Danske Bank

Structured products with high capital protection

Below you will find information about the characteristics of structured products with high capital protection, including information about return, risk and your responsibility as an investor.

General characteristics

STRUCTURED PRODUCTS WITH HIGH CAPITAL PROTECTION

The typical products within this category are structured bonds/notes with a capital protection of more than 90% of the subscription price of the product. A structured product is typically a mix of a corporate bond and an embedded derivative or derivatives that give you an exposure towards other investments, e.g. the development in an equity index or a single equity. Compared to more simple and traditional products you should consider that this category of products has:

- A complex composition of both an issuer risk on a bond and an element of investment risk
- A return that is linked to the development within other asset classes, e.g. equities and commodities
- A return that consists of more components – this could be interest and capital gains or losses
- Bonds that will have a level of capital protection, e.g. bonds that will mature at 90% of the subscription price
- A capital protection on the products that is only as strong as the issuer – if the issuer is unable to repay, the capital protection is of no value
- Poorer liquidity than traditional bonds
- Special terms could apply, e.g. relating to the maturity of the bond

RETURN

When investing in a structured product, you will often benefit from a level of expected return in combination with a full or partial capital protection. The return on a structured product is primarily based on underlying assets such as, for example, equities, currencies, credits or commodities.

Even though the issuer repays the principal at maturity, the bond may experience high volatility during its life cycle if the issuer experiences financial difficulties, or the market is struck by, for example, a financial crisis. This will result in volatility in the value of the product.

RISK

The products within this category are affected by the usual overall factors affecting traditional bonds:

- The market rate of interest increases – this leads to a decrease in the bond price (interest rate risk)
- The issuer is unable to pay interest/the principal (credit/default risk)
- The currency in which the bond is denominated decreases relative to the reference currency of the portfolio – this leads to a decrease in the bond value (currency risk)

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In addition to this, structured bonds will be affected by the underlying derivatives that are an essential component of the products. The products can have exposure to other asset classes than regular bonds, e.g. equities or commodities. The value of the products will be affected fully or partially by the development of the underlying assets.

Extraordinary terms and conditions
In line with their prospectuses, some products may change repayment terms during the term to maturity. This could result in either a longer or a shorter term to maturity than initially indicated. Certain bond issues can be fully or partially written down or converted into equities if the company runs into financial difficulties. This will change the characteristics of your product.

LIQUIDITY RISK

Most of the products within this category have a poorer liquidity in the market than traditional bonds. However, you can expect that the issuer of the product will quote prices that make it possible to sell back the product. Nevertheless, in certain periods, e.g. under a financial crisis, you are at risk of not having access to sell the products.

PRODUCT DOCUMENTATION

It is important that you, as an investor, seek thorough information about the characteristics of the products.

For products within this category, there will be additional product documentation available, e.g. the Key Investor Document, brochures, fact sheets, prospectuses etc. It is very important to request these documents and discuss the content with your adviser.

YOUR RESPONSIBILITY AS AN INVESTOR

To which extent structured bonds/notes are suitable for your portfolio will depend on your attitude to risk and the investment horizon in your investment profile. If there are any doubts as to whether a product is appropriate for your portfolio, you should seek additional information and advice or avoid investing in the product.