Structured bonds

General information
A structured bond is a debt instrument that typically consists of one or several bonds and one or several derivative instruments. The derivative instrument changes the investment risks associated with the bond in order to give an investor a chance to benefit in price movements of some other, often unrelated financial instrument or an asset. The value of a structured bond will depend on both the components — the bond and the derivative. A feature of some structured bonds is a guaranteed principal, which offers protection of principal if held to maturity, however there might be structured bonds who offer only partial principal guarantee or no guarantee at all. For structured bonds, as a rule, no pay-outs are made before the maturity date of the bond. The terms and conditions of structured bonds may significantly differ and the investor should definitely get acquainted with the conditions before making the subscription.

Classification
- **Very low risk level** — structured bonds quoted in main currency with full capital protection at maturity.
- **Low risk level** — structured bonds quoted in main currency with partial capital protection at maturity (loss may occur as a result of losing up to the 10% risk premium).
- **Medium risk level** — structured bonds quoted in main currency with partial capital protection at maturity (loss may occur as a result of losing up to the 25% risk premium).
- **High risk level** — structured bonds quoted in any currency without capital protection.

Complexity: all structured bonds are treated as complex instruments.

Value
The value of structured bonds depends on:

- **Underlying assets**. The price of a structured bond depends primarily on the price movement of the underlying asset of bond. There are various types of structured bonds, whereas the prices and other conditions (such as early recall) of different types of structured bonds are influenced by the price or movement of the underlier within a price range in different ways.

  The underlier of a structured bond may be a pool of stocks, a single stock, stock index, commodity, currency, interest rate, etc. Generally, the purpose of a structured bond is to enable the investor to participate in the upward trend of the price of underlying asset, while restricting potential loss.

- **The issuer's credit rating** and its ability to repay the investment. The investor is taking a risk on the issuer i.e. the risk that issuer fails to settle with investors under the set terms and conditions. The investor needs to assess the issuer’s credit quality before subscribing. The highest credit rating is AAA and the lowest D (default). Non-investment grade bonds (also called junk bonds) are with credit ratings of BB+ to D. The three major rating agencies in the world use slightly different credit rating formats (e.g. the highest rating of Moody’s is Aaa, that of Standard & Poor’s and Fitch, however, AAA).

- **The investment idea** a bond is based on. The investment decisions are typically made based on forecasts about asset values in the future. These forecasts may differ from the eventual outcome and this will influence the actual return of the structured bond.

- **Complexity of an instrument**, seeing as it is both a debt instrument and a derivative instrument. This requires knowledge on the part of the investor to understand the financial implications, payoff structure and payoff calculation.

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1 EUR, USD, GBP, CHF, CAD, AUD, JPY, SEK, DKK, NOK are defined as major currencies.
Peculiarities of structured bonds

<table>
<thead>
<tr>
<th>Generally a structured bond can be sold before its maturity for the price it is quoted on the secondary market, less any applicable service fees.</th>
<th>The value of a structured bond is linked to the price of underlying assets that may fluctuate over time.</th>
<th>It is difficult to predict the future value of the structured bond.</th>
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<tbody>
<tr>
<td>Risk premium is a non-refundable additional sum to be paid upon subscription aimed at receiving higher return.</td>
<td>There is no guarantee that full nominal value and risk premium will be recovered when selling a structured bond with capital protection before its maturity date.</td>
<td>Structured bonds without capital protection are aimed at offering better returns compared to capital protected structured products however in adverse market movements the investor may lose the entire amount invested.</td>
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<tr>
<th>Potentially lower return</th>
<th>Potentially higher return</th>
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<tbody>
<tr>
<td>No risk premium</td>
<td>Risk</td>
</tr>
<tr>
<td>Full capital protection</td>
<td>Partial capital protection</td>
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<tr>
<td>Short maturity</td>
<td>Long maturity</td>
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<th>Fees:</th>
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<tr>
<td>• trading fee</td>
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<td>• safekeeping fee</td>
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More detailed information about the fees is provided in SEB’s price list, on the Investor Protection website or in documents concerning the specific security.

Risks

**Market risk** is prevalent in all investments, and for a structured bond, the market risk can be high. The price for structured bonds in the secondary market depends on changes in the value of the derivative, interest rate changes, time remaining until the redemption date, supply and demand of the specific structured notes on the market and other factors.

**Liquidity risk** means that investors may incur losses if they want to sell their structured bonds as quickly as possible or are unable to sell them for a certain time interval. The opportunity to sell structured bonds before the redemption date depends on their liquidity in the secondary market.

**Credit risk** — the client may suffer losses due to the fact that the value of financial instruments acquired by it falls, since the issuer of the securities may exhibit poor financial performance, economic difficulties or other similar indicators. The issuer’s poor economic performance may cause, among other things, the inability of the relevant issuer to perform obligations arising from the securities before the investors.

**Interest rate risk** — interest rate may change the price of a structured bond. The interest risk is related to the market risk and lies in the fact that the client may suffer losses from adverse developments on the market, which may be manifested in changes in interest rates, interest
rate volatility, interest rate gap between investment objects of different risk levels, early repayment of debts, etc.

**Default risk** occurs when the issuer will not be able to make the required interest payments or return principal. In case of a default of an issuer, investor can lose everything he had invested.

**Reinvestment risk** appears for a callable structured bond, since the issuer may call back the structured bond before maturity date and the investor may be forced to reinvest the received funds in securities with a lower yield.

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**Taxation**

Income from investments is taxed. An investment account allows Estonian tax residents to postpone the taxation of return on investments. The taxation depends on the investor’s tax residency and legal form, but also the income type and several other circumstances. For more specific instructions, consult your tax office or contact a tax advisor.