This document contains information that must be provided to the client in accordance with regulation governing investment services binding on OP Custody Ltd (OP Custody) as well as with regulations and instructions issued by the relevant authorities. More detailed information on each service or product can be found in the related terms and conditions or agreement. In the event of any inconsistency or discrepancy between this document and service or product-specific terms and conditions or the agreement, the agreement or the terms and conditions shall prevail.

Any changes and updates to this document will be available on OP Financial Group's website at op.fi.

1 Information about OP Custody

1.1 Services

OP Custody provides its clients with securities custody and clearing services as well as issuing agent services. To its fund management company clients OP Custody provides custodian services. Furthermore, OP Custody accepts and forwards orders related to financial instruments.

1.2 Languages available for the service

Finnish and Swedish. English with certain restrictions.

1.3 Licence

OP Custody has a licence as referred to in the Act on Investment Services, authorising it to provide transmission of orders and, as ancillary services, foreign-exchange services connected to the provision of investment services, and safekeeping and administration of financial instruments, as referred to in regulations governing investment services. Furthermore, OP Custody has a licence authorising it to act as depository as referred to in the Act on Common Funds.

1.4 Regulator

Finnish Financial Supervisory Authority
Snellmaninkatu 6, 00101 Helsinki, Finland
Telephone +358 (0)10 831 51

1.5 Contact information

OP Custody Ltd

Gebhardinaukio 1

00510 Helsinki, Finland

Telephone +358 (0)10 252 011

1.6 Contact

The client may place an order regarding financial instruments orally, in writing, by email, in a standard way applicable to the service or in another way agreed separately with the client.

OP Custody has the right to send the client written information related to the service by letter, by email, by fax, in a standard way applicable to the service or in another way agreed separately with the client. The client acknowledges that using email to communicate, in case its use have been agreed upon, involves special risks, i.e. the message will not possibly be delivered to its addressee, the message may go into the hands of an external party or an external party may change the content of the message. OP Custody has a right to trust that orders received by email will be true and correct.

1.7 Client categorisation

OP Custody categorises its clients as retail clients, professional clients or eligible counterparties.

Author	Postal address	Street address	Telephone	Internet / Email
OP Custody Ltd	P.O. Box 308 00013 OP	Gebhardinaukio 1 00510 Helsinki, Finland	+358 (0)10 252 011	op.fi firstname.lastname@op.fi

OP Custody Ltd, business ID 2771050-4, P.O. Box 308, 00013 OP, domicile Helsinki

The client has the right to request in writing a recategorisation of his/her status. If the client is categorised as a professional client or eligible counterparty, the client will not be covered by the protection provided by the Investors' Compensation Fund.

Client categorisation may have an effect on what products and services OP Custody provides to its clients and on the extent of OP Custody's obligation to provide and request information in relation to the investment service or financial instrument provided to the client.

OP Custody will send the client a separate notification of client categorisation and the effects of the categorisation.

2 OP Custody's conflict-of-interest policy applicable to investment and ancillary services

In its investment and ancillary services, OP Custody complies with the Conflict-of-interest Policy described in Appendix 1.

3 Operating principles governing the execution of orders

OP Custody provides transmission of orders in foreign mutual funds. OP Custody has assessed that it regularly receives the best total consideration from the client's perspective when it transmits orders regarding said mutual funds to its partner for execution. In these orders, the partner applies their own Best Execution Policy.

4 Information on custody of client assets

OP Custody keeps the client's cash in a separate client assets account in OP Corporate Bank plc or other Finnish or foreign credit institution.

Custody of financial instruments is subject to a separate agreement on custody of securities.

OP Custody may keep financial instruments in custody in the possession of a third party, in which case the client's financial instruments are normally separate from those of OP Custody and the sub-custodian. The bank's responsibility is specified in the terms and conditions of a separate agreement governing the custody of securities.

The client's financial instruments may be kept in an omnibus account, i.e. several clients' securities and/or securities of OP Custody or a sub-custodian selected by OP Custody, with respect to some foreign securities in particular, are kept in the same account. When securities are kept in an omnibus account, the client's right to the assets in the account can be a quantity-based right to securities of the same type or class kept in the omnibus account or to rights, or to other right of joint ownership based usually on foreign legislation. This may be of significance when determining dividends subsequent to corporate actions and separating assets of a company in a state of bankruptcy or other default, as well as e.g. in connection with any error situations related to clearing and settlement or as a result of exceptional market practices.

Rather than being registered in the client's name, foreign financial instruments are usually registered in the client asset accounts of OP Custody or a sub-custodian. In such a case, in the event of any potential bankruptcy or other insolvency the client's securities are not necessarily separable from the assets of OP Custody or the subcustodian selected by OP Custody.

The client's foreign securities are generally kept in accounts managed by a domestic or foreign sub-custodian selected by OP Custody, which are governed by local legislation. Therefore, the client's rights related to said securities may differ from those related to domestic securities with respect e.g. to clearing and settlement, account entries, investor protection and other legislation. With respect to foreign securities, OP Custody keeps securities accounts for each client. A securities account refers to sub-accounting maintained by the bank for how ownership of securities managed by the sub-custodian is divided among the bank's clients.

The terms and conditions of the custody service agreement and any possible separate agreement for client assets define rights of collateral and setoff covering the client's financial instruments and cash assets. The custodian of foreign financial instruments or cash assets may hold the right of collateral or setoff to said instruments or cash assets. In such a case, the right of collateral or setoff involves all financial instruments or cash assets in the account. With respect to financial instruments kept in the omnibus account, the client's financial instruments may be subject to the right of collateral or setoff on the basis of obligations other than those of the client, too.

OP Financial Group entities keeping client assets in custody have a designated person in charge of compliance with obligations related to custody of client assets.

5 Financial instruments and associated risks

The characteristics of financial instruments and risks associated with them are described in Appendix 2.

6 Notification of execution of order

OP Custody shall notify the client of an executed order for the service or order expiry by email or in another manner separately agreed with the client no later than the trading date following the order execution or expiry date.

The client shall notify OP Custody of any errors without delay upon receipt of information thereon. Unless otherwise indicated or agreed upon, the client is regarded as having received information within seven (7) days following the sending of the notification.

OP Custody shall notify the client of any errors without delay upon receipt of information thereon.

7 Netting

By virtue of law, OP Custody has the right to immediately accelerate and net the client's payment and execution obligations in the case of the client's default. If the client is a legal person, OP Custody also has the right by virtue of law to net a receivable from the client that applies to collateral given by the client.

8 Recording of telephone conversations, discussions and electronic communication

OP Custody is obliged to record telephone conversations with the client and record conversations and to store electronic messages that relate to or may lead to business transactions. Recordings will be used to verify orders, identify any possible fraud, develop customer service, manage risks and settle any possible disputes. Such recordings shall be handed over to competent authorities at their request and OP Custody will store the recordings for at least five years.

The client has a right to request a copy of any such recordings.

9 Information on the Investors' Compensation Fund

The Investors' Compensation Fund will safeguard retail investors' undisputed claims due for payment if an investment firm or credit institution is unable to pay investor claims within the stipulated time, due to a reason other than temporary insolvency. This compensation payable to the investor accounts for 90 per cent of his/her claim, but no more than 20,000 euros. Since the Fund does not cover losses incurred due to a fall in share prices or incorrect investment decisions, the client is responsible for the consequences of his/her investment decisions. Nor are mutual fund operations covered by the protection provided by the Investors' Compensation Fund.

OP Financial Group's conflict-of-interest policy applicable to investment and ancillary services

OP Financial Group has confirmed principles with which credit institutions and investment firms providing investment or ancillary services or producing investment products comply in their operations to identify, avoid and manage conflicts of interest. A conflict of interest arises if, for example, a provider or producer of investment or ancillary services, OP Financial Group's personnel or a client or a group of clients may have an interest related to the service offered that deviates from the client's best interests.

Identifying conflicts of interest

OP Financial Group is a large financial services group which provides banking, investment and insurance services and whose credit institutions and investment firms have several roles in capital market operations. Credit institutions and investment firms may, for example, trade in securities for their own account or for account of their clients, issue financial instruments in their own names and grant investment-service-related loans and other financing to clients. The simultaneous performance of various functions may mean that the client's interests are not always consistent with those of the credit institution or of the investment firm providing investment services, its personnel or its other clients.

A conflict of interest may occur, for example, if:

a) OP Financial Group's executive or employee or a person directly or indirectly linked to an OP Financial Group entity by control may enjoy undue financial benefit at the client's expense;

b) OP Financial Group's entity, function or the abovementioned person has an interest differing from the client's interests relating to the service provided to the client or the result of the transaction executed for the client's account;

c) OP Financial Group's entity, function or the abovementioned person has a financial or other interest to favour the interests of another client or a group of clients instead of a client's interests;

d) OP Financial Group's entity or the abovementioned person is engaged in the same business as the client; or

e) OP Financial Group's entity or the abovementioned person receives an inducement permitted under regulation from a party other than the client related to the service, which is not a fee or payment usually charged for the service concerned.

Avoiding and managing conflicts of interest

OP Financial Group has taken all appropriate measures to identify, manage and prevent conflicts of interest. When following these principles, OP Financial Group can ensure that various functions can simultaneously engage in activities related to the provision of various investment services. In its operations, OP Financial Group always primarily aims at avoiding conflicts of interest. If any conflicts of interest occur, the procedures based on the conflicts-of-interest guidelines shall apply.

The starting point is that in providing investment or ancillary services OP Financial Group treats its clients equally and acts in compliance with good practice without favouring the client at another client's expense. An OP Financial Group entity must always act – also in a conflict-of-interest situation – in the interest of the client, provide products and services independently and objectively and keep client details confidential.

OP Financial Group aims to prevent any potential conflicts of interest from arising and to manage them, for example, by providing a set of internal instructions and training opportunities, using stand-alone information systems, restricting user authorisations, separating premises from one another and complying with confidentiality rules within the organisation too. In addition, the Group has taken preventive measures in such a way that it has organisationally separated functions that may face a conflict of interest and restricted their exchange of information.

For the purpose of preventing and controlling conflicts of interest, OP Financial Group has adopted guidelines regulating transactions applying to the Group's relevant persons and persons with whom they have a family relationship or close links. Related measures will vary depending on the business or service in question. In addition, OP Financial Group's guidelines include practices on how to act in situations where the management of business relationship involves offering or accepting gifts. OP Financial Group employees must also receive their employer's approval for membership of the management of entities outside of OP Financial Group. OP Financial Group builds its remuneration schemes in such a way that they do not encourage executives and employees to act contrary to the client's bests interests.

Identifying and reporting conflicts of interest

OP Financial Group will also regularly supervise compliance with the policies and principles referred to above. If an OP Financial Group executive or employee identifies any possible conflict of interest, such a situation will be recorded based on separate guidelines and reported to the entity's management.

If an OP Financial Group entity through the abovementioned policies cannot reasonably reliably ensure that risks associated with the client's interests are avoided, the entity must provide the client with a detailed description of conflicts of interest caused by the provision of investment or ancillary service as well as sufficient information on the nature and reasons of such a conflict of interest as well as risks to which the client is subject and measures taken to mitigate risks. Such information must be provided before the execution of a transaction for the client's account so that the client can independently consider whether the client wants the transaction to be executed despite the described conflict of interest. In such a case, it is also possible that this transaction will not be executed in order to avoid the conflict of interest. The notification to the client shall be delivered using a separate form.

OP Financial Group reviews at least once a year these principles governing the management of conflicts of interest and updates them whenever needed. At the client's request, the client's advisor provides more information on the principles governing conflicts of interest applicable to each OP Financial Group entity or the business division/line/unit that serves the client.

Inducements at OP Financial Group

An OP Financial Group credit institution or investment firm may, in connection with the provision of an investment or ancillary service, pay a commission or fee to a third party, or receive a commission or fee from a third party. OP Financial Group considers the different legal entities (OP cooperative banks and OP Cooperative's subsidiaries) with the group to be third parties in relation to one another. Fees and commissions are considered as inducements when they are not ordinary payments related to the provision of the service, such as those related to trading, custody or clearing or charges based on legislation.

The payments regarded as an inducement are justified by the position of the recipient in the provision of customer service and the provision of ancillary services or higher-level services to the client. OP Financial Group uses inducements in compliance with good practice, with the aim of enhancing the quality of the service provided to the client.

For example, OP Fund Management Company Ltd may pay a fee or commission to the OP Financial Group branch or company acting as intermediary for subscription or redemption of mutual funds managed by OP Fund Management Company Ltd and for international mutual funds, based on sales and on management of the client relationship. The payments may be based on mutual fund subscriptions, redemptions or on management fees charged by the fund manager. Commissions based on management are ongoing inducements.

An issue manager and/or issuer may pay a fee to a distributor within the OP Financial Group for serving as sale and subscription places for share issues and bonds. The fee may be subscription-specific or be based on the total number transmitted.

OP Life Assurance Company Ltd may pay to OP Financial Group's branch acting as its agent, such as OP Corporate Bank, a fee or commission related to the provision of insurance-related services.

OP Corporate Bank may pay to OP Financial Group's member banks or another party a fee or commissions for transmitting an order in connection with stock exchange trading. In such a case, the fee is part of the expense charged from the client arising from the stock exchange transaction. In addition, OP Corporate Bank may pay to OP Financial Group's member banks a fee related to share issues and the sale and issue of structured products.

Those receiving the fees, such as OP cooperative banks or OP Asset Management Ltd, use the fees to produce and pay for matters, ancillary services and higher-level services in favour of clients in various service channels related to client relationship, for example, by providing and commissioning reporting, online services, branch and telephone services as well as other services for clients.

However, inducements such as those described above are not used in relation to discretionary investment management.

In OP Financial Group, paid or received charges and fees are inducements permitted by regulation. The client or a potential client will receive information on the nature and the determination bases of a commission, fee or another benefit classified as an inducement well in advance before the provision of an investment or ancillary service. The purpose of such commissions, fees and other benefits is to improve the quality of the service offered to the client by, for example, enabling value-added services provided to the client or improving service quality by means of support related to expertise and product knowledge. Furthermore, the paid and received commissions and fees are not contrary to the client's best interests or to OP Financial Group's obligations to act honestly, equally and professionally in the best interests of the client.

More information on product- and service-specific inducements and their determination bases is available from the presentation material of each product and service. Additionally, OP Financial Group reports to the client the amount of paid benefits, fees and other payments related to his/her investment services.

Information on financial instruments and associated risks

Below is a general description of financial instruments within investment service and material risks inherent to them, as required by regulation governing investment services. This description is not exhaustive in any respects and does not reveal all potential risks associated with the financial instruments depicted below. Each investor must always assess whether a financial instrument suits his/her needs and requirements. He/she must carefully read the terms and conditions and characteristics of the financial instrument concerned and the resulting obligations before making an investment decision, in order to be aware of risks associated with financial instruments and of any potential effects on his/her financial standing. Investors must also deliberate carefully about the appropriateness of the financial instrument to the intended purpose in changing circumstances.

Equities

A share, or an equity, is an equity instrument issued by a limited liability company. The value of a share is based on the view prevailing at any particular time of the value of the limited liability company that issued the share. Investing in equities also entitles dividends paid by the company, which is why expected future cash flows affect the market value on the review date.

Equities may be traded in a regulated market (on a stock exchange or an equivalent trading venue) or on a multilateral trading facility. These listed equities are typically highly liquid and selling them is possible within a quite short notice in an extreme market environment as well. Furthermore, equities may be traded outside a regulated market and multilateral trading facilities, in which case the liquidity of the investment is weak and the investment cannot typically be sold in an extreme market environment. The investment horizon should therefore be long sustaining market cycles.

Equity investment risks involve a risk associated with fluctuations in share prices (market risk) and that associated with the extent of trading (liquidity). General market developments and knowledge of factors contributing to the issuer's corporate performance affect changes in share prices. Equity investment involves the risk of losing all capital invested if the issuer goes bankrupt. By and large, the issuer's industry, legislative amendments, the number of shares issued and the breakdown of shareholders also number among factors affecting risks involved. Moreover, changes in foreign exchange rates have an effect on the value of shares denominated in a foreign currency. Equity investment in emerging markets can be regarded as riskier because these economies are characterised by a less established market environment and legislation, political risks and drastic exchange-rate fluctuations, counterparty risks and lower equity market liquidity. The valuation fluctuation of an individual equity investment differs very much.

Subscription rights and stock options, which entitle their holders to subscribing for shares of the company that has issued them, are also comparable to shares. The price of a subscription right or stock option depends not only on the performance of the issuer's share price but also the stock-option exercise price, share volatility, interest rates and the stock option's residual maturity. The volatility of subscription rights and stock options is higher than that of the underlying share, due to lower tied-up capital (leverage).

Money market instruments

Money market instruments include government bills, certificates of deposit, commercial papers, local authority papers and Euro Commercial Papers (ECPs).

Short-term money market investments principally include the so-called zero-interest notes (discount papers), to whose holders the issuer pays the note's par value on the maturity date stated on the note. Their maturity typically varies between 1 and 12 months. The issuer's credit risk is substantially associated with such an investment.

Income from zero-interest money market investment stems from the difference between the purchase price and par value (or resale price). The purchase price and resale price are derived by discounting the par value at the interest rate quoted for the period in question from the value date until the date of maturity. Whenever necessary, this contract can be sold on the secondary market. Repurchase is carried out at the market price quoted at the time of purchase.

Risks associated with money market instruments, as with other fixed-income instruments, can be divided into two components: risk resulting from interest-rate fluctuations and the instrument's maturity (interest rate risk) and risk associated with the issuer's/depository's solvency (credit risk). Credit risk plays a pronounced role in fixed-income instruments characterised by the issuer's low credit rating. Money market instruments with good credit quality are instruments that are easy to sell in all market environments.

Notes and bonds

Notes and bonds are instruments representing future cash flows, their value being determined by calculating the present value of cash flows they are expected to generate. All of the fixed-rate bond's/note's cash flows are known whereas the floating-rate bond's/note's cash flows depend on changes in the interest rate. Cash flows consist of coupon interest and principal repayment. In such a case, the bond's/note's value is determined by the required return in the market, or the discount rate.

Bond/note issuers include governments, municipalities, companies, insurance companies and financial institutions. The bases for income determination for bonds/notes to be issued are defined in the terms and conditions of each individual bond/note. The issue price and any subscription fee charged may also have an effect on the return.

Interest-rate risk and credit risk are usually associated with bonds/notes. Interest rate risk results from fluctuating interest rates, i.e. an increase in the interest rate decreases a bond's/note's resale value on the secondary market whereas a fall increases the value. Bonds/notes also involve credit risk, i.e. risk of the issuer failing to repay interest and principal in accordance with the bond/note terms and conditions. Clearing and settlement risk refers to a risk of loss arising between the parties in connection with payments and deliveries if the counterparty fails to fulfil its obligations. It is possible that no continuous daily secondary market is created for the bond/note during its term to maturity. If the investor wishes to sell his/her instrument before the bond's/note's maturity date, the bond's/note's market price on the selling date may be lower or higher than capital invested. In the manner stated in the bond's/note's terms and conditions, the investor or issuer may have the right to demand early repayment of the bond/note. Foreign bonds/notes may involve currency risks. The longer-term bond and the lower the issuer's credit rating, the more sensitive to changes in market conditions the secondary market value is.

An index-linked bond/note or another structured bond/note is a bond/note in which payment of income is typically tied, in part or in full, to the price performance of a pre-determined underlying asset. A structured bond/note may involve the issuer's commitment to repay to the investor on the maturity date at least the bond's/note's par value or a specified share of the par value. This commitment with the issuer's credit risk involved is valid in full only on the date of maturity. The commitment does not cover any premium or subscription fee paid on the bond/note. It is also possible that the issuer does not make the aforementioned commitment. Risk of the underlying asset's performance is also associated with structured bonds/notes. If the investor sells the bond/note before its maturity, he/she may reap a capital gain or incur a capital loss.

The interest rate and a change in the underlying asset's market value affect the market value of index-linked bonds or other structured bonds/notes. Underlying assets may be a share (including a basket of shares, share index or a basket formed by these), a commodity, exchange rate (including a basket, index or an index basket), interest rate or interest rate difference, inflation rate (including the consumer price index), credit risk or a combination of these. The underlying asset's value may increase or decrease during the bond's/note's term. The value changes of the underlying asset affect the bond's/note's market value through a multiplier or restrictions that are determined in the terms and conditions. Considering that index-linked and structured bonds are in large number with differing terms and conditions, they differ significantly in terms of risk levels.

Debenture loans are bonds subordinated to the issuer's other commitments in the event of the issuer's bankruptcy. Because of the higher risk involved and lower liquidity, debenture loans generally earn higher interest than other bonds/notes. Bond volatilities are typically markedly higher than the risk levels of senior bonds. The value fluctuation of riskier debenture loans is closer to the fluctuation of return on equities than bonds/notes.

Convertible bonds are bonds whose holder has the right to convert them into shares of stock in the issuing company at a pre-agreed ratio. The coupon rate is usually lower than the issuer's credit spread prevailing on the market.

Bonds with equity warrants represent debt securities that incorporate warrants which provide their holders with the option to purchase the issuer's equity at a fixed contract price during a predetermined period. Warrants may be traded separately from the debt security in the secondary market. As is the way with convertible bonds, bonds with equity warrants carry a lower coupon rate than regular bonds/notes, because some of this rate has been used to buy the bond. The risk levels of convertible bonds and bonds with equity warrants too are typically higher than those of diversified bond portfolio.

Derivative contracts

Derivative contracts come in the form of options, forwards, futures, swaps, their combinations and/or other similar contracts, and are standardised or non-standardised (OTC derivatives). A derivative contract refers to a contract whose value may depend on changes in the underlying asset's value, market price movements (volatility), interest-rate fluctuations, the contract's maturity or another factor affecting the derivative's value. Its underlying assets can be e.g. equities, exchange rates, interest rates, commodities, credit risks, indices or an indicator of the underlying asset's price performance. The validity of derivative contracts varies from a very short term to several years. Market risk caused by change in the value of the underlying instrument is associated with derivative contracts. The contracting parties are obliged to settle the cash flows arising from the contract, irrespective of the market situation.

Derivative contracts may come in the form of various combinations. A derivative contract may contain terms and conditions involving an extremely large profit/loss potential. The risk of loss may be unlimited under certain derivative strategies.

In addition to the underlying asset's change in value (market risk), e.g. legislative amendments and the risk of delayed payment due to the counterparty's default and credit risk may affect the value of derivative contracts and the amount, timing and implementation of contracting parties' payment obligations.

If the derivative contract is cancelled during the contract period, the client will be refunded or charged according to the market value of the contract. A significant change in the contract's market value may cause considerable losses to the client if the contract is cancelled early.

The break clause applicable to long-term contracts also gives the bank the right to end the contract early on pre-agreed dates. The bank may exercise its right to cancel the contract, for example, for the following reasons: changes in capital requirements applying to banks, in derivative markets or a customer's credit risk. If the bank exercises the right allowed by the break clause to cancel the contract early and the contract's market value has undergone significant changes, the client may be affected by significant early cash flow effects.

The derivative contract's return is also affected by any other factors that may have been stated in the contract terms and conditions and costs related to lodging any collateral that may be required. Depending on the type of derivative contracts, clients may be saddled with financial commitments or obligations other than the acquisition cost and the acquisition may involve the necessary collateral or other obligations.

The derivative contract's value may undergo rapid and drastic changes. At the beginning of a derivative transaction, the bank may require that an agreement be made on the provision of collateral to secure its receivables in such a situation. The liquidity of derivatives may involve restrictions. Moreover, changes in foreign exchange rates have an effect on the value of derivatives denominated in a foreign currency.

The most common derivative contracts and factors affecting their market value:

Interest rate swap

Considering that the market value of interest rate swaps is the present value of expected interest flows in the contract, its value is affected by the shape of the underlying yield curve. The market quotations of interest rate swaps are determined by interbank markets, reflecting future interest rate expectations. The sensitivity of the interest rate swap's market value to interest rate changes is the bigger the higher the capital and the longer the contract period. A decrease/increase in interest rate expectations decreases/increases the contract's value for the fixed rate payer and vice versa.

Interest rate options (interest rate corridor, swaption, interest rate cap and floor)

Factors affecting the premium paid for the option and thereby the option's market value include interest rate expectations in the market, contract period, market interest rate volatility and exercise levels set for options. The higher the interest rate volatility the higher the price of options, because high volatility increases the contract's probability of its worth during the contract period. The longer the remaining contract period, the higher is the time value of the contract. The contract's time value falls over time and is zero at maturity.

The option buyer's biggest possible loss, which results from market risk, equals the premium paid. Option writers have unlimited risk, because they are obliged to pay all cash flows arising from the contract regardless of the market situation.

Forward exchange contracts

The price of a forward exchange contract is determined by the spot rate of the underlying asset plus the return on the interest rate differential between currencies during the contract validity. Consequently, factors affecting forward exchange contract's market value include the contract validity period, the extent of exchange rate fluctuations and the interest rate differential of currencies. The market quotations of forward exchange contracts are determined by interbank markets, reflecting future interest rate expectations. The larger the capital involved, the higher sensitivity of the forward exchange contract's market value is. In addition, the validity period affects the sensitivity of the interest rate differential between currencies. A weaker/stronger spot rate decreases/increases the contract's value for the buyer and vice versa. A fall/rise) in the interest rate differential between currencies decreases/increases) the contract's value for the buyer of the forward exchange contract and vice versa.

Currency options (call option, put option, knock-in, knock-out, reverse knock-in, reverse knock-out, digital option)

The holder of a currency option transaction (buyer) has the right at an agreed time to buy from or sell to the writer of the currency option (seller) an agreed amount of currency of the underlying instrument at a price specified in the contract. The buyer pays the seller a premium of its right.

The currency option contract's premium, or market value, comprises the option's time value (option price less intrinsic value) and the option intrinsic value (difference between the exchange rate at the time of review, or spot price, and the strike price). Factors affecting the price paid for the option and thereby the option market value include the spot price of the underlying exchange rate, the volatility of the underlying exchange rate, contract period, interest rate differential between currencies and the strike price set for the option.

The higher the currency volatility the higher the price of options, because high volatility increases the contract's probability of its worth during the contract period. A stronger exchange rate, or a spot rate, increases (decreases) the price of a call option (put option) and vice versa. A rise in the interest rate differential between currencies increases (decreases) the price of a call option (put option) and vice versa. The longer the remaining contract period, the higher is the time value of the contract. The contract's time value falls over time and is zero at maturity.

The option buyer's biggest possible loss, which results from market risk, equals the premium paid. Option writers have unlimited risk, because they are obliged to pay all cash flows arising from the contract regardless of the market situation.

Warrants

Warrants are securitised derivatives which always have a limited validity period (aka maturity) and which are traded as equities in a regulated market (on a stock exchange or an equivalent trading facility). The most common warrant types are call warrants and put warrants. The call warrant gives the right to buy an underlying commodity at a price agreed in the warrant terms and conditions on the expiry date (or on or before the expiry date in American warrants). If the price of the underlying asset does not at that time exceed the agreed price, the warrant expires worthless. The put warrant gives the right to sell an underlying asset at an agreed price. If the price of the underlying asset is above the agreed price, the put warrant expires worthless. Underlying assets are usually equities or indices but they can also come in the form of any commodity or foreign currency.

The warrant's exercise price determines the price at which the investor has the right to buy (call warrant) or sell (put warrant) the underlying asset. The conversion ratio is the number of warrants needed to buy or sell the underlying asset. The warrant's value is the difference between the exercise price and the value of equities, less costs, if any. The remaining value is divided by the number of warrants needed to buy the equities. If the warrant has value on its exercise date, the investor will receive the equivalent amount either in cash (net value payment) or book entry securities (physical delivery). The most common method is that the writer of the warrant (issuer) pays the net value in cash. Plain vanilla warrants come in two types: European warrants and American warrants. European warrants can be exercised only on the expiry date whereas American warrants can be exercised anytime before or on the stated expiry date. European warrants dominate the warrant market.

The value of warrants is formed in a similar way as that of options; very complicated and complex. The value of warrants is affected, for instance, by the implicit (expected) volatility of the underlying asset, the price of the underlying asset, market interest rate and term to maturity. The warrant's term to maturity is determined at the time of issue. The longer the term to maturity, the higher the value of both call and put warrants. The value of all warrants decreases slightly every day, i.e. the value decreases slightly even if all other changing factors affecting the price remained unchanged. The biggest factor affecting the value of the warrant is the implicit volatility of the underlying asset. Higher volatility increases the warrant price while lower volatility decreases the price.

Turbo warrants differ from plain vanillas in the following respects: i) they have a higher gearing vis-à-vis the underlying asset ii) their price determination differs from plain vanilla warrants (e.g. no need to take account of the implicit volatility) iii) they have a pre-determined knock-out barrier and reaching the barrier terminates the turbo warrant early. Higher gearing and the pre-determined knock-out barrier mean that risks associated with turbo warrants are higher than those associated with plain vanilla warrants.

The value of turbo warrants is based on the difference between the exercise price and the underlying asset (mostly an equity). Since the value of turbo warrants is determined solely on the basis of the real value; only the exercise price of turbo put warrants can be lower than a share price. In turbo call warrants, it is the other way around. Since the stop-loss limit is higher than the exercise price, the turbo warrant would be worthless when the share price is lower than the exercise price. Choosing a higher exercise price for the turbo call warrant adds to gearing. The higher the exercise price, the lower the warrant's price is. Since a one-euro increase in the value of an underlying asset also increases the turbo warrant's value by one euro, the lower turbo warrant price means a higher return in percentage terms. The drawback is that the stop-loss level (knock-out barrier) is closer to the turbo warrant's price. This means a higher risk of reaching the limit and the value performance of the turbo warrant being interrupted.

Risk resulting from the price movement of an underlying asset has been sought to reduce by means of the knock-out barrier. After hitting the knock-out barrier level and the turbo warrant's expiry, the cash settlement amount will be specified. It the knock-out barrier equals the strike price or if the cash settlement amount equals or is lower than the strike price (call turbo) or if the cash settlement amount equals or is higher than the strike price (put turbo), the turbo warrant expires worthless.

The knock-out barrier can also be regarded as a risk, because even a very short-lived fluctuation in the underlying asset price may lead to reaching the knock-out barrier and the early expiration of the turbo warrant. Turbo warrants, like regular warrants, may also expire worthless on their exercise date. The life of turbo warrants is shorter than that of regular warrants.

The warrant issuer's undertaking to make a market in warrants plays an essential role in warrant trading. The issuer may undertake to quote both bid and offer orders. Warrant prospectuses contain the market-making terms and conditions, which may vary considerably by issuer and warrant. The low market-making amount and level and especially the lack of market making affect the product's liquidity. The limited liquidity of warrants, especially in exceptional market conditions, may make it difficult to sell or buy warrants.

It is possible that warrants have no value on their expiry date, leading the investor to lose his/her investment altogether. Call warrants expire with no value if the underlying asset's value is lower than the warrant's exercise price on the expiry date, whereas put warrants expire with no value if the underlying asset's value is higher than the warrant's exercise price on the expiry date. Investors cannot, however, lose more than capital they have invested.

Warrants involve market, credit and currency risks. Market risk pertains to the underlying asset's price performance and credit risk to the issuer's repayment capacity. If the underlying asset is quoted in a currency other than the euro, currency risk must be taken into consideration.

Before investors make their decision to invest in warrants, they must always read carefully the related prospectus, the terms and conditions and the product's principles, details (e.g. knock-out barrier) and associated risks. Warrant prospectuses and other more detailed information on warrants can be found on the website of their issuers.

Mutual funds

Investments in the financial instruments and their combinations described above can be made through mutual funds, in addition to direct investments in these instruments. Mutual funds are owned by their investors in proportion to their unitholdings. Responsible for managing mutual funds, fund management companies pool capital invested by private persons and institutions and invest this capital in a number of various securities that constitute the mutual fund.

According to the classification based on profit distribution, mutual funds are divided into funds which annually distribute dividends and accumulation funds in which profit increases the unit's value. The one and the same fund may have both income and accumulation units. A mutual fund invests assets from the sale of fund units by following the investment strategy stated in its rules.

The fund rules contain objectives and restrictions set for investment. According to the chosen instrument, mutual funds can be classified as equity funds, balanced funds, long-term bond funds, intermediate-term bond funds and short-term bond funds. There are also e.g. commodity funds, convertible bond funds and corporate bond funds. Most mutual funds follow risk diversification principles in their investment policy, but funds deviating from such principles are called non-UCITS funds. In addition to traditional funds that are more flexible than other funds with respect to investment restrictions, these funds include capital protection funds aimed at safeguarding capital invested, as well as hedge funds which use derivative contracts (options and forwards) in their investment operations. Some non-UCITS funds are intended for professional institutional investors only. Funds also differ in their objectives; some aim to track an index passively (index funds) while others seek to produce returns superior to an appropriate benchmark index, based on active management (active funds).

Fund management companies must redeem fund units from investors on demand. Expenses such as management and custody fees, which vary depending on the mutual fund, are charged from the mutual fund's assets and specified in the Key Investor Information Document.

The mutual fund's risk level depends on the fund's investment strategy. Diversifying investments among several instruments independent of one another reduces the fund's overall risk relative to an individual instrument thanks to diversification benefits. In the main, mutual funds remain liquid on a daily basis, but their rules may contain restrictions with respect to the fund's liquidity in the event of exceptional market conditions due, for example, to the best interest of the fund's unitholders or because of the investment policy pursued by the fund. In addition, the redemption of units in non-UCITS funds may be possible only on certain dates, such as once a month or less frequently. Moreover, changes in foreign exchange rates have an effect on the value of funds denominated in a foreign currency.

Funds that have been diversified effectively are not as sensitive to drastic value reductions as direct individual investments in the same asset class. Similarly, the value of diversified funds typically fluctuates much less than the value of individual investments in the same asset class. The annual volatility of funds investing in listed equities typically varies between 12 and 16 percentage points. The volatility of funds investing in bonds with good credit quality varies between 2.5 and 5 percentage points and that of funds investing in bonds with poor credit quality between 6 and 14 percentage points.

The specific characteristics and risks of an individual mutual fund can be found in the fund's Key Investor Information Document. Before investing in a mutual fund, investors should read the content of the Key Investor Information Document, the fund's rules and list of charges and fees.

An Exchange Traded Fund (ETF) is a fund traded in a regulated market (on a stock exchange or an equivalent trading venue) and tracks the performance, for example, of a selected index or another underlying asset. Bid and ask prices change in the same ways as share prices. Trading in ETFs in a regulated market is similar to that in equities. Trading outside regulated markets is also possible. Liquidity is determined, for example, on the basis of the underlying asset.

There are various ETF structures which vary by issuer. Market, credit, currency and counterparty risks are associated with ETF products. The risk level of the products varies by investment strategy and investment vehicles in the same way as that of mutual funds. Market risks are associated with the price performance of the underlying asset, invested capital may fall and in theory it may be lost altogether. It is necessary to take account of currency risks with respect to the underlying asset's currency and the quotation currency. Credit risk associated with certain structures (ETN) pertains to the issuer's repayment capacity. Issuers aim to manage counterparty risks associated with products by setting various collateral requirements. ETF products may also involve a risk associated with client asset custody, especially when the ETF invests its assets in emerging markets and sub-custody arrangements apply to securities in the target country.

Short ETFs are structures that seek a return that corresponds to the inverse of the daily performance of the underlying market or asset.

ETCs

Exchange Traded Commodities (ETCs) are securitised commodities traded in a regulated market (on an exchange or an equivalent trading venue) in the same way as equities and track the price performance of e.g. an underlying commodity or basket of commodities. If an ETC is based on commodity derivatives, the client's total profit is also affected by what are known as rolling profits or losses. Rolling refers to the act of selling a maturing ETC future and replacing with one that has a later maturity date.

ETCs involve market, credit, currency and counterparty risks. Market risks are associated with the price performance of the underlying commodity; invested capital may fall and in theory it may be lost altogether if the price of the underlying commodity or basket of commodities falls. Depending on the investment strategy, the price change may be greater with some ETCs than the price change of the underlying asset. Credit risk pertains to the issuer's default. Issuers aim to manage counterparty risks associated with products by setting various collateral requirements. It is necessary to take account of currency risks with respect to the underlying asset's currency and the quotation currency.

Short ETCs are structures that seek a return that corresponds to the inverse of the daily performance of the underlying market or asset.

Financial services taxes

Investors should pay attention to the fact that buying, owning and selling financial instruments result in tax consequences and they must ensure that they are aware of the appropriate taxation-related information prior to making an investment decision. Anyone who plans to make an investment should turn to a tax expert in order to become informed of tax implications as required by the Finnish tax legislation, or other tax implications, resulting from buying, owning and selling financial instruments. Investors must note that the tax treatment of financial instruments is determined by the client's individual circumstances, which may change in the future.

Definitions

Credit risk

Risk of the issuer failing to repay interest or principal in accordance with the terms and conditions governing the financial instrument's issuance.

Market risk

Market risk refers to risk arising from market-price fluctuations. Market risks comprise interest-rate, currency, equity or other price risks.

Interest rate risk

Interest rate risk results from fluctuating interest rates, i.e. an increase in the interest rate decreases a bond's/note's resale value on the secondary market whereas a fall increases the value.

Currency risk

Currency risk results from exchange-rate fluctuations.

Counterparty risk

Risk of the counterparty's ability to fulfil his obligations. (This may apply e.g. to derivative contracts, fixed-income investments, structured investments and foreign exchange transactions.)

Settlement risk

Risk associated with trading, i.e. a counterparty does not deliver a security or its value in cash as per agreement.

Volatility

The standard deviation of the annualised returns over long-term annual returns.