A bond is a financial instrument and basically a loan to the issuer of the bond. In return for the loan, the issuer pays interest (a fixed or floating rate) to the purchaser of the bond. The Danish state can borrow money by issuing government bonds. The state will receive the money paid by investors who buy government bonds.

The bond will mature at a pre-determined date, typically at the price of 100 (at par). Government bonds are typically not repaid during the duration of the bonds, but are instead redeemed in full at the date of maturity.

"Government bonds, DKK and EUR" include bonds issued by the state or a state-guaranteed company as well as KommuneKredit (a special-purpose credit institution that provides funding for municipalities and regions across Denmark). Bonds issued by economically stable sovereign states, such as the Danish state, are generally very safe investments, as the probability of default is at a minimum. Countries with unstable economies, political situations, etc. will generally have a lower credit rating, and so investment in government bonds from these countries will entail a higher risk of incurring losses.

1. Opportunities offered by government bonds

Government bonds in DKK and EUR will be relevant for investors who wish to make fairly safe investments while obtaining a stable return. The relatively low risk of investing in secure government bonds is reflected in a lower expected return, among other things. There are government bonds for investors with either a short or a long time horizon.

2. Pros and cons

Pros	Cons
Investment in government bonds is fairly safe.	The return is typically lower than the return on stocks.
You will receive interest on an on-going basis.	Periods of negative return/interest.
Government bonds are generally liquid (easily converted into cash), and there is often a well-functioning market with prices quoted daily.	Not all EU countries have a high credit rating.

3. Return

The total return depends on both the price movements during the investment period and the interest rate (coupon) on your bonds:

- Bond prices fluctuate concurrently with changes in the interest-rate level. This especially applies for fixed-rate bonds with a long duration. The price will rise when the interest rate falls, and the price will fall when the interest rate rises. The price of the bond will be affected by supply and demand and by investors' expectations for the interest rate development and the issuing state.
- There are bonds with a fixed rate of interest, and hence a fixed interest payment, and bonds on which the interest rate is floating. If you purchase a bond with a fixed coupon rate, you can expect fixed interest payments. The bond price may vary over time and influence your total return, if you sell the bond before it matures.

Benchmarks are typically used to measure whether a bond performance is satisfactory, by comparing the return on a bond with the return on a benchmark. A benchmark is a reference portfolio containing bonds which may be categorised by e.g. bond type, rating or maturity. When using benchmarks (e.g. interest rate benchmarks) in connection with government bonds, you must be aware of the risk that these benchmarks are, or may be, subject to national, international or other initiatives that may cause the benchmark to be calculated differently than it used to or may cease to exist. Please see the banks website for fallback plans in connection with benchmarks.

4. About risk

Various risk factors must be considered when investing in government bonds:

- Market risk: Most government bonds are issued with a fixed coupon. The price of a fixed-rate bond changes, as the interest rate changes. As interest rates go up, the price of fixed-rate bonds go down. Vice versa, as interest rates go down, the price of fixed-rate bonds go up.

  At a certain interest rate increase, the price of a long bond will fall more compared to an identical interest rate increase on a bond with short maturity. Consequently, price fluctuations are typically larger for bonds with a long duration compared to bonds with a short duration.

  The price of bonds is steered by supply and demand, hereby reflecting e.g. investors' expectations to interest rate developments as well as to the issuing states ability to redeem the bonds to the bondholders at maturity.
- Credit risk: A government bond may become worthless, if the issuing state goes bankrupt, whereby it will not be able to repay the bond loan. The price may change if there is a change in the creditworthiness of the issuer of your bond, which for most bonds is expressed through a rating.

  A poor rating typically means a higher risk of default. Ratings are issued by credit rating agencies such as Moodys, S&P and Fitch, which apply different scales ranging from the best to the poorest rating. You should therefore always consider the rating of a bond - all types of bonds. There is typically a correlation between the credit rating of the issuer the risk, and the expected return. The lower the credit rating, the higher the risk and the higher the potential reward.
- Currency risk: If you buy a bond denominated in another currency (for instance EUR), you assume an exchange-rate risk. If the exchange rate of the Euro falls, the value of your bonds, as measured in Danish kroner, will fall.
- Liquidity risk: Moreover, the liquidity of bonds varies quite a lot. Generally, government bonds are liquid, but there may also be bond series that are not liquid, meaning it may be difficult to sell the bond when the investor wants to do so.

  The parameters that affect the liquidity of a bond series include: The size of the issue and credit rating of the issuer, the demand for the bond, whether the bond is being traded at a regulated market (e.g. Nasdaq OMX, Copenhagen), the interest-rate level and market uncertainty.
- Sustainability risk: Sustainability risk means an environmental, social or corporate governance event or condition that, if it occurs, may cause an actual or potential significant negative impact on the value of an investment.

  Environmental disasters that impact the bond issuers actions, the bond issuers breach of labour rights and managerial neglect are examples of events or circumstances that have a potential negative impact on the value of a bond.

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5. What you should know before trading

Comparing bonds and stocks

Investment in bonds will typically entail a lower risk than investment in shares. When investing in a bond, you lend money to the issuer of the bond, which may be a company, a mortgage credit institution or a government.

Conversely, when buying a stock, you buy a stake in a company. For a bond, there is a fixed plan in terms of interest and instalments on the loan. When buying a share, you are basically not guaranteed any return. If a company goes bankrupt (defaults), bondholders will be first in line to get their part of what is left of the company, while shareholders will be last in line.

Tax

We offer general advice on tax issues. The tax rules differ depending on whether you trade as a private individual, as a personally owned enterprise, as a company or if you invest your retirement money.

If you wish to learn about the specific importance of the tax rules for you, we recommend that you consult an accountant.

Expenses

You will be informed about the expenses associated prior to making an investment in a bond:

- There are one-off costs associated with buying and selling bonds (brokerage fee). The brokerage fee is calculated as a percentage of the bond price of your bond order.
- When trading foreign bonds, a currency exchange fee will also be charged. In connection with certain foreign bonds, a stock exchange fee or turnover tax may be charged.
- In addition to trading costs, there are ongoing charges for the safekeeping of bonds in a custody account.

The relevant costs are stated on the Banks website.

Whether you trade via self-service systems or an adviser, you will always be informed of the expected one-off costs and on-going charges associated with a specific transaction.

Recommendation

We recommend that you contact your adviser if you have any questions in relation to the above information - or if you need any points clarified.

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