The following information shall be viewed in the context of the information provided on investing in general.

A simple bond functions as a loan to the one who issued the bond. As an investor, you receive interest in return for providing capital.
- Simple bonds are typically issued by a government, a mortgage credit institution or a company.
- Government and corporate bonds are usually not repaid until at maturity. This is also called a bullet loan.
- Mortgage bonds are often amortising loans, meaning they are repaid in instalments, so you gradually receive parts of your investment back along with interest accrued.
- Simple bonds are traded on regulated stock exchanges in the EU/EEA or in similar regulated markets, such as the New York Stock Exchange.

1. Target group

Bonds may be relevant for you, if you want to make a relatively safe investment and a stable return.
- Low risk can be found in e.g. government bonds
- Higher risk can be found in e.g. corporate bonds
- Returns are generally lower than those on shares, as the risk is also lower.
- Bonds can be used both for short and long investment horizons
- Bonds can be used to reduce the risk in a portfolio of shares

2. Pros and cons

There are both pros and cons when it comes to investing in bonds, which you should consider.

Pros	Cons
Relatively safe investment	Returns are often lower than those on shares
Known maturity and interest payments	Prices may fall when market rates rise
Good supplement to reduce your portfolio risk	Corporate bonds, for example, may involve higher risk

3. Returns

Returns on simple bonds primarily derive from:
- Interest payments
- Price developments on the bond
- Exchange rate changes, for foreign bonds

The price of the bond fluctuates with market rates:
- If rates fall, the price goes up
- If rates rise, the price goes down

Fixed-rate bonds with long maturities are particularly sensitive to interest rate changes. Credit ratings also play a role: if the issuer is assigned a lower credit rating, the price will fall - especially for corporate bonds.

4. Risk

Risk diversification: Risk is reduced by investing in multiple issuers and maturities.

Although bonds are more stable than shares, there are several types of risk:
- **Interest rate risk:** Prices fall when interest rates rise and increase when interest rates fall. The longer the maturity, the more the price will fluctuate. Fixed-rate bonds fluctuate more than variable-rate bonds.
- **Maturity risk:** The risk is small, if your investment horizon matches the bonds maturity. In the short term, long-term bonds entail a higher risk, as you may need to sell it before it matures.
- **Credit risk:** A low credit rating equals greater risk. If the issuers credit rating is downgraded, the price of the bond will fall. If the issuer goes bankrupt, the bond will become worthless. The highest risk is associated with corporate bonds.
- **Exchange rate risk:** The value of bonds denominated in foreign currency is affected by the relevant exchange rate.
- **Liquidity risk:** Government bonds are easy to trade. Mortgage bonds may be more difficult to sell close to maturity.
- **Sustainability risk:** Environmental, social or governance factors may impact the value.

5. Special circumstances

At maturity, the bond is normally repaid at par. If you sell before maturity, the price may be either higher or lower. The closer to the maturity date, the closer the price will be to par. For amortising loans, typically mortgage bonds, you gradually receive small portions of your investment back. For these loans, the borrower can often repay the prior to maturity.

Some types of bonds have special characteristics.
- **Mortgage bonds:** Issued by Danish mortgage credit institutions, they typically have a high credit rating, which is close to that of government bonds.
- **Callable bonds:** The borrower can repay the loan at par, even if the price is higher. As compensation, you normally receive a slightly higher interest.
- **Duration:** Indicates how sensitive the bond is to interest rate changes. Longer maturities typically mean higher duration.
- **Fixed or variable interest rate:** Fixed interest provides predictability, while variable interest tracks market developments.
- **Rating:** Indicates how likely it is that the issuer can pay interest as well as repay the loan.

6. Useful information

Comparison to shares
- With bonds, you lend money and receive interest and, possibly, coupon payments
- With shares, you own a stake in a company
- Bonds generally provide lower risk and more stable returns
- In case of bankruptcy, bondholders are prioritised over shareholders
- Bonds have a fixed plan for interest and coupon payments, unlike shares

Taxation
Tax rules differ based on how you make your investment - e.g. as a private individual, via pension savings or other structures.

We can only offer general advice on taxation. For specific tax advice, we recommend that you consult an auditor.

Costs and expenses
There are costs associated with buying and selling bonds, including:
- **Brokerage fee:** Paid to the bank in connection with buying/selling
- **Currency fee:** For the purchase of foreign bonds
- **Custody fee:** For safe-keeping your bonds

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Whether you execute deals yourself or via a relationship manager, you will be properly informed about the total costs and expenses in advance.

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