

Equities

General information

An **equity** (also called a share, stock) is a security that represents a proportional share in the equity capital of a company and provides its owner – the shareholder – with certain rights. For example, if a shareholder has ten equities and the total number of the equities of the company is 1,000, the shareholder has the right to the company's equities representing 1% of the company's equity capital. A shareholder usually has the right to participate in the company's general shareholders meeting. In case the general meeting decides to distribute the profit as dividends, the shareholder shall usually have the right to 1% of the profit to be distributed. The general meeting may also decide not to pay dividends.

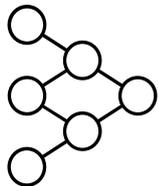
There are two main types of equities:

Common stock – mostly a regular stock with voting rights. A stockholder earns profit from the increase in the stock price and from the dividends paid by the company. The majority of the stocks are freely exchange-traded on regulated markets.

Preferred stock – has limited or no voting rights at the general meeting of stockholders. The owner of a preferred stock usually do not have voting rights to participate in the management of a company; however, preferred stock gives preferential rights compared to common stock at the distribution of dividends and division of the assets remaining at the dissolution of the public limited company. Rights/benefits of preferred stock are usually described in company's bylaws or shares' prospectus.

In addition to the above, equities are classified based on the company's size, style and sector as well (growth stocks, income stocks, cyclical stocks, blue-chip stocks, penny stocks, large-cap stocks, small-cap stocks).

A shareholder shall not be personally liable for the obligations of the public limited company, but risks losing the entire money invested in the equities of company.



Complexity and classification

Equities can be classified into non-complex and complex financial instruments.

Non-complex equities

Equities listed on a regulated markets (the list of regulated markets prepared by the European Commission is available at <http://registers.esma.europa.eu/publication>) or on an equivalent market of a third country outside the European Economic Area (such as NASDAQ, NYSE, AMEX, Tokyo Stock Exchange, Australian Securities Exchange, Toronto Stock Exchange) are treated as non-complex instruments (except equities embed a derivative).

Complex equities

All equities that are **not listed** on mentioned regulated markets or non-tradable or Over-The-Counter (OTC) equities are treated as complex instruments. Such equities are usually issued by smaller or new firms that cannot or do not wish to comply with the listing requirements, such as market capitalization thresholds, or a willingness to pay the listing fees of an official exchange. Also, unlisted equities compared to listed may be of lower quality and present a greater risk to investors.

Equities with **special features** are also considered as complex instruments as due to their specific features it may be difficult for the customer to understand the risk associated with the respective financial instrument.

Some other equities related instruments that are considered as complex:

Real estate investment trust (REIT)

REIT is a company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors. This makes it possible for individual investors to earn dividends from real estate investments without having to buy, manage, or finance any properties themselves.

Royalty trust

Royalty trust is a type of corporation, mostly in the United States or Canada, usually involved in oil and gas production or mining. Royalty trusts lets investors receive income generated by energy-producing companies. Investors, who are known as unitholders, receive monthly cash distributions based on the royalties paid by the companies during the prior month. The cash flows from Royalty trusts are subject to the volatile commodities prices and unsteady production levels – uncertainties that present a certain degree of risk for investors.

Limited partnership

Limited partnership is a partnership made up of two or more partners. The general partner oversees and runs the business while limited partners do not partake in managing the business. However, the general partner has unlimited liability for the debt, and any limited partners have limited liability up to the amount of their investment.

Depository receipts (DRs)

A depository receipt is a negotiable certificate issued by a bank representing shares in a foreign company traded on a local stock exchange. The depository receipt gives investors the opportunity to hold shares in the equity of foreign countries and gives them an alternative to trading on an international market. DRs are usually denominated in U.S. dollars, but can also be denominated in euros.

- ADRs - In the United States, investors can gain access to foreign stocks via American depository receipts (ADRs). ADRs are issued only by U.S. banks for foreign stocks and they are traded on a U.S. exchange.
- GDRs - Global depository receipts (GDRs) work the same way as an ADRs only in reverse. A U.S. based company that wants its stock to be listed on some, for example, some European stock exchange can accomplish this via a GDR.

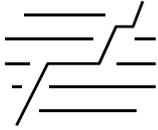


Value

The benefits of investing in shares are potential capital gains from owning an asset that can grow in value over time and potential income from dividends.

The value of an equity reflects the value of a company, but not always – equities might be also over- or undervalued. There are many different valuation methods, such as earnings-, revenue- and cash-flow-based valuations (e.g. Price per earning (PE), Earning per share (EPS), Discounted cash flow (DCF)).

Historically the movements in the price of equities even during shorter periods of time have been rather remarkable compared to other assets. Equities prices may change in a very short amount of time and unexpectedly due to changes in supply or demand in the market. This is called **stock volatility**. Over a long period of time equities usually have performed better than some other assets like bonds. The more the price fluctuates, the higher the volatility.



Risks

To better perceive the risks, it is important at the classification of stocks to proceed from the size and development stage of the company. The smaller the company, the greater the number of risks the owner of the respective stock has to consider. The same applies to the development stage of the company: when a company is in the growth stage, every piece of news affecting its growth potential has relatively larger effect on the stock.

Stock's past performance is not a reliable indicator of future performance. An investor should also take into account the possibility that even in case of a long-term investment, yield may turn out to be insufficient and thus hinder the achievement of personal investment goals.

Market risk (also called systematic risk) is connected with fluctuations of stock prices and affects shareholders if the entire market slumps and therefore diversifying is much more complicated. The opposite of market risk is **unsystematic risk** that is firm specific and diversifiable.

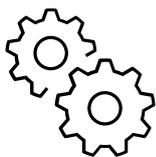
Likewise to other assets, equities also bear **currency risk** – and not only equities that are denominated in more exotic currencies. The currencies of large developed countries may also move in boundaries large enough with regard to each other to create a situation where the investor's main currency plays a large role in the formation of profit or loss.

Issuer risk refers to the possibility that the value of the instrument will fall in connection with the issuer's poor financial indicators, economic difficulties or other circumstances resulting from the issuer's activities.

For **liquidity risk**, which is partly connected with market risk, investors may find themselves in a situation where the demand has dropped or equity was delisted from stock exchange and selling an equity at the desired time and price is complicated or even impossible. Liquidity risk is significantly higher among unlisted equities, DRs and other equities with special features.

Currency risk may emerge when investor invests in a bond denominated in other than investor's main currency. For investors it is less risky to invest in their main currency, unless they have sufficient knowledge of currency risks.

Counterparty risk – it is the risk investor should consider when investing in unlisted equities. This can include one side reneging on the contract. Also, since there is no formal exchange or clearing mechanism, it is up to the reputation of dealers and/or counterparties to fulfill all obligations of the transactions, including delivery of securities and payment of any money required.



Taxation and fees applied

Taxes can be applied for activity of investing. An investment account allows Latvian tax residents to postpone the taxation of return on investments. The tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Clients should independently evaluate all circumstances related to taxes on investments or their return.

Fees applied:

- Brokerage fee
- Settlement fee
- Safekeeping fee

More detailed information about the fees is provided in SEB's price list.