

INFORMATION ON THE IMPLICATIONS OF THE BREXIT

Dear Clients,

At Baltic International Bank, we are keeping a close eye on the Brexit process.

The information provided herein is of paramount importance for our clients who transact their business or who have incorporated or established their companies in the United Kingdom (UK).

According to the information published on the website of the Ministry of Economic of the Republic of Latvia, EU law will cease to apply to the UK from **30 March 2019**, 00:00h (CET) or 1:00 am, local time in Latvia. The UK will then become a third country. Currently, the UK continues negotiating with the EU on the terms of the UK's withdrawal and on the framework for the future EU-UK relationship. Stakeholders, as well as national and EU authorities, therefore need to prepare for two possible main scenarios:

1. If the Withdrawal Agreement is ratified before 30 March 2019, EU law will cease to apply to and in the UK on 1 January 2021, i.e. after a transition period of 21 months.

2. If the Withdrawal Agreement is not ratified before 30 March 2019, there will be no transition period and EU law will cease to apply to and in the UK as of 30 March 2019. This is referred to as the "no deal" or "cliff-edge" scenario. In its post-Brexit status, the United Kingdom will become a 'third country' towards the rest of the EU countries and will have the same legal standing as the USA, China or Russia. Without a deal, World Trade Organization (WTO) rules will govern relations (including the new trading relationship) between the European Union and the United Kingdom. The both parties are WTO members.

The UK Parliament has not yet approved a 600-page legally binding treaty that covers so-called 'divorce' issues. **MPs will vote on the Withdrawal Agreement in mid-January.** However, there is a substantial discord and disunity within the parliamentary caucus over the Withdrawal Agreement. Preparing for a no-deal Brexit is now an operational priority for the UK Government. The Government has also unveiled and published its post-Brexit immigration plan.

If the UK leaves the bloc without a withdrawal agreement (a so called 'hard exit'), then considerable repercussions and implications can arise on 30 March. The Latvian citizens and companies that transact business with the UK should seriously prepare for dealing with the immediate consequences of the UK leaving the EU in March. A no-deal Brexit can cause enormous problems (delays in delivery of critical goods, delays caused by physical customs, problems with different permits and licences that may turn out to be invalid). Travellers may face significant hurdles after a no-deal Brexit.

A no-deal Brexit will affect transactions in financial instruments. Financial instruments admitted to trading on the UK regulated markets (but not admitted to trading on other markets in the EU Member States) and currently treated as non-complex financial instruments for the purposes of the appropriateness requirements (commonly referred to dealing in financial instruments as the 'appropriateness test') will no longer be treated as non-complex financial instruments. Therefore, dealing in such financial instruments will be impossible without testing the client's appropriateness. Where the appropriateness test applies, a firm must ask its client to provide information about their expertise, knowledge and experience relevant to the specific type of financial instrument, product, or service in question, so that the firm can assess whether the financial instrument, product or service is appropriate for the client. The EU will probably treat UK regulated markets as

third-country regulated markets. A no-deal Brexit will also affect financial instruments issued in the UK. Other implications of Brexit will emerge and affect transactions in financial instruments. **Please exercise vigilance and particular caution when making your investment decisions in respect of financial instruments issued in the UK, listed (quoted) on UK-based trading venues or denominated in pounds sterling (GBP).**

For more information, please visit the following websites:

https://www.em.gov.lv/lv/eiropas_savieniba/brexit/ (the Ministry of Economics of the Republic of Latvia)

<https://publications.europa.eu/en/publication-detail/-/publication/911242b6-af69-11e8-99ee-01aa75ed71a1/language-en/format-PDF> (EU publications)

<https://www.esma.europa.eu/press-news/esma-news/esma-tells-firms-provide-clients-information-implications-brexit> (ESMA publications)