Structured bonds

Brief description

Structured bonds are a debt financial instrument that typically consists of one or more bonds and one or more derivative financial instruments. The derivative financial instrument affects the investment risks associated with the relevant bond, creating the opportunity for the investor to profit from the price fluctuations of some other, often unrelated financial instrument or asset. Consequently, the value of a structured bond depends on both the above-mentioned components, i.e., the bond and the derivative financial instrument. Typically, structured bonds are issued by financial institutions, to provide their customers with the opportunity to diversify their investment portfolios as well as to implement specific investment ideas.

Structured bonds are also known as structured notes. After the primary issuance thereof, a process similar to the bond issuance process takes place. Investors are provided with the prospectus and marketing materials and a limited term for subscribing for acquisition of structured bonds is set. The parameters of the bond may change within the defined subscription term. Typically, customers are notified of the final parameters at the end of the subscription period. Customers can get all or a part of the bonds (if too many investors subscribe to the issued bonds), to which they have subscribed.

Normally, there is no guaranteed interest on structured bonds. The interest the investor would have earned from a simple bond with a similar credit quality is used to buy a set of derivative instruments, providing the investor with the opportunity to make profit from the favourable price movements of particular assets. The price of a derivative can move in a wider range than the price of underlying asset, i.e., small movements in the price of the asset may result in a significant movement in the price of the derivative. The issuing financial institution uses its knowledge about the market and buying power in order to buy these derivatives on terms that are advantageous to the investor.

The terms and conditions of structured bonds may differ; investors are therefore advised to familiarise themselves with the terms and conditions of the relevant bond before subscribing thereto.

Key risks

The risks related to structured bonds mainly arise from their underlying instruments (typically bonds and derivatives). Obvious risks are the bond issuer's risk as well as the investment idea the bond is based on. Investment decisions are usually made based on forecasts about the future asset values. The actual outcome may differ from the expected outcome, which will influence the realized return on the structured bond.

Changes in the value. "Structured bonds" is a general term for a wide range of structures. Some of these structures offer guarantees in regard of the invested amount; however, not in the case of high-risk structured bonds. The latter may offer some protection of the amount of the initial investment only subject to meeting certain conditions.

A structured bond may be based on the price performance of the stock of a particular company. Normally, the price of the stock is related to the financial performance of the relevant company as well as the future prospects of that company, the industry and the geographies the company operates in as well as to other factors. Subsequently, the performance of the structured bond will be related to all the above factors, but also to the conditions attached to the bond. A bond may pay a certain amount if the price of the relevant stock is below or above the specified value, or if it performs better or worse than the price of a different asset.

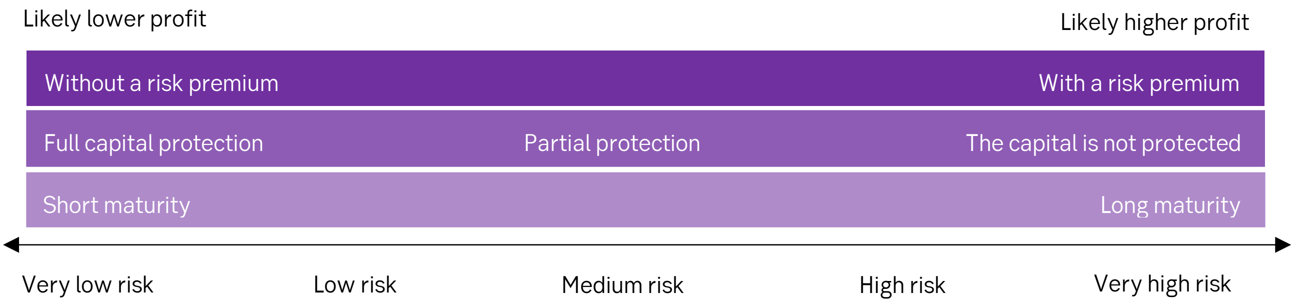
Issuer related risks. Usually, structured bonds are issued by financial institutions. The investor assumes risk in regard of the issuer; prior to subscribing to these bonds, the investor should assess the issuer's credit quality. The total amount an investor will receive from a fixed income security depends on the maturity of that security, the rating assigned to it by agencies, the timing of sale of the security as well as other factors influencing the decisions of other investors. Therefore, the above factors should also be considered when assessing the quality of the issuer of the structured bonds.

The investment idea at the root of the bond. Usually, investment decisions are based on the future estimates of asset values. These estimates may differ from actual outcomes, which will affect the return on the structured bond.

The complexity of the instrument. It should be perceived that the relevant instrument is both a debt instrument and a derivative instrument. This requires knowledge of investor to understand the financial consequences, the structure and calculation of profitability.

Market risk applies to all investments. Structured bonds might be subject to a high market risk. The price of structured bonds in the secondary market depends on the changes in the value of the derivative, changes in interest rates, the remaining term to maturity, the offer and demand of the structured bonds on the market, as well as other factors.

Liquidity risk means that investors may suffer losses if they sell their structured bonds as soon as practicable or in case they are unable to sell them within a specified term. The likely selling of structured bonds before their maturity depends on their liquidity in the secondary market.



Classification of Risk level

Very low-risk level – structured products with a full capital protection (the risk of losing the invested amount is close to zero). The bonds must be quoted in major currencies and kept until the maturity thereof.
Low-risk level - structured products with a partial capital protection; the risk of loss is limited to 10% of the invested amount. It should be noted that capital protection does not apply to the risk premium that can be lost by the investor. The bonds must be quoted in major currencies and kept until the maturity thereof.
Medium-risk level - structured products with a partial capital protection; the risk of loss is limited to 25% of the invested amount. It must be noted that capital protection does not apply to the risk premium that can be lost by the investor. The bonds must be quoted in major currencies and kept until the maturity thereof.
High-risk level – structured products without capital protection in all currencies.
Complexity - all structured bonds are considered complex instruments.

Classification of Investment Products

SEB has classified the financial instruments and products by reference to five levels of risk - the simpler the financial instruments, the lower the level of risk. In assessing the service or product selected by you, we will also inform you about similar lower risk opportunities.
Very low-risk level financial products are mainly short-term investments on the condition that they are quoted in any of the major currencies and are held until maturity.
Low-risk level financial instruments and products carry the risk that the investor may lose their investment in whole or in part.
Medium-risk level financial instruments and products carry the risk that the investor may lose a significant part of their investments.
High-risk level financial instruments and products carry the risk that the investor may lose all of the invested capital.
Very high-risk level financial instruments and products are the riskiest investments because the investor may lose more than the initial investment thereof; paying of additional amounts may be required. These products are more complex than most other products and are appropriate only for experienced investors.
Complexity - financial instruments are categorised into two groups by reference to the complexity thereof: complex (usually, the appropriateness of financial instruments is tested) and non-complex (usually, the appropriateness of financial instruments is not tested).
Regardless of the risk level, each product carries the risk that the initial investment may be lost, however, the probability of it happening depends on the risk level of the relevant product – the lower the risk level, the lower the probability.

Important general information

Categorising of a financial instrument or a product into a specific product category may change over time depending on the characteristics of the instrument or the product. SEB would assess the appropriateness of the instrument or product to you based on the category of the instrument at the time of the transaction. Although financial instruments and products are classified pursuant to the best intentions and a thorough analysis, SEB may not be held liable for any errors that might arise. Moreover, there may be some financial instruments that SEB has not categorised yet.

Excluded Risks

Categorising financial instruments and products, several types of risks have not been considered.

- Currency risk that may arise if you invest in a currency that differs from your major currency has not been considered.
- Liquidity risk (the tradability of an instrument on the market) may vary over time.
- The investment horizon or investment goal of the specific customer is not considered in the classification of products. If you invest in an instrument or product, you should consider the following:
    - You make the investment at your own risk;
    - The general trading terms and conditions laid down by the intermediaries via whom they trade in financial instruments apply to you;
    - When trading in financial instruments, you should carefully read the transaction confirmations and promptly notify SEB of any possible errors;
    - You should monitor the changes in the value of your investments and positions regularly;

    - If necessary, you would need to implement appropriate measures aimed to reduce the losses relating to the investments.
- Tax risk, i.e., taxes related to any investing activity (e.g., income tax applicable in case of selling the product). You should independently evaluate all circumstances related to taxes on investments or their return even if in the material provided from the bank particular tax aspects have been indicated.

Definition of Major Currencies

EUR, GBP, USD, CHF, CAD, AUD, JPY, SEK, DKK and NOK are defined as major currencies.

Other important information

SEB would like to point out that it will not evaluate the target markets for the financial instruments that are available solely at the customer's initiative; it will only assess the customer's experience and knowledge, if applicable. Conversely, for the financial instruments that SEB actively offers to its customers, including recommendations, distribution of marketing materials and other means of promoting the sale of products, it will evaluate the target markets with a view to building adequate awareness of the characteristics of the target market, goals, and needs.