings about certain risks.

• The Company's tariffs are posted on the Company's website. The client should be aware that the amount of commissions may affect his income.

• The customer is obliged to keep his password confidential and not to disclose it to third parties or make it available to them for online trading. The client is responsible in case of access to his account by third parties and trading.

Communication risks

• The Company is not responsible for any damage caused by the delay or non-receipt of the message sent by the Company to the Client.

• The Company is not responsible for the losses of the Client caused by the unencrypted messages sent by the Client to the Company becoming known to third parties.

• The Company is not responsible for receiving and not reading emails sent to the Client through the Platform. Unread emails will be deleted from the Platform after seven days.

• The customer bears all responsibility for the storage of messages received from the Company.

• The client agrees that the risk of transactions made by third parties with his commercial co-payment is borne only by him,

• Telephone conversations are subject to recording, if the Client is warned about it in advance.

3. Principal Investment Risks of Securities Transactions

Risks are classified as major because they are directly related to the financial instrument.

Credit risk

Credit risk occurs when the other party to the transaction (also the issuer of securities) refuses or delays the fulfillment of its obligations, including the payment of dividends, coupons, repayments.

The amount of credit risk depends on the size of the cash flow or the amount of cash flow at risk, the probability of its loss and the amount of guarantee (if there is a guarantee) that you are likely to receive if the other party to the transaction defaults.

Among the cases of credit risk

• When an investor buys a bond, he is effectively lending money to the issuer, expecting the issuer to pay interest and principal on time.

• Derivative contracts, such as options, in which the other party to the transaction is obligated to make payments after a certain time,

• When an investor in the over-the-counter market enters into a transaction with the other party, it is expected that the counterparty will fulfill its obligations on the day of execution of the transaction, there is also a transfer risk here, as the counterparty's bank may delay or fail to make the necessary transfer.

Inflation risk

Inflation is the increase in the prices of goods and is published as an inflation rate expressed as a percentage. A high level of inflation means a decrease in the purchasing power of the currency. For example, 3% inflation means that prices have increased by an average of 3%.

As inflation increases, purchasing power falls. The level of investment in capital also falls if the rate of inflation is higher than the yield on securities.

Among the effects of inflation risk are:

• Decrease in purchasing power,

• Activation of stock and bond markets, which may lead to increased volatility.

• Decrease in the prices of interest-bearing securities,

• Decrease in the profitability of certain types of shares.

Market risk

Risk of suffering losses from price fluctuations in the financial market. Market risks are uncertain and affect the entire stock market and economy. When market prices fall, asset values fall. Market risk can be caused by credit risk, currency risk, country risk and interest rate risk.

Unsystematic risk

Unsystematic risk, also called "idiosyncratic risk", "diversification risk" or "residual risk", is the specific risk of a company or industry that may occur in each investment. It is the risk of price changes in a particular industry, which is specific to a particular type of security, not the general market, which can arise from financial performance, labor problems, weather problems, poor management, etc. This risk can be reduced by well diversifying the portfolio so that only a certain part of the portfolio is exposed to risk.

Country risk

Country risk is also called "Political risk", which arises when unfavorable political conditions arise in a certain country. As an example, investors may lose their investments or part of them as a result of a change of government, bankruptcy, insolvency of the Central Bank, nationalization of assets, legislative changes, tax changes.

Liquidity risk

Liquidity risk occurs when an investor is unable to trade certain securities because they are not of interest to other investors. An example of liquidity risk is when an investor is unable to sell securities to close out their positions or fix a loss. An example of liquidity risk is a large bid-ask spread and large price fluctuations and can take three forms:

• Buy and sell spread: how big will be the investor's loss by buying the securities and selling them at the same time.

• Market depth: how much investors will be able to sell or buy at the current bid or ask price without moving prices.

• Market flexibility. how long does it take for prices to fall back?

Currency risk

Currency risk is related to international transfers and arises as a result of fluctuations in the exchange rate of foreign currency. In case of this risk, the investor may suffer losses as a result of changes in the exchange rate during operations in different currencies. It also occurs when an investor buys securities whose currency is different from the currency of his own country.

For example, if you are an investor from Armenia and you buy securities from the US market, you should understand that you bear a risk from both the price of the security and the exchange rate of the US dollar. It is possible that we have 15% income from US securities, but you will lose it in the event of a 15% devaluation of the US dollar against the Armenian dram.

Falling exchange rates lead to a reduction in foreign currency investments, which in turn can lead to a possible decline in stock prices.

Interest rate risk

Interest rate levels have a direct effect on the prices of money and capital market debt instruments. Rising interest rates have a negative impact on stock and bond prices. Consequently, falling interest rates have a positive effect on stock and bond prices. Thus, interest rates are the main benchmark for prices in many markets.

However, interest rates have a greater impact on bonds than stocks and it is the main risk for all creditors. As interest rates rise, bond prices fall and vice versa. When interest rates rise, most investors sell their bonds in hopes of investing their money at a higher rate of return. For example, the price of a bond with a yield of 5% will decrease if there is another similar bond with a higher yield.

Operational risk

Operational risk is the risk of non-fulfillment of contractual obligations due to system failures, unavailability of financial instruments for trading, non-availability of information about transactions. In general, potential losses from operational risk can be classified into the following categories:

• Internal or external fraud. Losses from actions of individuals inside or outside the organization that circumvent regulations, laws, or Company policies;

• Negligence by company employees. The occurrence of possible losses as a result of negligence and inaction by the company's employees,

• Customers, services and business practices. In this case, losses may increase as a result of improper business practices, such as inconvenient sales to Customers, money laundering and market abuse.

• System shutdowns: This includes possible losses from computer, software, communication failures;

• Implementation, transfer and operational management. This is a broad category, including data entry problems, collection problems, making correct or timely transfers, which can lead to potential losses.

Leverage risk

In the case of leverage risk, the investor makes a larger investment than his invested amount. In this case, the losses caused by price fluctuations may exceed the losses of transactions without

leverage several times. Leveraged transactions are highly risky and investing in them is not recommended at all.

OTC market risk

Many over-the-counter markets are highly liquid and carry more risk than over-the-counter transactions. There is no set bid or ask price in OTC markets, and even if you can find such an offer, you may not be able to close the deal at the price offered.

4. Risks of active trading

You should be careful before choosing an active trading strategy and familiarize yourself with the following provisions.

Active trading is characterized by frequent buying and selling transactions (at least several times a week, often many times a day).

Active trading has a high level of risk. Active trading is generally not recommended for people with limited funds or experience and a low risk appetite. You should be prepared that we will lose all your funds that you use in investments.

Beware of the temptation to make big profits from active trading. You should beware of advice, success stories of other people, which direct you to active trading. As a result of active trading, you can have little or no profit, at worst you will have big losses very quickly.

Active trading requires in-depth knowledge of the stock market. Active trading requires deep knowledge of securities, technologies, and tactics. In addition, you must compete against professional, licensed investment firm traders and other knowledgeable, experienced and well-trained traders.

Active trading implies deep knowledge of the operating system of the brokerage company serving you. It is very important to have a deep understanding of the account movement, trading process, and order execution policies when engaging in active trading. By studying the internal procedures and electronic systems of the brokerage company, you will be able to understand their strengths and weaknesses and be aware of the possibility of error.

As a result of active trading, you will pay high commissions. You pay a commission for every transaction you make. With more active trading, commissions will increase and your expected income will decrease or losses will increase.

Margin active trading or short selling can result in losses in excess of your original investment. When you trade with borrowed funds, you can lose more than when you trade with your own funds.

Trading is not a game. Inexperienced or limited investors are not advised to engage in active trading.

5. General information about financial instruments

5.1 What is a security?

A security is a convertible and negotiable instrument that has a financial value. The main types of securities are debt securities, such as bonds, and equity securities, such as stocks. The company or other entity that issues securities is called the issuer. Basic securities include stocks, bonds, mutual fund units, options, warrants and derivatives and can be traded in financial markets such as stock exchanges.

5.2 What is a derivative?

A derivative is a financial contract whose price depends on one or more other instruments. They are called the underlying financial instrument of the derivative, which can be stocks, bonds, commodities or precious metals, foreign currency, interest rates and indices.

For example, a stock option is based on a stock. There are different types of derivatives, including futures, options, swaps and structured instruments.

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5.3 Shares

The share gives the shareholder the right to participate in the management of the company. One share is a certain part of the company's capital. The shareholder is the co-owner of the company.

An investment in common stock gives the right to participate in the company's meetings with the right to vote, and the income or losses from it cannot be fixed.

A dividend is the distribution of a company's profits among its shareholders. The amount of the dividend is also called the yield of the stock.

Other income from stock investments can be from the increase in their market price.

5.3.1 Types of Shares

A company can have different types of shares. Some of their types are presented below:

Common shares: standard shares without special rights. It gives the shareholder the right to participate in the general meetings of the company, to vote in decision-making in the amount of his share. They have the prospect of providing large incomes, but they have a high risk, especially in case of bankruptcy or large losses of the company, they will not receive a dividend. The share price also means the economic value of the company. The common shareholders of the company are considered unsecured creditors.

Preference shares: confers certain preferential rights over ordinary shares. Often these rights relate to receiving dividends and, in the case of a company, the right to preferential payment.

Cumulative preference shares: if no dividend is paid to the shareholder in the first year, it is added up in subsequent years.

Redemption Shares: the company signs an agreement with the shareholder that he will buy back the shares after a few years.

5.3.2 Risks

The main risks are market risk or systemic risk that cannot be diversified away, and unsystematic risk that can be increased or decreased as a result of portfolio diversification, including credit risk, country risk, liquidity risk, conversion risk and implicit interest rate risk.

5.4 Bonds

Bonds are debt instruments, the issuers of which use them to attract money from the market. In short, investors lend money to the company, and in return, the company undertakes to pay interest (coupon or coupon) at a specified frequency and return the principal at maturity. The bond buyer has a claim against the issuer, but not the right to participate in management, as in the case of shares.

The nominal value of the bond and the coupon rate are announced in advance by the issuer, but it may circulate in the market with a different yield and the price may be lower or higher than the nominal value. Bond duration means the sum of the time to maturity, which can be less than one year for money market instruments and more than one year for bonds. According to maturity, US Treasury securities are divided into three groups:

• Short term (bills). with a term of up to one year

• Mid-term (notes). with a maturity of one to ten years

• Long-term (bonds). with a maturity of more than ten years

Coupon: interest rate that the issuer pays to creditors. In the US, UK, Europe and Armenia, coupons are usually paid semi-annually.

Right of repurchase: the issuer gives creditors the right to sell their bonds back before the maturity date. Most issuers of such bonds buy back the bonds at face value. For some bonds, the issuer has to pay a premium. This is mostly the case with high-yield bonds.

5.4.1 Types of bonds

According to the issuer, bonds are of different types (government bonds, municipal bonds and corporate bonds). Corporate bonds are characterized by a higher yield, because the probability of bankruptcy of the company is greater than that of the state. Corporate bonds can yield higher returns because the investor is taking on a risk when they buy them. The rating of the issuing company is also important. The higher the rating of the company, the lower the yield on the bonds it issues.

Government bonds: Bonds issued by the government are also called treasury bonds. Treasury bonds are considered to be climate-safe bonds, because the issuer is the state and its default is

unlikely. However, Treasury bonds typically have longer maturities and are more sensitive to inflation and credit risk.

Municipal bonds: regional or local municipal bonds. They are issued in order to cover the expenses of regional budgets or to finance special projects. Municipal bonds are more risky than government bonds.

Corporate bonds: Corporate bonds are issued by private organizations. Corporate bonds can have different maturities. They are considered the riskiest of these three types, as their credit risk is high, which in most cases is compensated by high returns. Bonds issued by low-rated companies are speculative bonds and are often called "junk bonds."

Convertible bonds: bonds that can be converted into another corporate security, mostly common stock. Exchanges are generally made on specially scheduled days at specially defined prices and conditions. They allow the company to define their obligations.

Fixed interest bonds: bonds with an unchanged coupon throughout the security's circulation.

Floating rate bonds: have variable rate coupons, the amount of which depends on another interest rate, such as Libor or Euribor.

Discount bonds: Interest bonds have no coupon payments, are issued below the nominal value, and are redeemed at the nominal value.

Inflation-linked bonds: when bond yields are linked to inflation.

Asset-backed securities: are those bonds whose coupon or repayment amount is secured by another asset. Types of secured securities are mortgage bonds, secured debt securities.

Subordinated bonds: are those bonds that have a lower priority than other bonds in the event of the bankruptcy of the issuer. The obligations of the subordinated debentures will be settled after the obligations of all other debentures are settled. Subordinated bonds are mainly issued by banks, one example of which is asset-backed bonds.

Perpetual liabilities: which do not have a maturity date.

According to presenting bonds: bonds that are not nominal. In other words, it belongs to the actual bearer of the bond. They are often paper-based and are redeemable in cash. According to the submitter, the bonds are high risk because they can be lost or stolen.

5.4.2 Bond Ratings

Standard & Poor's and Moody's provide credit ratings to governments and companies. Ratings higher than the default rics are shown in the table below. Generally, high yield bonds have a relatively low rating. On the other hand, other things being equal, a higher rating means a lower return.

Issuer rating means the probability that investors will get their money back. It can be caused by many factors.

Quality	Moody's	Standard & Poor's
Highest Quality	Aaa	AAA
High Quality	Aa1, Aa2, Aa3	AA+, AA, AA-
Upper-medium grade	A1, A2, A3	A+, A, A-
Medium grade	Baa1, Baa2, Baa3	BBB+, BBB, BBB-
Somewhat speculative	Ba	BB
Speculative	B	B
Highly speculative	Caa	CCC
Most speculative	Ca	CC
Default	C	D

5.4.2 Risks

Bond trading is not always convenient for investors. Bonds are often called conservative instruments, but they have many risks. If you do not accept the risks mentioned below, it is better not to sign transactions with bonds.

Credit risk: When you buy a corporate bond, you are lending money to the company. There is always a risk that the company will not be able to repay the debt when declared bankrupt. You should always be aware of this risk. The risk is included in the price of the bond.

Risk of early repayment. Premature risk occurs when the issuer calls back the bond. When it happens, the money will be refunded ahead of time. Usually bonds are redeemable or not, this information is written in the prospectus. If the bond is purchasable, the terms of repurchase are indicated. Companies usually buy back bonds when market interest rates fall.

Inflation risk: Inflation risk occurs when the inflation rate is higher than the yield on the bond. In other words, if inflation is six percent and the bond's yield is four percent, you'll get a four percent yield, but you'll have a two percent drop in real money value.

Interest rate risk: A change in the interest rate during the bond's circulation can affect its price. When interest rates rise, bond prices will fall, and newly issued bonds will sell at higher yields.