

**INFORMATION TO CLIENTS REGARDING
THE CHARACTERISTICS OF, AND RISKS ASSOCIATED WITH;
FINANCIAL INSTRUMENTS
(SHARES, SHARE-RELATED INSTRUMENTS, BONDS &
AND MUTUAL FUNDS)**

Based on standard prepared by the Norwegian Securities Dealers Association

The client fully understands:

- **that investments are made or other positions taken in financial instruments at the client's own risk**
- **the need to carefully study the securities company's general business terms and conditions and other relevant information on the financial instrument in question and its properties and risks before trading in financial instruments**
- **the need to immediately scrutinise contract notes and submit any complaints regarding any errors**
- **the need to regularly monitor changes in the value of holdings of financial instruments**
- **the need to react by selling holdings if required in order to reduce the risk of losses on the client's own investments**

1. TRADING IN FINANCIAL INSTRUMENTS

Trading in financial instruments, such as shares, primary capital certificates, bonds, certificates, financial derivatives or other rights and obligations that are intended for trading in the securities market, normally takes place in an organised form in a **trading system**. By a trading system¹ is meant a regulated market, multilateral trading facility (MTF)², systematic internaliser (SI)³, market maker⁴ or other liquidity guarantor.

Trading takes place through the investment firms that use the trading system. As a client, you must normally contact such an investment firm in order to buy or sell financial instruments. There are also investment firms that broker orders to an investment firm that then uses the trading system. Trading may also take place internally in an investment firm, for example by the investment firm becoming the other party to the trade or through a trade with another of the investment firm's clients (internal trade).

Various types of financial instruments are traded in a **regulated market** (including a stock

¹ § 10-25 (2) of the Securities Regulations

² Section 2-3 (4) of the Securities Trading Act – MTFs do not currently exist in Norway

³ Section 2-4 (4) of the Securities Trading Act – SIs do not currently exist in Norway

⁴ Section 2-4 (4) of the Securities Trading Act – several investment firms act as liquidity guarantors for selected companies.

exchange). On the Oslo Stock Exchange, shares, primary capital certificates, bonds, certificates, some fund units and a number of different financial derivative instruments are traded. Further information on where and how these instruments are traded will be provided below.

Information on the prices of the financial instruments traded in the regulated market is published regularly via the market's website, in newspapers or through other media.

2. THE RISK RELATING TO TRADING IN FINANCIAL INSTRUMENTS

2.1 In general regarding risk

Financial instruments normally provide a *return* in the form of a *dividend* (shares and fund units) or *interest* (interest-bearing instruments). In addition, the price of the instrument may increase or decrease compared to the price when the investment was made. In the description below, the word investment also means any negative positions in the instrument (short positions, refer to item 8 below). The total return is the sum of the dividend/interest and change in the price of the instrument.

Naturally, the investor is seeking a total return that is positive, i.e. a *profit*. However, there is also a *risk* that the total return will be negative, i.e. that the investor will make a *loss* on the investment. The risk of loss varies between different instruments. Normally, the chance of making a profit on an investment in a financial instrument is linked to the risk of loss. The longer the investor intends to keep the investment, the greater the chance of making a profit or loss. In an investment context, the word risk is often used to express both the risk of loss and the chance of making a profit. In the description below, however, the word risk is used solely to designate the risk of loss. There are various ways of investing in financial instruments in order to reduce the risk. It is normally better from a risk point of view to invest in several different financial instruments rather than a single one or only a few financial instruments. These instruments should have properties which mean the *risk is spread* and should not gather risks that may be triggered simultaneously. Trading in foreign financial instruments also involves a *currency risk*.

Investments in financial instruments are associated with an *economic risk*, which will be described in greater detail below. The client is personally responsible for this risk and must therefore become acquainted with the terms and conditions, prospectuses, etc, governing trading in such instruments and with the instruments' individual risks and characteristics. The client must also regularly monitor his/her investments in such instruments. This is the case even if the client has received personal advice in conjunction with the investment. Information for use in monitoring prices and thus the change in the value of the client's own investments may be obtained from price lists published in the media, e.g. newspapers, the Internet, teletext and, in certain cases, by the investment firm itself. If necessary the client should, in his/her own interests, react swiftly, for example by selling investments that are developing negatively or by providing additional collateral in conjunction with investments financed through loans where the collateral value has fallen.

2.2 Various risk concepts

In connection with the risk assessment that an investor should conduct when investing and trading in financial instruments and should continue to carry out during the entire investment

period, there are many different types of risk and other factors that the client should be aware of.

Below are some of the most important types of risk:

Market risk: the risk that the entire market, or certain parts of the market, in which the client has invested declines (for example, the Norwegian stock market).

Credit risk: the risk that the issuer or a contracting party will become unable to pay.

Price volatility risk: the risk that major fluctuations in the price of a financial instrument will have a negative effect on the investment.

Price risk: the risk that the price of a financial instrument will drop.

Tax risk: the risk that tax rules and/or tax rates are vague or may be changed.

Currency risk: the risk that a foreign currency to which the investment is linked falls in value (for example, certain fund units in a mutual fund which has invested in US securities listed in USD).

Leverage/gearing effect risk: the structure of a derivative instrument which means there is a risk that a change in the price of the underlying asset will have a major negative effect on the price of the derivative instrument.

Legal risk: the risk that relevant laws and rules are vague or may be amended.

Company-specific risk: the risk that a company does worse than expected or that the company is affected by a negative incident so that the financial instruments which are linked to the company may fall in value.

Industry-specific risk: the risk that a specific industry does worse than expected or is affected by a negative incident so that the financial instruments which are linked to the companies in the industry in question may fall in value.

Liquidity risk: the risk that the client cannot sell a financial instrument at a time when the client wishes to do so because the turnover in, and interest in buying, the financial instrument is low.

Interest-rate risk: the risk that the financial instrument in which the client invests falls in value due to changes in the market interest rate.

3. SHARES AND SHARE-RELATED INSTRUMENTS

3.1 In general regarding shares

3.1.1 Shares and limited companies

Shares in limited companies entitle their owner to a proportion of the company's *share capital*. If the company makes a profit, the company usually distributes *dividends* on the shares. Shares also entitle the holders to *vote* at the company's general meeting, which is the highest-ranking decision-making body in the company. Normally, the more shares the holder owns, the greater the shareholder's proportion of the capital, dividends and votes is. Voting rights may vary depending on the class of shares concerned. There are two types of limited companies in Norway, *public limited companies (ASA)* and *private limited companies (AS)*.

3.1.2 The share price

The **price** of a share is affected to a great extent by the **company's prospects**. A share price may rise or fall depending on investor analyses and assessments of the company's opportunities to make **future profits**. Future external developments in the economy, technology, legislation, competition, etc, determine the demand for the company's products or services and, consequently, are also of fundamental importance to developments in the price of the company's shares.

The **general interest rate level** (the market interest rate) also plays a crucial role in price developments. If the market interest rate increases, interest-bearing financial instruments that are issued at the same time may provide a better return. In such cases, the prices of listed shares normally fall, as will those of already traded interest-bearing instruments with a lower interest rate. The reason for this is that the increasing return on newly issued interest-bearing instruments may be better, relatively speaking, than the return on shares or on already traded interest-bearing instruments. In addition, share prices are negatively affected by the fact that interest payments on the company's debts increase, since this reduces the company's chances of making profits in the future.

Other factors directly related to the company, such as changes in the company's management and organisation, disruptions to production, etc, may affect the company's future ability to create profits, both in the long- and short-term. In the worst case, a company may perform so poorly that it must be declared **bankrupt**. The share capital, i.e. the capital invested by the shareholders, is that which is repaid last from the estate in bankruptcy. The company's other debts must first be repaid in their entirety. This often results in there being no assets left in the company after its debts have been paid, so that the shares in the company are worthless.

Developments in the prices of financial instruments listed on major **foreign** regulated markets and other trading systems also affect price developments in Norway, among other things because several Norwegian companies are also listed on foreign regulated markets or are traded in other trading systems so that price equalisation (arbitrage) takes place between the markets. The prices of shares in companies that belong to the same industry/sector are often affected by changes in the prices of the shares of other companies within the same industry/sector. This effect may also apply with respect to companies in different countries.

Players in the finance market often have different opinions on how share prices will develop. These factors, which also include how the company will be valued, contribute to there being both buyers and sellers. If the investors share the same opinion regarding price trends, they will either buy, thereby creating buying pressure from many buyers, or sell, thereby creating selling pressure from many sellers. Prices increase in the event of buying pressure and fall in the event of selling pressure.

The **turnover**, i.e. the quantity of a particular share that is bought or sold, affects the share price. In the event of a high turnover, the difference, also called the **spread**, between the price the buyers are prepared to pay (bid price) and the price requested by the sellers (ask price) is reduced. A share with a high turnover, where large amounts can be traded without any major effect on the price, enjoys good **liquidity** and is thus easy to buy or sell. Companies listed on a regulated market, such as the Oslo Stock Exchange and Oslo Axess, normally enjoy good liquidity.

The **framework conditions** for industry, both national and international, may also affect share prices. Changes in tax and duty levels nationally and in other countries affect the companies' cost levels and thus their competitive situation. International agreements between countries regarding customs charges and duties on the import and export of goods and services affect the competition situation that exists between companies and thus also share prices. Major events such as disasters, terrorist acts and wars may have major effects on share prices on stock exchanges worldwide.

The key figures for the prices at which shares are traded, such as "highest" "lowest" and "latest", as well as information on traded volumes, are published every day, among other places in most major daily newspapers, on teletext and on various Internet sites that are maintained by marketplaces, investment firms and media companies. How current such price information is may vary depending on the manner in which it is published.

3.1.3 Share trading – including trading systems

Only shares issued by public limited companies (ASA) or equivalent foreign companies may be listed on a regulated market (including a stock exchange) in Norway. In addition, there are requirements regarding the company's size, the company's operations history, spread of owners and publication of the company's finances and other business.

In Norway, there are currently two **regulated markets** for trading in shares: Oslo Stock Exchange and Oslo Axess. Only Oslo Stock Exchange has a **stock exchange** licence (www.oslobors.no). Oslo Axess (www.osloaxess.no) is on the whole subject to the same rules as Oslo Stock Exchange as regards following-up, monitoring and sanctioning contraventions of the regulations governing trading in a regulated market. Trading in Norwegian shares may also take place on regulated markets abroad, where several Norwegian companies are listed.

Trading in shares that are not listed on a regulated market takes place in the so-called OTC market. In this market, trading takes place to a large extent based on information on prices and interests that the stockbroking firms state to each other. The most commonly used method is for a stockbroking firm to enter interests in buying or selling a share in a trading support system which is operated by Fondsmeglernes informasjonstjeneste AS (FINFO/the Norwegian Stockbrokers Information Services). The OTC list is divided into an A list and a B list. Only companies that are registered on the A list must pass price-relevant information of significant importance on to the market. For more information on the OTC list, refer to www.nfmf.no. If a share is not listed on either a regulated market or a trading support system, trading will normally take place by the stockbroking firm trying to assist the client by contacting potential clients who may be interested in becoming a contracting party. Investments in this type of share entail a considerable liquidity risk.

Trading in a regulated market or other trading systems comprises the **secondary market** for shares, primary capital certificates and bonds that a company has already issued. In addition, the OTC list functions as a secondary market for shares. If the secondary market functions well, ie, it is easy to find buyers and sellers and offer prices from buyers and sellers and the final prices of completed trades are noted continuously, companies benefit from the fact that it is easier to issue new shares and thus raise more capital for the company's activities. The **primary market** is the market where newly issued shares, primary capital certificates and bonds are traded in/subscribed for.

Shares registered in a regulated market or other trading system are normally divided into various lists depending on the company's market value or liquidity. These lists are often published on the trading system's home page, in newspapers and via other media. The companies listed on the Oslo Stock Exchange are divided into four different segments depending on the company's liquidity. These are: **Uvalg OBX**, **OB Match**, **OB Standard** and **OB Nye**. Different shares may demonstrate various levels of stability in their prices (**volatility**) during the day or over longer periods, ie, the frequency and size by which the prices change. Shares on lists with high liquidity are normally regarded as entailing a lower risk than shares on lists with lower liquidity.

3.1.4 Various classes of shares

There are various **classes** of shares, commonly A and B shares, and these are normally of importance to the exercise of voting rights at the company's general meeting. Only a few Norwegian listed companies have different classes of shares. Class A shares normally entitle the holder to one vote, while class B shares normally entitle the holder to a restricted voting right or no voting rights at all. The differences in voting rights may, for example, be due to the fact that, in conjunction with a diversification of ownership, the original founders and the owners of the company have wanted to maintain their influence over the company by holding stronger voting rights.

3.1.5 Nominal value, splits and reverse share splits

A share's **nominal value** is the amount of the company's share capital represented by each share. The sum of all the shares in a company multiplied by the nominal value of each share constitutes the company's share capital. Occasionally, companies wish to change the nominal value, for example because the market price of the share has risen significantly. By dividing the share into two or several shares, a so-called **split**, the nominal value is reduced at the same time as the price of the shares is reduced. However, after a split the shareholder's capital remains unchanged but is divided into a greater number of shares, each of which has a lower nominal value and a lower price.

Conversely, a **reverse share split** may be carried out if, for example, the share price has fallen dramatically. In such case, two or more shares are merged to form one share. Following a reverse share split, the shareholder's capital remains unchanged but is divided into fewer shares, each of which has a higher nominal value and a higher price.

3.1.6 Stock exchange introduction, privatisation and acquisitions

A **stock exchange introduction** means that shares in a limited company are listed in a regulated market (including a stock exchange). The general public may then be invited to **subscribe** for (buy) shares in the company. This usually involves an existing company that has not previously been listed on a stock exchange, whose owners have decided to increase the number of shareholders and facilitate trading in the company's shares. If a state-owned company is introduced on the stock exchange, this is called **privatisation** or part-privatisation, depending on the size of the stake in the company that the state is offering to sell to the general public.

An **acquisition** normally involves an investor or investors inviting the shareholders of a company to sell their shares on certain terms. If the buyer obtains 90% or more of the share capital and votes in the company, the buyer can petition for the **compulsory purchase** of the remaining shares from those shareholders who have not accepted the acquisition offer.

3.1.7 Share issues

If a limited company wishes to expand its operations, additional capital is often required. The company raises this by issuing new shares through a **share issue**. The existing shareholders usually receive **subscription rights** giving them a pre-emptive right to subscribe for shares in the new issue. The number of shares that may be subscribed for is established in relation to the number of shares previously held by the shareholder. The subscriber must pay a price (issue price) for the newly issued shares that is often lower than the market price. Immediately after the subscription rights - which normally have a certain market value - are detached from the shares, the price of the shares normally declines. Shareholders that have subscription rights but do not subscribe for shares may sell their subscription rights in the marketplace where the shares are listed during the subscription period (which often lasts for a few weeks). Once the subscription period has ended and the shares have been allocated, the subscription rights lapse and thus become useless and worthless.

If the share premium account in a limited company has greatly increased in value, the company can transfer part of the value to its shareholders through what is commonly referred to as a **bonus issue**. In a bonus issue, consideration is given to the number of shares already held by each shareholder. The number of new shares offered to the shareholders through the bonus issue is established in proportion to the number of shares the shareholder already holds. Through the bonus issue, the shareholder receives more shares but the shareholder's proportion of the company's share capital remains unchanged. The price of the shares falls in conjunction with a bonus issue but, through the increase in the number of shares, the value of the shareholder's invested capital remains unchanged.

A limited company can also carry out a so-called **private placement**, which is carried out as a share issue but is directed solely at a limited group of investors. In a private placement, the existing shareholders' proportion of the shares and share capital in the company is **diluted**, but the number of owned shares is not affected and the market value of the invested capital is also not normally affected.

3.2 In general regarding share-related instruments

Primary capital certificates, convertible bonds/debentures, share-index bonds/index bonds, warrants, share options, share-index options and depository receipts are closely related to shares. These instruments are normally traded in a regulated market (including a stock exchange) but are also traded in the OTC market.

3.2.1 Primary capital certificates

Primary capital certificates are very similar to shares. The difference is primarily related to the ownership of the company's assets and influence over the issuer's corporate bodies. There are also some restrictions on the distribution of dividend. The listed primary capital certificates in

Norway are issued by savings banks. More information on primary capital certificates is available at www.grunnfondsbevis.no.

3.3.2 Convertible bonds/debentures

Convertible bonds/debentures are interest-bearing securities which may be exchanged for shares within a certain period of time. The return on the convertible bonds/debentures, ie, the coupon interest, is normally higher than the dividend on the shares to be received in exchange. The price of convertible bonds/debentures normally follows the share price and is expressed as a percentage of the nominal value of the convertible bond/debenture.

3.2.3 Share-index bonds/index bonds

Share-index bonds/index bonds are bonds whose yield normally depends on how a share index develops. If the index develops positively, so does the return. In the event of a decline in the index, there may be no return. However, the nominal value of the bond is always repaid on the maturity date so the risk of loss is limited compared to shares and fund units. Apart from any share premium, the risk of investing in a share-index bond may be defined as the alternative interest income, ie, the interest the investment could have achieved if the amount had been invested differently.

3.2.4 Warrants

Certain call (purchase) and put (sales) options with a longer term to maturity than the standardised call options, normally called **warrants**, are also traded. Warrants may be used to buy underlying shares or to provide a cash settlement if a gain has been achieved as a result of the price of the underlying share being higher than the agreed future purchase price/selling price.

3.2.5 Share options and share-index options

There are various types of **share options**. Acquired (bought) purchase options (call options) entitle the owner to purchase already issued shares at a predetermined price within a specific period of time. Acquired (bought) sales options (put options) entitle the holder to sell shares at a predetermined price within a specific period of time. There is an **issued/written** (sold) option corresponding to each **acquired** option. The risk borne by the party that acquires an option is that the option will decline in value or become worthless by the expiry date. Unless special precautionary measures are taken, the issuer (writer) of an option runs a risk which may be unlimited in scope.

Index options produce a gain or loss linked to the development of the underlying index. The price of options (premium/price) normally follows the developments in the price of the corresponding underlying shares or index.

3.2.6 Depository receipts

Depository receipts are proof that shares are stored by a depository and give the owner the same rights as if he/she owned the actual share. Depository receipts are traded as shares and

their prices normally follow the price trends in the foreign regulated market where the share is traded.

4. INTEREST-BEARING FINANCIAL INSTRUMENTS (BONDS)

4.1 In general regarding interest-bearing financial instruments (bonds)

An interest-bearing financial instrument is a *right to claim* against the issuer of a loan. The return is normally provided in the form of *interest (coupon)*. There are various types of interest-bearing instruments depending on the issuer of the instrument, the *security* provided for the loan by the issuer, the *term until the maturity date*, and how interest is paid.

The interest (coupon) is normally paid as a fixed or floating rate. For fixed-interest loans, the interest is normally stipulated (fixed) for one year at a time. For floating-interest loans, the interest is normally stipulated (fixed) four times a year for three months at a time based on the NIBOR interest rate. On certain types of loans, no interest is payable and only the nominal amount is repaid on the loan's maturity date (zero coupons). The purchase of zero coupon bonds takes place at a considerable discount, which means that the effective interest rate is the same as for bonds on which a regular coupon interest is paid. For example, all the debts that the Norwegian state issues in Treasury bills (government certificates) are zero coupon instruments.

The *risk* associated with an interest-bearing instrument consists in part of the price changes that may occur during the term of the instrument due to changes in market interest rates, and in part that the issuer may be unable to repay the loan. Loans for which satisfactory security has been provided for repayment are thus less risky than loans without security. However, in purely general terms, it can be stated that the risk of loss associated with interest-bearing instruments may be deemed lower than it is for shares.

Market interest rates are established every day both for instruments with short terms until maturity (less than one year), eg, *certificates*, and for instruments with longer terms until maturity, such as *bonds*. This takes place in the money market and bond market. Market interest rates are affected by analyses and assessments conducted by the Central Bank of Norway and other major institutional market players with regard to short-term and long-term trends in a number of economic factors, such as inflation, the state of the economy, and interest rate changes in Norway and other countries. The Central Bank of Norway also conducts operations in the money market and currency market with the aim of controlling changes in the market interest rate so that inflation does not exceed or fall below an established target.

If the market interest rate increases, the price of already issued interest-bearing financial instruments will fall if they provide a fixed interest rate. This is because new bonds are issued bearing rates of interest that follow the current market rate of interest and thereby provide a higher rate of interest than the already issued instruments. Conversely, the price of already issued instruments increases when the market interest rate declines.

Bonds issued by the State, county council and municipalities (or guaranteed by such bodies) are deemed to be more or less risk-free with respect to redemption at the predetermined value on the due date.

4.2 Trading in interest-bearing financial instruments (bonds)

A number of bonds are listed on a stock exchange, so trading in these financial instruments, like trading in listed shares, takes place in a regulated market. In addition, the Oslo Stock Exchange offers an alternative marketplace for trading in bonds and certificates – the *Alternative Bond Market* (ABM). The ABM is a separate marketplace that is not regulated by, or subject to a licence pursuant to, the Norwegian Stock Exchange Act but is administered and organised by the Oslo Stock Exchange.

Trading in bonds normally takes place in a different way to trading in shares. In practice, the interest and currency market is regarded as a *quoting* or *price-driven market*, unlike the stock market which is an order-driven market.

In the case of trading in standardised options, bonds and currency/interest derivatives, the investment firm normally stipulates prices as a market maker and publishes purchase and sales prices based on its own assessments of the market conditions. The market will usually be very transparent, since the prices are published on the investment firm's website or by an information distributor. Clients may thus compare the various investment firms' prices. These prices will either be indicative or binding for a specific volume per transaction. If the prices are indicative, the investment firm will give the client a binding price when the client submits an inquiry to the investment firm. The client is free to accept or reject the investment firm's offer. If the client accepts the price, the investment firm will become the other party to the transaction.

5. DERIVATIVE INSTRUMENTS

Derivative instruments, such as options, forward/futures contracts, etc, are issued with various types of underlying assets, such as shares, bonds, commodities and currencies.

One special risk that investors must be aware of when investing in derivative instruments is that the instrument is put together in a way which means that changes in the price of the underlying asset affect the price of the derivative instrument, the so-called "*leverage (gearing) effect*". The change in price is often greater in relation to the amount invested than the change in the value of the underlying asset. The change in price is therefore referred to as the leverage/gearing effect and can lead to a *larger profit* on the invested capital than if the investment had been made directly in the underlying asset. On the other hand, the leverage/gearing effect may result in a *greater loss* on the derivative instrument compared to the change in the value of the underlying asset if the price of the underlying asset does not develop as expected. The leverage/gearing effect, ie, the chance of making a profit or risk of suffering a loss, varies depending on the derivative instrument's structure and scope. Monitoring developments in the prices of the derivative and underlying asset is therefore of the utmost importance. The client should, in his/her own interests, be prepared to act swiftly, often that same day, should the derivative instrument start developing in an unfavourable direction.

For further information on derivative instruments, refer to "INFORMATION TO CLIENTS CONCERNING THE PROPERTIES AND SPECIAL RISKS RELATING TO TRADING IN OPTIONS, FORWARDS/FUTURES CONTRACTS AND OTHER DERIVATIVE INSTRUMENTS".

6. MUTUAL FUNDS

A mutual fund is a “portfolio” of different financial instruments, such as shares and/or bonds. The fund is owned by all those who save in the fund, the *unit holders*, and is managed by a *management company*. There are various kinds of mutual funds with different investment strategies and risk profiles.

Below is a brief description of the most common mutual funds⁵:

Unit trust/equity fund: a mutual fund that must normally invest at least 80 per cent of its total assets in shares (or other equity instruments) and which must normally not invest in interest-bearing securities.

Combination fund: a mutual fund that is not defined as a pure unit trust/equity fund or interest fund. A combination fund may have a more or less permanent preponderance of shares or interest-bearing securities, but the proportion of various securities may also change during the fund’s lifetime.

Interest funds: a mutual fund that is to invest in securities other than shares. These funds are divided into bond funds and money market funds.

Index funds: a mutual fund that is managed relatively passively in relation to the fund’s benchmark index.

Fund of funds: a mutual fund that invests in one (or possibly more) underlying mutual funds.

Specialist funds: specialist funds include funds that are often called hedge funds. Specialist funds are managed in a more flexible way than ordinary mutual funds. Specialist funds may be funds with very different levels of risk and protection. This may involve high risk taking. Specialist funds/hedge funds often use investment techniques such as extensive use of derivatives, short selling, leverage of investments and open currency position. Units of specialist funds may only be offered to professional investors. This means that specialist funds neither can be marketed nor sold to non-professional investors, regardless of whether the initiative comes from the investor or the company. Specialist funds are under the supervision of Finanstilsynet. Finanstilsynet may authorise the marketing of foreign hedge funds to professional customers in Norway.

Generally about funds

When they invest in a fund, unit holders receive the number of units in the fund that equals their invested capital’s percentage of the fund’s total assets under management.

The units may be bought from and redeemed (sold) to the management company. The units’ actual value is calculated daily by the management company and is based on developments in the prices of the financial instruments in which the fund has invested. There are also fund units that can be traded in a regulated market (*Exchange Traded Funds* (“ETF”)).

⁵ Source: among others - www.vff.no

One of the purposes of a unit trust/equity fund is to invest in several different shares and other financial instruments. This means that the risk run by the unit holders is less than the risk run by shareholders who only invest in one share or a few shares. Unit holders do not have to select, buy, sell or monitor the shares or carry out other management work related to this.

For more information on mutual funds, [visit www.vff.no](http://www.vff.no).

7. EXCHANGE TRADED PRODUCTS (ETP)

An ETP (Exchange Traded Product) is a generic term for ETFs (Exchange Traded Funds) and ETNs (Exchange Traded Notes). These products are traded in different trading systems, such as the Oslo Stock Exchange. The products allow exposure to shares, indices, currencies, commodities, etc. Some of the products contain a gearing element. The exposure can either be to a falling or bear market (short) or a rising or bull market (long). There may be huge variations in the way in which these products are structured, so investors must find out a lot about the product they choose.

ETNs are normally issued by a financial institution (bank/brokerage house) and traded in the secondary market in the same way as a share. With this type of product, the investor normally incurs a **credit risk** in relation to the issuer. The credit risk is the risk that the issuer or other party will be unable to pay. This means that if an issuer does not manage to meet its obligations, the securities may be worthless.

ETFs are fund units issued by a securities fund. This means that, through ownership of the fund units, the investor directly owns underlying assets and thus has no credit risk in relation to the issuer.

Several of the ETPs contain derivatives elements and/or have inbuilt gearing which can lead to the product having a high **market risk**. This means that their prices may fluctuate more than those of underlying assets and that the products will normally have a greater risk of loss than a direct investment in underlying shares, for example. In addition, the geared products are rebalanced daily. This means that the return over lengthy periods will deviate from market trends when the gearing factor is taken into account. The return may be negative even if the underlying assets have the same value on the purchase and sales dates. These properties make the geared products less suitable as long-term investment alternatives.

The fact that underlying assets are often sold in other markets and listed in currencies other than NOK also means that investors must be aware of the possible **foreign exchange risk**. This may mean that even if the underlying developments indicate that the security should produce a positive return, the return may be reduced, disappear or be negative as a result of exchange-rate developments.

ETPs normally have one or more liquidity guarantors (market makers) that have undertaken to state bid and offer prices for the security. However, at times it may be difficult to execute trades in the ETP in question. This may be the case if, for example, there is little **liquidity** or if trading on the marketplace in question has closed.

8. SHORT TRADING

”Short trading” means to sell financial instruments that one does not own (by borrowing shares from the investment firm or in some other way). At the same time, the borrower undertakes to return instruments of the same type to the lender on a predetermined later date. Short trading is often used as an investment strategy when the share is expected to fall in value. On the sales date, the borrower expects to be able to buy the borrowed instruments in the market on the date when the instruments are to be returned at a lower price than the price at which these instruments were sold. If the price rises instead, the borrower will incur a loss which, in the case of a sharp price rise, may be considerable.

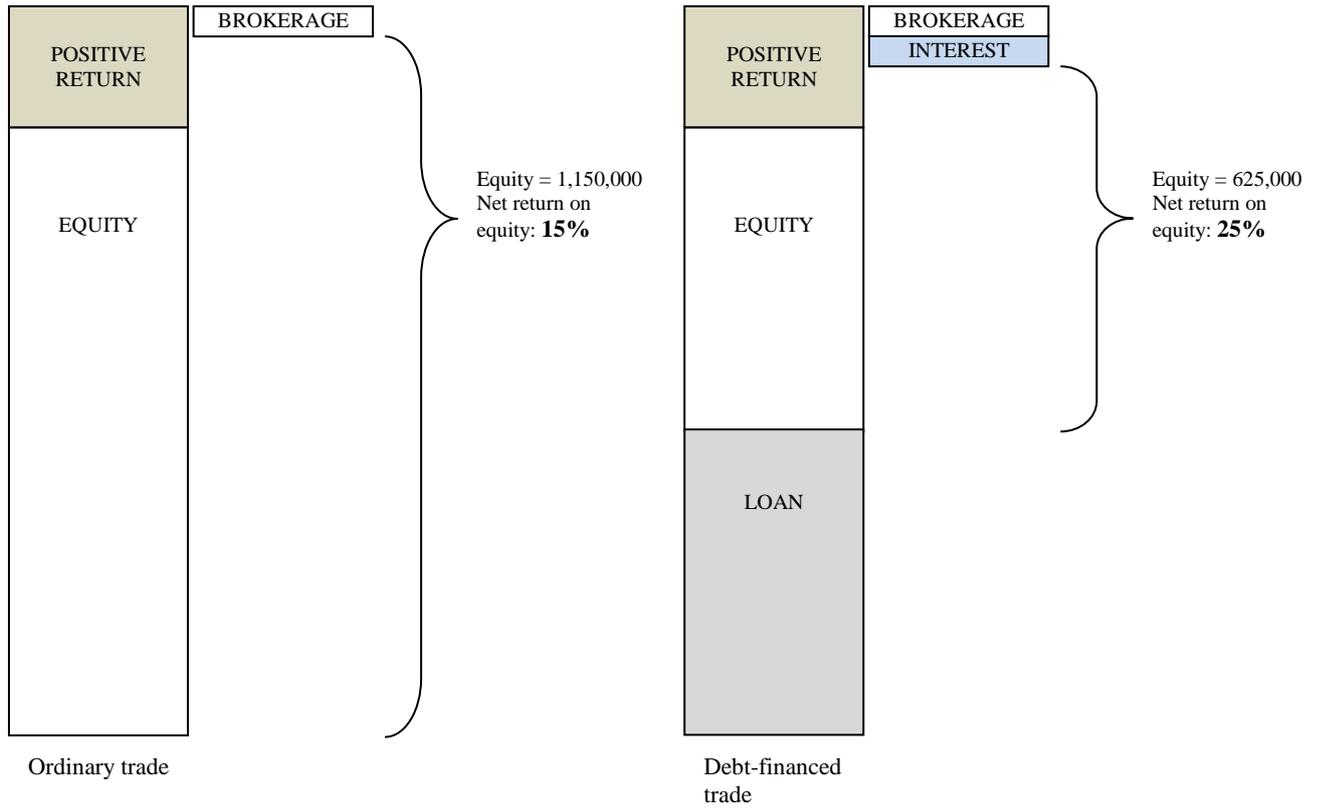
9. LEVERAGED (DEBT FINANCED) TRADING

Financial instruments can in many cases be bought for partially borrowed capital. Since both the capital invested by the client and the borrowed capital affect the yield, the client may achieve a larger gain through debt financing if the investment develops positively compared to an investment that is made using only the client’s own capital. The debt linked to the borrowed capital is not affected by the prices of the purchased instruments changing in a positive or a negative direction, which is an advantage if prices increase. However, if the price of the purchased instruments falls, this results in a corresponding disadvantage since the debt remains unchanged. In the case of a price fall, therefore, the client’s own invested capital may be lost in whole or in part, while the debt has to be repaid in whole or in part from the revenues from the sale of the financial instruments that have fallen in value. The debt must also be repaid even if the sales revenues do not cover the entire debt.

The risk entailed in a debt-financed share purchase increases with the level of debt financing. For example, a portfolio which is 80% debt-financed will lose all its equity if share prices fall by 20%. If the portfolio is 60% debt-financed, the equity will be lost if share prices fall by 40%. The return on a debt-financed portfolio will be less than the return on a similarly sized portfolio that is equity-financed due to the interest which is paid for the debt financing.

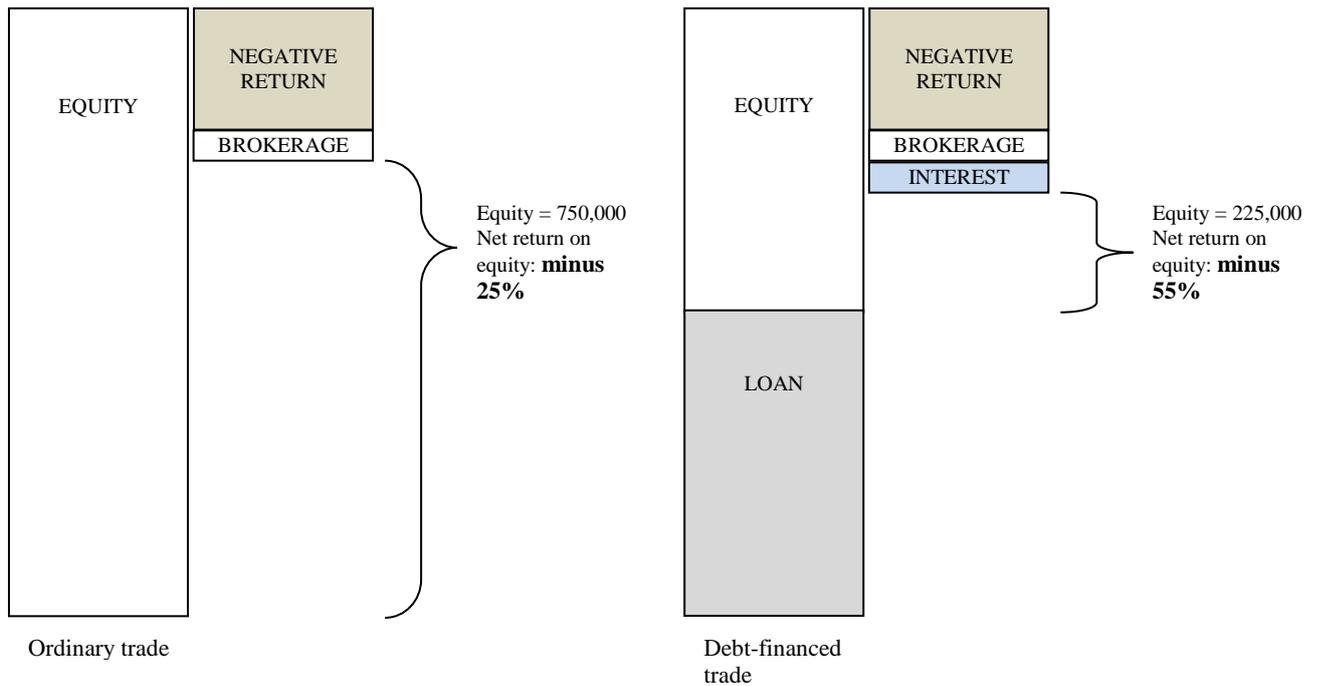
An illustration of a positive return in the case of partial debt financing is provided below.
Assumptions:

- 20% positive return
- NOK 1,000,000 invested in the market
- 5% brokerage (20 transactions each with a brokerage fee of 0.25%)
- 5% interest expense
- 50% debt financing



An illustration of a negative return in the case of partial debt financing is provided below.
Assumptions:

- As above, but a 20% negative return



10. TRADING FREQUENCY AND COSTS

The more frequent the trading, the higher the brokerage costs, since costs are normally incurred for each trade (purchase or sale). If the brokerage costs over time are larger than the return, this will result in a loss for the customer. Please note that brokerage costs are also incurred in debt-financed trading.

Trading in securities leads to brokerage costs that normally increase in proportion to the size of the trade. If, for example, a client sells shares worth NOK 50,000 and the brokerage rate is 0.2%, the sale costs NOK 100. If, on the other hand, shares are sold for NOK 500,000, the brokerage cost will be NOK 1,000. In addition, minimum brokerage fees are used, so that the sale or purchase of securities for a small amount may be percentagewise more expensive than selling/buying for a larger amount.