

ICELANDIC INVESTORS LTD. – SUMMARY OF MARKET TRADING RISKS

This Summary is intended for customers of Icelandic Investors Ltd. (hereinafter "*The company*") who engage in market trading in financial instruments on the basis of Act No. 108/2007 on securities transactions.

This document is intended to provide The company's customers with basic information on the principal risks of investing in financial instruments. The summary does not cover all risk factors that relate to trading in financial instruments. For this reason, this summary should not be regarded as an exhaustive account of the risks that relate to market trading in financial instruments.

The company advises customers not to enter into any trades involving financial instruments unless they are fully aware of the risks involved in such trading and to take account of their financial capacity and experience of trading of this kind. In the event of any doubt, customers should consult expert advisors.

1. General Risk

1.1. Economic risk

The price of financial instruments is generally strongly dependent on economic fluctuations. Economic cycles vary both in duration and scope, and their impact is felt in different ways by different sectors. In making investment decisions close attention needs to be paid to general economic cycles, e.g. between countries and different economies where the prices of financial instruments can fluctuate in line with the economy.

1.2. Inflation risk

Investments need to be assessed in the light of both current inflation and inflation prospects. In making a decision on an investment account must be taken of anticipated real return over a certain period, where inflation is deducted from nominal return. Investors therefore have to assess the real value of their assets with reference to their anticipated real rate of return.

1.3. Government actions (political risk)

A situation may arise where an issuer, even when solvent, cannot repay the principal and interest on a loan at maturity, and even that the loan will fall into complete default, when the issuer is unable to obtain currency as a result of capital controls imposed by government. Government actions can have a destabilising impact on economies and politics.

1.4 Leveraging (gearing) risk

Investments in financial instruments financed by loan capital carry risks for investors. Leveraged investments are much more sensitive to changes in the price of the financial instruments that are bought than investments that are not leveraged. It is common for lenders to call for additional collateral if the market price of the financial instruments posted by an investor as collateral falls. There is a risk in such circumstances that the pledged financial instruments will be sold at their current market value, which may be unfavourable, and this may lead to a loss by an investor on his investments. Also, fluctuations in the price of pledged financial instruments may have a negative impact on the investor's payment capacity.

1.5. Currency Risk

Investments in financial instruments listed in a foreign currency will normally carry currency risk, as the price of individual currencies can fluctuate significantly. If foreign exchange rates movements are unfavourable, this can lead to financial loss by the investor. Economic factors have a significant impact on the value of currencies, and fluctuations can be very substantial. Inflation and interest rate differences between countries have a significant impact.

1.6. Liquidity risk

The value of financial instruments may fall if the market becomes illiquid, in which case an investor may suffer financial loss that can be traced to the illiquidity. An investor may also suffer financial loss if he is unable to sell financial instruments at a specific point in time as a result of illiquidity arising out of the characteristics of the financial instrument itself or business practices in the market in question.

1.7. Subjective risk

The price of a financial instrument in the market is sensitive to what can be called market sentiment, which is shaped by policies, trends and behaviour of market players, news and opinions of influential persons or rumours. Market values can fluctuate significantly as a result of such subjective perceptions, regardless of the performance of the factors underlying the value of financial instruments, e.g. the business operations and performance of listed companies.

2. Specific investment risks

2.1. Stocks

Stocks (equity shares) are certificates representing the rights of a shareholder in a company. Shares may be issued to bearers or registered in the holder's name. Returns on stocks take two forms. On the one hand, returns can take the form of changes in the value or price of the stock or, alternatively, the holders of the stock may anticipate a payment of dividends on their shares. By diversifying stock holdings through investments in a number of different companies it is possible to reduce significantly the risk that arises from individual companies.

The yield on stocks covers the anticipated dividend payments and the rise in value of the stocks. Share certificates are certificates that represent the rights of a shareholder in a company. These rights are financial ownership rights that are decided by law and by the articles of association of The company in question. Share certificates are commercial papers and subject to all normal rules on such papers, including rules on transfers.

2.1.1 Specific risk factors that affect stocks

Investment risk: A shareholder contributes share capital, which makes him one of The company's owners. He can potentially participate in the development of The company and potentially possess a share in its profit or loss. For this reason it is not easy to make accurate predictions regarding the return on an investment of this kind. The company that issued the shares may become bankrupt and the entire sum that was invested may be lost.

Risk resulting from price fluctuations: The value of shares can fluctuate in an unpredictable manner, which increases the risk of loss. Price increases and decreases can alternate in the short term, medium term or long term without any possibility of predicting the duration of the fluctuations. A distinction is drawn between general market risk and the risk relating to The company itself. Both risk factors may impact the price trends of shares.

Dividend risk: Dividends deriving from a share are principally dependent on the profit of The company that issued the shares. If the profit of The company is small, or if The company is operated at a loss, dividends may be reduced or not paid.

2.2. Bonds

A bond is a promissory note to the effect that the issuer of the bond undertakes to pay to the holder of the bond a specified monetary debt at a specified time on the interest terms laid down in the bond. Interest payments may be fixed or variable, and the bond may be issued to the bearer or in the name of the holder.

A bond is an instrument issued under the law of obligations, i.e. the buyer of the bond is a lender and holds a claim against the issuer (debtor).

The principal characteristics of bonds is that their yield is determined by interest payments and their rise in value, as applicable. Bonds are issued for a short term (up to four years), medium term (4-8 years) or long term (over 8 years). The repayment of bonds takes place at an agreed maturity date and interest is dependent on the terms of the loan, with bond interest commonly tied to market rates.

2.2.1. Specific risk factors that affect bonds

Solvency risk: The issuer of the bond could become incapable of paying his obligations under the bond. The factors that can affect the solvency of an issuer include economic trends and domestic trends in the sector in question and in the countries where the issuer operates, changes in the credit rating of the issuer, and the operational risk to which the issuer's business activity is subject. If, for instance, the issuer's cash flow deteriorates, this can have a direct impact on the price of any securities issued by the issuer.

Interest rate risk: Uncertainty regarding future interest rate trends has the effect that the buyer of a fixed-interest bond faces the risk that the value of the bonds will fall if interest rates rise. The longer the duration of the bond and the lower the interest level, the more sensitive the bonds will be to rising market interest rates.

Prepayment risk: Bonds may contain a provision that permits the issuer to repay to the holder of the bond its amount if market interest rates fall. The actual yield on the bond may therefore be less than the anticipated yield.

Risk attached to bonds that are redeemed randomly (lottery bonds): It is difficult to predict the duration of bonds that are randomly redeemed by a lottery. For this reason the estimated yield of the bonds may be subject to unexpected changes.

Risk relating to different types of bonds: Additional risks may attach to some types of bonds, such as floating rate notes and reverse floating rate notes, zero coupon bonds, foreign bonds, convertible bonds, indexed bonds, subordinated bonds etc. As regards bonds of these types, investors should acquaint themselves with their risks by reviewing their prospectuses, and should not buy such bonds until they are confident that they possess an understanding of all the risks that they involve.

2.3. Derivatives

A derivative is a financial instrument whose settlement provisions hinge on changes in the value of the underlying assets of the contract. The underlying asset can be a security, market index, interest rate level, currency, commodity price, or other asset.

2.3.1. Options

An option is a contract which entitles its owner to trade in specific securities. The seller is bound to honour the contract, while the buyer of the option is free to exercise his option pursuant to the contract or not to do so. Options are derivatives that change in value in proportion to the value of the underlying asset. On payment of an option price to the counterparty, i.e. the seller of the option, the buyer of the option acquires the right to buy or sell the underlying asset of the option on the expiration date of the contract, or in a specified period, for a predetermined strike price.

2.3.1.1. Specific risk factors that affect options

Market risk: Options can be traded in a stock exchange or an OTC market. They are subject to the law of supply and demand. Important elements in the pricing of an option are, on the one hand, market liquidity and, on the other hand, the actual or anticipated trend in the value of the underlying asset. A call option contract decreases in price in line with a decline in the price of the underlying asset, while a put option increases in price if the price of the underlying asset falls. The price of an option is not entirely dependent on price fluctuations of the underlying asset. Other factors can play a role, such as the duration of the option or the frequency and extent of any changes in the value of the underlying asset. As a result, the option premium may drop, even if the value of the underlying asset remains unchanged.

Leveraging risk: Because of the effects of leveraging, changes in the premium on an option contract are generally greater than changes in the value of the underlying asset. The owner of an option can therefore profit from large increases in value, but can also sustain substantial loss. The risk involved in buying options increases with the weight of the leveraging.

Risk in option investments: Investments in options are regarded as highly volatile. The potential risk of an option becoming worthless on its expiration date is relatively high. In such an event the investor loses the entire investment, i.e. the price paid for the option as well as premiums. The investor is then faced with three options: to hold the position until the expiration date, to attempt to dispose of the contract prior to the expiration date or, in the case of what is known as an American option, to exercise the option prior to the expiration date. Exercising an option may consist either in payment of the difference between the reference price and the market price or the purchase/delivery of the underlying asset. If the object of the option contract is a futures contract, its exercise consists in taking a position in accordance with a futures contract, which means taking on certain obligations regarding security margins.

Risk in option sales: Selling options will normally involve higher risk than buying them. Although the price obtained for an option is fixed, there is theoretically no limit to the loss that the seller could sustain. If the market price of an underlying asset changes unfavourably, the seller of the option must change his margin to maintain his position. If the sold option is an American option, the seller could even have to fulfil the contract at any time until it expires. If the object of the option is a futures contract the seller takes a position in the futures market and will have to fulfil his obligations regarding margin. The seller's risk can be reduced by holding a position regarding the underlying asset (a financial instrument, index or other object) which corresponds to the sold option.

2.3.2. Forward contracts

Forward contracts are contracts where the parties enter into a business contract to be fulfilled at a specified date in the future. A forward contract provides for an obligation of the contracting parties to buy or sell a certain asset at a certain price at a predetermined time. Also, forward contracts are often settled in cash. Forward contracts can be risky, especially as an investor often does not need to contribute more than a part of the investment amount. Leverage of this kind means that a small

movement in the price of the underlying asset can have a proportionally significant impact on the value of the contract and increase or reduce the investor's principal.

Investments in forward contracts are subject to certain terms, e.g. as regards margin and margin calls, which investors are encouraged to examine prior to any investment.

2.3.2.1. Risk factors specific to forward contracts

Changes in the value of the contract or underlying asset: Notwithstanding any increase in the price of a contract or underlying asset, a seller is required, under a forward contract, to deliver the underlying asset at the price initially negotiated, which may be lower than the current price. For the seller, the risk corresponds to the difference between the price negotiated in the contract and the market price on the settlement date. Since the market value can, theoretically, rise endlessly, the potential loss of the seller is unlimited and can vastly exceed the margin. If the value of the contract or underlying asset falls, the buyer must, under a forward contract, nevertheless take delivery of the asset at the price agreed in the contract, which may be significantly higher than the current market value. For the seller, the risk therefore corresponds to the difference between the price negotiated in the contract and the market price on the date of delivery. This means that the maximum loss of the buyer is the originally agreed price. However, the loss may significantly exceed the margin. Trades are marked to market on a regular basis. The investor needs to have steady access to adequate collateral. If the collateral becomes inadequate in the course of the term of a forward contract additional collateral will be required from the investor at short notice. If the investor fails to respond the trade will be settled prior to the end of the contract period.

Difficult or impossible to sell: In order to prevent excessive price fluctuations, a stock exchange may set limits for certain contracts. Investors should bear in mind that it may be extremely difficult, if not actually impossible for some time, to sell the contract in such circumstances and therefore the investor should request information on any such limits. It will not always be possible (depending upon the market and the terms of the trade) to sell contracts at any given time to avoid risk or to reduce the risk on current trades. If it is possible to trade for the purpose of stopping losses, this may only be possible during office hours. Such trades will not allow losses to be limited to a specified amount, but will be executed as soon as the amount limit is reached.

Buying and selling short: Selling an asset without owning it at the close of the contract (short selling) involves a risk that the seller may need to acquire the underlying asset in an unfavourable market in order to be able to fulfil the contract on settlement and deliver the underlying asset.

Special risk arising from trading in OTC derivatives: The market for listed products is generally liquid and transparent. As a result, contracts can generally be sold off. However, there is not market for OTC instruments. Release from a contract is therefore possible only with the agreement of the counterparty (closing).

2.3.3. Swaps

Swaps are contracts whereby contracting parties agree to make regular payments to each other, e.g. on the basis of fixed or variable interest (interest rate swaps) or to exchange certain assets, e.g. currencies (currency swaps).

Swaps are OTC contracts and may be standardised or negotiated separately between a buyer and a seller.

2.3.3.1. Specific risk factors that affect swaps

Interest rate risk: Uncertainty regarding future interest rate trends has the effect that the buyer of a fixed-interest bond faces the risk that the value of the swap will fall if interest rates rise. The longer the duration of the bond and the lower the interest level, the more sensitive the swaps will be to rising market interest rates. Inflation risk applies to swaps that are linked to inflation rates. Exchange rate risk: Exchange rate risk applies to currency swaps. Since exchange rates are subject to fluctuations, investment in financial instruments in foreign currencies generally involves exchange rate risk. The substantive factors affecting currency exchange rates include the level of inflation in the country in question, the spread between domestic interest rates and interest rates in other countries, assessment of economic trends, the global political situation and the security of the investments in question.

2.4. Funds for collective investment

A collective investment fund operated by a management company collects contributions from a specific number of investors for re-investment in accordance with basic principles of risk diversification, thereby enabling its shareholders, or partners, to benefit from the returns on their investments. No shares are issued to shareholders in these funds; instead, contributors are issued unit certificates corresponding to the amount that they contributed to the fund.

2.4.1. Characteristics of funds for collective investment

Open-end funds: Their total share capital is not determined in advance, which means that the number of units and participants is not decided. The fund can issue further units, depending on demand, and can also redeem units. The fund is required to redeem units based on a specified net asset value and in accordance with contract terms. Closed-end funds: The total share capital of such funds is unchanged unless action is taken to change it. Unlike open-end funds there is no obligation to redeem units in a closed-end fund. Trading in units is permitted only with third parties or, in some cases, in a stock exchange.

2.4.2. Specific risk factors of funds for collective investment

Management risk: The returns on units in funds for collective investment depend, among other things, on the competence and decision-making of the fund's management, so wrong decision-making can lead to losses. Risk of fall in the price of units: Funds for collective investment entail a risk of drops in price, with the drop reflecting a fall in the price of the securities or currencies forming the fund's asset portfolio. The greater the diversity in the fund's assets, the less the risk of loss. It is therefore important to pay attention to the general and specific risk factors to which the financial instruments and currencies forming the fund are exposed to. Investors can obtain information on funds, for example, by reading their prospectuses.

2.5. Alternative investments and offshore funds

An "alternative investment" is an investment in domestic or foreign collective investment undertakings pursuing a strategy which is completely different from strategies on traditional investments in stocks and bonds. Hedge funds are the most common form of alternative investments. Their investment strategy often consists in short selling, leverage, and derivatives. Investments in funds that invest in unlisted companies also fall into this category (venture capital, hedged equity). The concept of "offshore funds" refers to funds that are located in offshore financial centres, such as the Bahamas, Bermuda, the Cayman Islands and Panama.

2.5.1. Specific risk factors

Leverage: In this area, investment may involve a very high degree of risk. For instance, the effect of leveraging may have the consequence that a minor change in the market may result in large profits or large losses. In some cases the entire investment may be lost.

Shortage of information: Very often investors in alternative investments may have very little information to work with. The investment strategy pursued by hedge funds, which may be extremely complex, is often opaque for investors. Changes in strategy, which may entail significantly increased risk, are often unclear to investors, who may critically underestimate the risk.

Potential illiquidity: Alternative investments may be less liquid than other investments. Sometimes the liquidity is extremely limited. The redemption of shares in hedge funds may only be possible on a monthly, quarterly or yearly basis. As regards investments in funds that buy unlisted equity shares the funds invested may be locked in for up to 10 years or more.

Minimal regulation: A significant number of funds in this field have their headquarters in offshore financial markets (offshore funds). It is common for such offshore stations to exercise minimal regulation of the funds. As a consequence, difficulties or delays of various kinds may arise in executing instructions to buy or sell and the banks involved cannot be held liable. There is no systemic assurance that investors' rights will not be violated.

An investor who is interested in alternative investments, in particular offshore funds, must be conscious of these risk factors. Before entering into an investment, the investment product itself must be carefully scrutinised.