What is a structured bond?

A structured bond is a financial instrument and is relevant for investors wanting access to markets and investment strategies typically used by much larger investors.

Formally (legally) a structured bond is a bond, i.e. a claim on the issuer. Financially, a structured bond is comprised of a bond component and one or more other financial instruments. Structured bonds come in different varieties of which some have full principal protection, some have partial/conditional principal protection and some have no principal protection at all. If there is full principal protection, the structured bond is typically comprised of a bond without coupon payments but which matures at par coupled with financial instruments that may yield a potential return for the investment. If there is no principal protection, the other financial instruments may lead to losses - potentially of the entire amount invested.

Typically, the conventional bond return is replaced by the return opportunities from the other financial instruments. In addition, the costs incurred by the issuer of the structured bond to structure the product is included in the price of the product. Structured bonds offer an opportunity to select advanced investment strategies and spread the risk to investment groups for which there is otherwise no access unless you are a large investor. The product may also offer other return profiles than traditional investments.

Opportunities offered by structured bonds without principal protection

The return of the bond is specified as a certain strategy, which may be to track the performance of an equity index for the specified period. Advanced strategies can be designed where the return can be calculated in many different ways and on the basis of various underlying instruments like exchange rates, equities, equity indices and commodities. Since this is a claim on the issuer, there is a risk of a loss in connection with deterioration of the issuer’s ability to pay and any default.

Opportunities offered by structured bonds with full principal protection

Offers opportunity to have a share of the potential return on various underlying instruments like exchange rates, equities, equity indices and commodities. Your loss is limited at expiry, as your bond matures at par while only the embedded financial instruments risk not yielding any return. You will therefore not sustain a loss if the underlying instruments perform unfavourably. However, you may lose any premium. Since this is a claim on the issuer, there is a risk of a loss in connection with deterioration of the issuer’s ability to pay and any default.
Pros and cons

### STRUCTURED BONDS WITHOUT PRINCIPAL PROTECTION

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**What happens in practice?**

You must have the full investment amount at your disposal in your account to invest in structured bonds. Your maximum loss is limited to the amount invested.

Structured bonds are traded at Jyske Bank as one product which cannot be separated into its individual components - and nor can these individual components be traded separately.

A structured bond without principal protection is an advanced bond yielding a return determined on the basis of a predefined strategy, which will appear from the Prospectus for the product. The bond is issued by a bank or an issuer of structured bonds and the costs of structuring the bond are typically included in the bond.

For a structured bond with principal protection the product will consist of a conventional bond without
coupon payments and embedded financial instruments whose return is determined on the basis of a predefined strategy, which will appear from the prospectus for the product. The embedded financial instruments will not overall create a loss even if the underlying assets develop adversely. However, you may still lose any premium. Moreover, you may lose the full or large parts of the amount invested if the issuer cannot live up to its payment obligations. You may also sustain a loss if you sell before expiry. The price of the embedded financial instruments greatly influences the product’s return potential and features in other respects, for instance the product’s participation rate which determines how large a share of the return on the underlying assets the investor may ultimately obtain. A higher participation rate means a higher return. But a high participation rate also means a lower price on the embedded financial instruments, which express that the probability of return is lower.

Structured products often have a shorter term than bonds in the conventional bond market and a longer term than the market for the embedded financial instruments and therefore offer a unique composition of return.

If you want to sell a structured bond before expiry, you can often sell it back to the issuer under normal market conditions.

**Return**

The return on a structured bond with principal protection or the return on a structured bond without principal protection can be specified in every possible way. The return can be calculated on the basis of many different instruments and the return calculation can also be structured in many different ways. The return on the structured bond is to a high degree determined by the development of the embedded financial instruments. In some strategies, the return will fluctuate more than the underlying assets while it will be the opposite for other structured bonds.

If the return for the underlying asset in a structured bond with principal protection is positive, a percentage return is obtained. This can be calculated as:

\[
\text{Return} = \text{Principal} \times (1 + \% \text{ Participation rate} \times \% \text{ of return on underlying asset})
\]

This gives an overall positive return if it exceeds the original price paid for the product including costs for setting up the product. If the embedded financial instruments are worthless at expiry, you will as a minimum receive the principal and the loss is therefore limited.

The return for a structured bond without principal protection is positive if the value of the bond, which is determined on the basis of the return strategy, is higher than the original price paid for the product including costs for setting up the product. If the return strategy has developed adversely, there is a risk of a loss, depending on the return strategy.

**About risk**

A structured bond with principal protection has an asymmetric risk profile. For you as a buyer, the calculated return on the embedded financial instruments at expiry is zero or positive. If this is zero, you will alone obtain repayment of the bond’s principal.

For a structured bond without principal protection, there is a risk of a large loss if the calculated return is very negative.

Since structured bonds are not traded on a regulated market, they are very illiquid, and you may therefore risk large costs if you sell the product before the expiry date.

If the issuer goes bankrupt, you may lose the entire or part of your investment, also for structured bonds with principal protection. The issuer will typically be the bank selling the bond to you or a business partner of the bank. The prospectus will state the issuer of the bond.
If you invest in a structured bond with underlying instruments in another currency or in a structured bond denominated in another currency than your base currency, you assume a currency risk.

When using benchmarks (e.g. interest rate benchmarks) in structured bonds, you must be aware of the risk that these benchmarks are or can be subject to national, international or other initiatives, which may mean that the composition of the benchmark is changed or that the benchmark completely disappears.

Further information is available at: jyskebank.dk/omjyskebank/aftaler/fallbackplans.

According to the rules on risk classification of investment products, structured products are categorised as red investments, which means from the wording of the rules “that there is a risk of losing more than the invested amount, or that the product is difficult to grasp”.

Read more about the risk classification of investment products at: jyskebank.dk/investeringsinfo.

We recommend that you seek advice from professional advisers about any accounting and tax consequences before you buy a structured bond.

**Tax**

We give advice on tax issues in connection with specific transactions. However, 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 retirement money. If you wish to learn about the specific importance of the tax rules for you, we recommend that you consult your accountant.

**What you should know before trading**

We recommend that your investment profile is reviewed before you engage in transactions. Your relationship manager can help you with that. We also recommend that you contact your relationship manager if you have any questions in relation to anything described in this fact sheet, or if, generally, you would like to have some points clarified.

Structured bonds are subject to the PRIIPs regulation applying to packaged investment products for retail clients. You must therefore receive a standardised document with key investor information (prepared by the product developer) before you are bound by an agreement to buy the product.