Handelsbanken

2018

Risk Disclosure Factsheet

Svenska Handelsbanken AB (publ), Luxembourg Branch
R.C.S. Luxembourg B 39099

A branch of Svenska Handelsbanken AB (publ),
a public limited liability company incorporated under the laws of Sweden, with registered office at SE-106 70 Stockholm, registered with the Swedish Companies Registration Office under number 502007-7862

Address:
15, rue Bender
L-1229 Luxembourg

Mailing address:
P.O. Box 678
L-2016 Luxembourg

Telephone:
+352 27 486-1
Telefax:
+352 27 486-4001

Swift address:
HANDLULB

Handelsbanken

Table of Contents

Handelsbanken

Risk Disclosure Factsheet

Risks associated with financial instruments

General information regarding risk

Financial instruments can produce yield in the form of dividends (on shares or mutual funds) or interest (on fixed income instruments).

The value of the instrument may also rise or fall in relation to the value when the transaction was performed. The total yield is the total amount received when adding the price change of the instrument to the dividend/interest.

Risk here means the probability of the total yield on a financial instrument being negative, i.e. that there is a loss of assets. The risk of loss varies among different types of instrument.

Greater risk-taking normally means greater opportunities for a higher yield, but at the same time also increases the risk of losing assets.

- The higher the risk, the greater the fluctuations in price to be expected
- The lower the risk, the more even the price performance to be expected

There are various ways of reducing the risk of losing assets. Normally it is considered better to diversify the risks on different markets and in different types of financial instrument. For transactions in financial instruments in currencies other than that of your home country, there is also a currency risk.

Customers must be aware of the following risks:

- that transactions in financial instruments always involve a financial risk
- that you as a customer are personally responsible for the risks you take
- that you yourself must obtain knowledge about the applicable agreements, terms and conditions, prospectuses, etc. for trading in the financial instrument
- the characteristics and risks of the instrument in question that you must check your contract notes and other reports
- concerning your transactions and that you must also immediately report any errors you find
- that you must continuously monitor your outstanding transactions
- that you yourself must initiate and take action if necessary, for example by winding down transactions which are performing poorly for you
- that transactions outside a regulated marketplace entail a special risk since the information may be poorer

The above applies even if you have received personal advice before or in connection with the transaction.

Different types of risk

Brief descriptions of some of the most common risks are presented below.

Market risk - the risk that the market as a whole, or part of it, will decline.

Credit risk - the risk that, for example, the issuer of a financial instrument or a counterparty cannot fulfil their commitments due to lack of payment capacity.

Price volatility risk - the risk of large fluctuations in the rate/price of a financial instrument.

Price risk - the risk that the price/rate of a financial instrument will go down.

Tax risk - the risk that tax regulations and/or tax rates are ambiguous or may be changed.

Currency risk - the risk of changes in exchange rates for foreign currencies.

Leverage risk - the design of derivatives which means that there is a risk that the price trend for the underlying asset will have a greater negative impact on the price/rate of the derivative.

Legal risk - the risk that relevant laws and regulations are ambiguous, or may be changed.

Company-specific risk - the risk that a certain company will perform less well than expected, or be affected by a negative event, with the financial instruments linked to the company falling in value.

Sector-specific risk - the risk that a certain sector will perform less well than expected, or be affected by a negative event, with the financial instruments linked to the sector falling in value.

Liquidity risk - the risk that you will not be able to sell or buy a financial instrument when you wish, due to low turnover in the instrument.

Interest rate risk - the risk that the financial instrument in question will decrease in value because of changes in market interest rates.

General description of financial instruments

Fixed income (interest-bearing) instruments

How do fixed income instruments work?

Fixed income financial instruments constitute a claim on the issuer of a loan. The yield is normally paid in the form of interest. There are various types of fixed income instruments depending on which issuer has issued the instrument, the collateral given by the issuer for the loan, the time remaining until the repayment date, and the form of disbursement of interest.

How high is the risk I take?

To a large extent, the yield is linked to the risk level. Greater risk- taking will mean greater opportunities for a high yield, but at the same time the risk of losing money also increases. If you need help in finding the risk level that suits you, our advisors will be pleased to assist. The risk in a fixed income instrument is on the one hand the price change that may arise during the period of the loan due to changing market rates, and on the other hand the risk of the issuer being unable to repay the loan. Consequently, the risk level depends upon the issuer. Loans issued by states and municipalities are considered to be risk-free as regards repayment. Other frequent issuers such as mortgage institutions and industrial companies are also normally considered to have high creditworthiness.

It can be stated as a general rule that the risk of loss on fixed income instruments is lower than on equities.

See also “Risks associated with financial instruments.”

What factors affect the return?

The yield on a fixed income instrument is pre-determined, provided that the investment is retained until the repayment date. Often, the instrument can also be sold during its life. If market interest rates rise, the price of already issued fixed income financial instruments will fall. Thus the fixed income instruments will be worth less if they are sold. Conversely, the price of already issued instruments will rise when market rates fall.

Money market instruments

Instruments to be repaid within one year are called money market instruments. These are bought at a discount, e.g. 99%, and on the repayment date the holder receives 100%. The interest is the difference between the two sums.

Treasury bills and commercial paper (Sw: företagscertifikat) are examples of money market instruments. Treasury bills are fixed income instruments that the Swedish state uses to finance short-term funding. Commercial paper is issued by companies, banks, and local authorities at municipality and county level which have a need for short-term funding. These instruments often produce a higher yield than an account, while normally having a low credit risk.

Bonds

A bond is an interest-bearing instrument of debt with a maturity of at least one year.

A coupon bond is the most common type of bond. The purchaser of a coupon bond receives a defined coupon which is usually disbursed once a year during the maturity of the bond. When you buy a coupon bond during the maturity of the bond, you pay a discount or a premium depending on whether the current market yield is higher or lower than the coupon rate. If the market yield is higher than the coupon at the time of purchase, it is bought at a discount. If the market yield is lower than the coupon, you will pay more than the face value of the bond.

Zero-coupon bonds are another common type of bond. A zero- coupon bond is bought at a discount, which is a smaller amount than the face value of the bond. You will receive the face value on the repayment date. The yield on the bond is the difference between the price of the zero-coupon bond and the face value of the bond.

If you retain your bond until maturity, the yield is known. The size of the yield depends on the risk level, the prevailing market rate and the maturity. For investments in bonds denominated in foreign currencies, currency risk should also be taken into account.

Government bonds

Government bonds are a form of investment that the Swedish state uses to finance public debt. Government bonds therefore carry a low risk. Government bonds are normally zero-coupon. Maturities for government bonds can be up to 30 years.

Mortgage bonds

Mortgage bonds are issued by various mortgage institutions to finance their own lending. Mortgage bonds carry a somewhat higher risk than government bonds, and therefore have a slightly higher yield. Mortgage bonds are normally zero-coupon, and have a maturity of up to 15 years.

Covered bonds

Covered bonds are issued by institutions which have been licensed by the Swedish Financial Supervisory Authority to issue such instruments to finance their operations. For such bonds, it is a requirement that collateral be reserved, primarily for bondholders' claims.

Corporate bonds

Corporate bonds are issued by companies which have funding needs. In this category of bonds, creditworthiness often varies greatly. This is reflected in the yields. Corporate bonds can be either coupon or zero-coupon instruments, and have a maturity of up to ten years.

Retail bonds

Retail bonds are issued by the state, mortgage institutions and companies, but are traded in smaller blocks; this often suits private investors, small foundations and companies. Retail bonds can be either coupon or zero-coupon instruments. The size of the yield reflects the credit risk associated with the issuer. Retail bond maturities are normally up to five years. Retail bonds are normally listed on the Stockholm stock exchange's retail bond list, SOX.

Inflation-linked bonds

Inflation-linked bonds have inbuilt protection against inflation. This means that the capital always retains its intrinsic purchasing power. The yield consists of interest, known as coupon, and compensation for inflation. Inflation-linked bonds can be purchased either with a fixed coupon or in the form of a zero coupon instrument. Inflation- linked bonds are issued by the state, mortgage institutions and companies.

Lottery bonds

Lottery bonds are issued two or three times per year by the Swedish National Debt Office. The yield is distributed among lottery bond holders through prizes in a lottery. One million kronor tax-free may be won, but the initial stake cannot be lost. The maturity is normally up to five years.

Subordinated loans

With a subordinated loan, if the issuer goes into bankruptcy, the holder will be paid after the prioritised creditors are paid.

Subordinated loans can be purchased with a fixed coupon or in the form of a zero coupon instrument. There is a higher yield on subordinated loans than on bonds, as the risk level is higher. The maturity is normally up to five years.

Mutual funds

How does a mutual fund work?

A mutual fund can be compared to a portfolio consisting of different types of securities. These may be Swedish or foreign equities, options, futures, long- or short-term fixed income securities - both government instruments (government bonds and treasury bills) and fixed income instruments issued by private companies (e.g. mortgage bonds or commercial paper) - fund units or investments in accounts with a credit institution.

A fund's unit-holders jointly own all the fund's assets, but they assign to the fund management company to manage and trade the units on behalf of the fund in accordance with the fund's regulations. The mutual fund's investment strategy is set out in its regulations and its simplified prospectus.

How high is the risk I take?

To a large extent, the yield is linked to the risk level. Greater risk- taking will mean greater opportunities for a high yield, but at the same time the risk of losing money also increases. If you need help in finding the risk level that suits you, our advisors will be pleased to assist.

The risk in a mutual fund is more diversified, and therefore lower, than if an individual stock is bought, for example. There are mutual funds and special funds. Normally, a mutual fund invests in at least 16 different securities - usually more. Special funds may act outside the regulations which normally apply to mutual funds, for example in terms of risk diversification. The regulations for a special fund must clearly state its exemptions from the rules. Hedge funds are one type of special fund. Funds are managed by professional fund managers.

See also “Risks associated with financial instruments.”

What factors affect the return?

The price trend of a mutual fund depends upon the performance of the underlying financial instruments. For example, the price trend of an equity fund depends upon the price performance of its underlying shares, while the trend for a fixed income fund depends upon the fixed income market environment. For more about factors which affect returns, see the information sheets for each underlying instrument group.

Different funds have different risk levels and factors which affect returns. Always ask for a fact sheet, which will give more details of the fund that you are interested in.

What different types of funds are there?

Equity funds

Equity funds mainly invest in equities (i.e. shares) and equity-related securities. They are best suited to long-term investments. In the short term, there may be substantial variation in the yields of equity funds, but for savings over a longer period, the stock market has historically yielded better returns than traditional fixed income savings.

Fixed income funds

Fixed income funds invest in interest-bearing securities with differing maturities, such as bonds or money market instruments. Fixed income funds are suitable for both short- and long-term investments.

Mixed funds

Mixed funds invest in both shares and fixed income securities. Most mixed funds have specific guidelines indicating the proportion to be invested in shares and fixed income securities.

Fund of Funds

Fund of Funds invest primarily in other funds such as equity or fixed income funds.

Index funds

Index funds invest their assets in financial instruments that reflect the composition of a set index. The index can be based on either shares or fixed income instruments. Index funds are also available in the form of exchange-traded funds.

Exchange-traded funds

Exchange-traded funds are normally index funds that track the performance of a set index. Exchange-traded funds are traded in the same way as equities on an execution venue.

Hedge funds

The objective of a hedge fund is normally to provide a positive return, regardless of whether the market is increasing or declining in value. Hedge funds have considerably more flexible investment options than traditional funds. Although `hedging' is intended to protect against unexpected changes in the market, a hedge fund can be a high-risk fund, as such funds may be highly leveraged.

Shares

How do shares work?

Shares in a limited company entitle the holder to a proportion of the company's share capital. If the company makes a profit, it usually pays a dividend on the shares. Shares also give voting rights at shareholders' meetings, the company's highest decision-making body. The more shares the shareholder owns, the greater the proportion of the capital, dividends and voting rights the shareholder has. Voting rights can vary depending on the class of the shares in question. There are different classes of shares, the most common being class A and B shares.

Class A shares normally carry a larger number of votes per share than class B. There are two types of company: public and private. Only public companies may allow their shares to be traded on an execution venue.

How high is the risk I take?

To a large extent, the yield is linked to the risk level. Different stocks have different risk levels and factors which affect returns. Greater risk-taking will usually mean greater opportunities for a high yield, but at the same time the risk of losing money also increases. If you need help in finding the risk level that suits you, our advisors will be pleased to assist.

Historically, investments in shares have yielded significantly better returns than traditional fixed income savings, but in the short term performance can fluctuate substantially. Therefore, shares are

recommended mainly for long-term savings. The risk decreases if the investment is part of a broader portfolio, i.e. several stocks and sectors. In addition, you should regularly monitor the changes in the value of your portfolio and consider possible reinvestments. If a limited company in which you have bought shares should go into bankruptcy, you may lose your money.

See also “Risks associated with financial instruments.”

What factors affect the return?

The price of a share is affected by several factors, including:

- turnover, i.e. the company's inflow and outflow of capital the company's prospects, and the market's analysis of these
- the global economic situation, the business cycle, the interest rate environment, and political decisions
- psychological factors
- share prices on international markets.

Where are shares traded?

The main task of the execution venue is to offer an efficient venue for trading in shares. An execution venue refers to a regulated market, Multilateral Trading Facility (MTF) or systematic internaliser. Systematic internaliser means an investment firm which, on an organised, frequent and systematic basis, deals on its own account by executing customer orders. Trading may also take place directly with a securities company (OTC). Only shares in public companies may be listed on a regulated market, and companies are subject to stringent requirements in terms of the size of the company, the history of its operations, diversification of ownership and public accounts showing the company's finances.

An MTF can be described as a trading system which is organised and provided by a stock exchange or a securities company. The requirements placed on the companies on an MTF or a systematic internaliser are somewhat less stringent than on a regulated market (see above).

Stock splits and reverse splits

When a stock split takes place, the number of shares increases without any change in the share capital. A stock split may be carried out to reduce the share price to a more affordable level, to increase turnover in the share on the exchange. Conversely, a reverse stock split may be carried out if the price has fallen substantially.

Share issues

If a limited company requires more capital, it has the option of issuing new shares in the form of a rights issue or new share issue. Existing shareholders often receive subscription rights which give preference in subscription for shares. The number of shares that may be subscribed for by a shareholder is normally in relation to the number of shares held at the record date. The subscriber will have to pay a certain price (the issue price) for the new shares issued.

Shareholders who do not wish to subscribe can normally sell their subscription rights during the subscription period on the marketplace where the rights are listed. After the subscription period, the subscription rights expire and are thus worthless. A limited company may also carry out a private placement, which is conducted in the same way as a rights issue/new share issue, but which is aimed at a specific circle of investors.

If the company wishes to increase its share capital by transferring assets or reserved funds, this is done via a bonus issue. In a bonus issue, shareholders receive `fractions' in proportion to the number of shares that they hold. These fractions can then be converted into new shares in the company. Any excess fractions may be sold on the marketplace where the stock is listed.

Through the bonus issue the shareholder receives more shares, but the portion of the company's increased share capital represented by his total new holding will remain unchanged. Another way of carrying out a bonus issue is for the company to write up the quota value of the shares. After a write-up, the shareholder has an unchanged number of shares and market value of the invested capital.

Depository receipts

A depository receipt is a proof of ownership of foreign shares on foreign marketplaces, but which is listed on a Swedish execution venue. Here, in addition to the general risks of trading in domestic shares, there is also a risk of exchange rate changes.

Convertibles

Convertibles (i.e. convertible notes or convertibles) are interest- bearing securities (loans to the issuer of the convertible) that may be exchanged for shares within a specific period of time. The interest on the convertibles is usually higher than the dividend on the shares exchanged. The price of convertibles is expressed as a percentage of their nominal value.

Structured products

How do structured products work?

Structured products is a collective name for financial instruments which are created by issuing a financial instrument with characteristics derived from other financial instruments. Some offerings are open to the public while others, called private placements, are aimed at only one or a few individual investors. They are flexible investments which can be designed in many different ways and have a number of different characteristics. For example, it is possible to adapt in terms of maturity, market view, risk profile and individual investment requirements. Structured products have a varying degree of capital protection. They can also be constructed with or without leverage.

Trading in structured products requires specialist knowledge. It is therefore important to pay attention to the following characteristics of structured products. The way structured products are constructed means that the price trend for the underlying asset will have an impact on the price or rate of the structured product. This price impact may be greater relative to the investment (the premium paid) than the value change on the underlying asset. The price impact is often therefore called the leverage effect and may result in a larger profit on the invested capital than if the investment had been made directly in the underlying asset. On the other hand, if the price trend for the underlying asset is different to what was expected, the leverage effect can also lead to a larger loss on the structured product compared to the value change on the underlying asset. The leverage effect varies depending on the construction of the structured product and how it is used. There is therefore a major requirement for monitoring the price performance of structured products and the underlying asset. In their own interests, investors should be prepared to act quickly, if the investment in a structured product with large leverage were to develop in an unfavourable direction. In the risk assessment, it is also important to consider that the opportunity of closing a position may become more difficult in the event of a negative price trend.

The return on a structured product is linked to the performance in one or more assets or markets, such as equities, currencies, commodities, interest rates, credits or mutual funds.

How high is the risk I take?

To a large extent, the yield is linked to the risk level. Greater risk- taking will mean greater opportunities for a high yield, but at the same time the risk of losing money also increases. If you need help in finding the risk level that suits you, our advisors will be pleased to assist.

In an investment context, risk signifies the probability that the invested capital will fall in value. Taking a greater risk often means more opportunity of a high yield, but at the same time the risk of losing money also increases. There is always a risk that you may lose all your invested capital, or that you will not be able to sell the financial instrument you hold. Different types of structured products have different levels of risk. The risk depends, among other things, on the price performance of the underlying asset and on the specific terms for the respective structured product. Always ask for supplementary marketing material or further information with more details about the financial instrument you are interested in.

See also “Risks associated with financial instruments.”

What factors affect the return?

The return on a structured product is linked to the performance in one or more assets or markets, such as equities, currencies, commodities, interest rates, credits or mutual funds.

The value of a structured product is affected during its life by several factors, including the performance and price fluctuations of the underlying asset, the remaining term, expected share dividends, market interest rates and exchange rate movements. The value during the certificate's term is also affected by supply and demand.

What different types of structured products are there? Structured products is a collective name for financial instruments which are created by issuing a financial instrument with characteristics derived from other financial instruments.

Handelsbanken offers different types of structured products. The most common types are capital-protected investments, certificates and warrants.

Capital-protected investments

Our capital-protected investments consist of two components: a bond component and a component linked to the performance of one or more markets.

The bond component represents security and means that you will receive at least the nominal amount back on the repayment date. The market component gives the opportunity of a good return when the market rises.

The combination of the two gives the opportunity of a good return, at the same time as the money is protected.

Our capital-protected investments pay back at least the notional amount on the repayment date. During the term, the value may be lower than the notional amount. If the market declines, the notional amount is repaid. This entails a risk equivalent to the interest that could have been obtained if the money had instead been invested in fixed income instruments. If you purchase an Extra capital-protected investment - with a premium - you risk losing the premium if the market declines, since the capital protection only applies to the nominal amount.

Capital-protected investments are available with different levels of risk, focusing on different markets and with different maturities. As a result, there is nearly always a capital-protected investment to suit your needs.

Certificates

We offer various types of certificates with subscription periods. These are the three most common types.

Bonus certificates

With bonus certificates you have the opportunity to receive a return in the form of a premium (stated as a premium level). The premium is paid out as long as the underlying market does not fall below a particular level (barrier) at any time during the term. If the underlying market exceeds the premium level on the final day, you receive the increase in the market instead, i.e. you receive the best outcome. If the underlying market falls below the barrier at any time during the term, no premium is paid out. In such circumstances, the performance of the certificate will be the same as for the underlying market, both for upturns and downturns.

Credit-linked certificate

A credit-linked certificate is linked to the credit risk in a number of companies and the return is paid out as coupons during the term. The size of the coupons depends on how many potential credit events occur in the companies included. The fewer the number of credit events, the larger the coupons that are paid out. If, for example, the certificate is linked to 50 companies, the amount invested decreases by 1/50 for each credit event which occurs. At the same time the future coupons reduce by 1/50. A credit event usually involves a company either being declared bankrupt, or having major delays in making payments or undergoing a reconstruction.

Coupon certificates

A coupon certificate is linked to one or more underlying markets and usually pays out one or more coupons during the term. Coupons paid out and/or repaid amounts are linked to movements in the underlying markets. These are our two most common types of coupon certificates:

Coupon certificates - conditional coupon

The certificates pay out one or more coupons if the underlying market has not fallen below a particular level on one or more of the days when readings are taken. The entire amount invested is repaid, provided that the underlying market has not fallen below a pre-determined level (the protection level) on the final day. In some cases, a coupon certificate's maturity is not predetermined; it can sometimes be closed directly when a coupon is disbursed. If the underlying market on the expiry date has fallen below the protection level, the performance of the certificate will instead be the same as for the underlying market.

Coupon certificate - secure coupon

The certificates pay out an annual coupon regardless of performance in the underlying market. The entire amount invested is repaid on the final day, provided that the underlying market has not fallen below a pre-determined level (the protection level) on the final day. If the underlying market on the expiry date has fallen below the protection level, the performance of the certificate will instead be the same as for the underlying market. We also offer certificates without subscription period. These are traded only on exchanges or marketplaces. The following are examples of such certificates.

Long and Short certificates

Long and Short certificates track the underlying market on a daily basis without leverage. This type of certificate provides exposure to a specific market in both upturns and downturns of the market.

Bull & Bear certificates

Bull & Bear certificates offer the opportunity to secure a return when the market rises or falls.

Bull - increases in value when the underlying market rises. Bear - increases in value when the underlying market falls.

The certificates have a daily leverage and therefore move more than the underlying assets. It is important to understand that daily leverage does not necessary mean that the certificates track the market with leverage on a longer term. It only applies on a daily basis. Products with daily leverage are therefore suitable for shorter investment horizons.

Spread certificates

A spread certificate consists of two underlying assets, such as two shares, two indexes, two commodities or a combination of them. You have a favourable view of one of the assets (long asset) and an unfavourable view of the other asset (short asset). The certificate's daily return is linked to the difference between the daily percentage performance of both of the assets. As long as the long asset performs better than the short asset, the Spread certificate will increase in value.

Warrants

Warrants offer you a positive yield in both rising and falling markets. There are both call and put warrants.

- Call warrant - suitable if you believe that the market will rise sharply.
- Put warrant - suitable if you believe that the market will fall sharply.

Warrants also offer the opportunity for high yield with limited capital if the market goes in the right direction. But if the market goes in the wrong direction, you could lose all or large parts of your invested capital.

Derivatives

How do derivatives work?

Derivative instruments are a collective term for options, futures, swaps, etc. The value of a derivative is based on the underlying asset; for example, it may be an equity, a commodity, an exchange rate or an

interest rate level. Other factors can also influence the value of a derivative, such as remaining maturity, changes in interest rates and volatility (a measurement of price fluctuation in an underlying asset).

Derivatives can be traded via a marketplace or be a transaction between two parties in OTC trading.

Different derivatives have different risk levels and factors which affect the yield. It is important that you find out what applies to the particular derivative you are planning to invest in.

Trading in derivatives requires specialist knowledge. It is therefore important to pay attention to the following characteristics of derivative instruments.

- The way derivatives are constructed means that the price trend for the underlying asset will have an impact on the price/rate of the derivative. This price impact is often greater relative to the investment (the premium paid) than the value change on the underlying asset. Therefore, the price impact is often called the leverage effect and leads to a larger profit on the invested capital than if the investment had been made directly in the underlying asset. On the other hand, if the price trend for the underlying asset is different than what was expected, the leverage effect can also lead to a larger loss on the derivative than the value change on the underlying asset. The leverage effect varies depending on the structure of the derivative and how it is used. There is therefore a major requirement for monitoring the price performance of the derivative instrument and the underlying asset. In their own interests, investors should be prepared to act quickly, often during the day, if the investment in the derivative instrument were to develop in an unfavourable direction. In the risk assessment, it is also important to consider that the opportunity of closing a position may become more difficult in the case of a negative price trend.
- For derivative transactions, you will sometimes be asked to pledge collateral. As the price of the underlying asset changes, the collateral requirement may also change. Unless the customer has pledged sufficient collateral, the counterparty or the Bank has generally reserved the right - without consulting the customer - to close the position in order to minimise the damage. Thus, the

customer should also carefully monitor the price performance bearing in mind the collateral requirement, in order to avoid an involuntary closing of the position.

The term of the derivative instrument can vary from a very short time to several years. Changes in value are potentially larger for longer terms than short ones. On the other hand, the value of a held option generally falls more and more quickly towards the end of the term because the time value decreases. The customer should also therefore carefully monitor the term of the derivative instruments.

How high is the risk I take?

In an investment context, risk signifies the probability that the invested capital will fall in value. Taking a greater risk often means more opportunity of a high yield, but at the same time the risk of losing money also increases.

Derivatives can be used to either increase or reduce the risk. By using derivatives, you can avoid or reduce the risk involved in future changes in prices/rates. If you choose to use derivatives for speculative purposes, you are taking a higher risk. There may be a very large variation in risk among different derivatives. There is a risk that the counterparty in a derivative does not fulfil their obligations.

See also “Risks associated with financial instruments.”

What factors affect the return?

The value of a derivative is based on the underlying asset; for example, it may be an equity, a commodity, an exchange rate or an interest rate level. Other factors can also influence the value of a derivative, such as remaining maturity, changes in interest rates and volatility (a measurement of price fluctuation in an underlying asset).

Different derivatives have different risk levels and factors which affect the yield. It is important that you find out what applies to the particular derivative you are planning to invest in.

What different types of derivatives are there?

Derivative instruments are a collective term for options, futures, swaps, etc. The value of a derivative is based on the underlying asset; for example, it may be an equity, a commodity, an exchange rate or an interest rate level.

Handelsbanken offers different types of derivatives.

Options

An option is an agreement between two parties which gives the holder:

the right, but not the obligation, to buy (call option) or sell (put option) the underlying asset at a predetermined price (strike price) at a predetermined time (expiry date).

An option is an agreement between two parties which gives the issuer:

the obligation to sell (call option) or buy (put option) the underlying asset at a predetermined price (strike price) at a predetermined time (expiry date).

The price of the option is called the premium and is paid by the holder of the option (the buyer) to the issuer (the seller) of the option.

Forwards/Futures

Forward rate contracts/futures are an agreement between two parties where both the buyer and the seller commit to buying or selling the underlying asset at a price agreed in advance, with delivery at a later date.

In the case of forwards, payment and delivery occur on the expiry date. For futures, there is daily settlement.

Swaps

A swap is an agreement between two parties to exchange yield/cash flows on two assets, and thereby risks, with each other. For example, a currency swap means that two parties agree to exchange on two dates the payment flows with each other in two different currencies, while an interest rate swap may mean that the parties will make payments to each other calculated at a fixed and floating rate of interest respectively.