INFORMATION TO CLIENTS REGARDING THE CHARACTERISTICS OF, AND RISKS ASSOCIATED WITH; FINANCIAL INSTRUMENTS

NT Services (NTS)

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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 NTS 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.

2 THE RISK RELATING TO 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 INTEREST-BEARING FINANCIAL INSTRUMENTS (BONDS)

3.1 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 for instance 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.

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), e.g., 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. 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.

3.2 Trading in interest-bearing financial instruments (bonds)

A number of bonds are listed on a stock exchange or other marketplace, however trading in these financial instruments, often takes place on an over-the-counter basis.

Trading in bonds normally takes place in a different way to trading in shares. In practice, the interest and currency market are 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 investment firms often stipulates prices as a market maker and publishes purchase and sales prices based on its own assessments of the market conditions. The 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.

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