Danske Bank

Information on equity futures and equity forward contracts

This fact sheet contains information on equity futures and forwards traded through Danske Bank.

What are equity futures and forwards?
Equity futures and forward contracts are binding agreements between two parties to buy or sell a share or a share index performance at a fixed price (strike price) at a specified future date (expiry).

The strike price is agreed by the parties on conclusion of the contract.

Equity futures and equity forward contracts may be admitted to trading on a regulated market. Equity forward contracts may also be traded in an OTC transaction with Danske Bank as the counterparty.
As a general rule, equity futures and forwards are subject to cash settlement if they are index-linked, while they are subject to physical delivery if the underlying asset is a share.

For equity futures, profit/loss is cash-settled on a daily basis. For equity forwards, settlement is only made on expiry; this also applies to contracts derived from an equity futures contract.

Using equity futures and forwards
Equity futures and forwards may be used to hedge a price risk on a share or a portfolio of shares during periods of strong volatility.

They may also be used as investment instruments for the purpose of generating a profit on expected price developments.

Term
The term of equity futures and forwards may range from a single day to several years.

Pricing
Price fluctuations on equity futures and forwards are driven by changes in the underlying asset. Changes to the price of the underlying asset would therefore be fully reflected in the value of the equity futures and forwards concluded.

The following factors influence pricing:

- The price of the underlying asset, including expected price impact when dividends are distributed;
- The money market rate. Equity futures and forwards may be an alternative to buying the underlying asset. A high money market rate would result in a high premium on these contracts, while a low money market rate would lead to a lower premium.

Using equity futures and forwards
This section provides two examples of return profiles that show whether or not a transaction is favourable.

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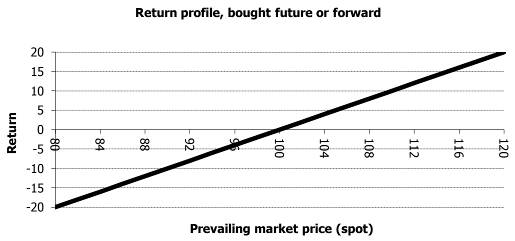
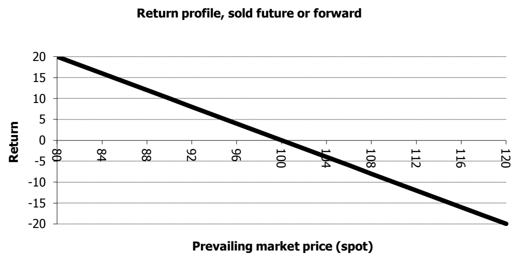
Buying an equity future or forward contract
A buyer of an equity future or forward obtains a right and an obligation to buy the underlying asset at an agreed price at a specified future date.

Any increase in the prevailing market price will increase the market value of the acquired equity future or forward contract. Any fall in the prevailing market price will lead to a fall in the market value of the acquired equity future or forward contract.



Selling an equity future or forward contract
A seller of an equity future or forward obtains a right and an obligation to sell the underlying asset at an agreed price at a specified future date.

Any fall in the prevailing market price will increase the market value of the sold equity future or forward contract. Any increase in the prevailing market price will lead to a fall in the market value of the sold equity future or forward contract.



Risk factors
You should be aware that this type of transactions involves substantial risk.

Under the executive order on risk-labelling of investment products, this product type is in the "RED" category.
The "Red" category consists of: "Investment products involving a risk of losing more than the amount invested, or product types which are difficult to understand".

The risk-labelling categories defined by the Danish Financial Supervisory Authority ("DFSA") can be found at www.danskebank.dk/risikomaerkning [(in Danish only)].
The risk-labelling system should not form the exclusive decision-making basis of an investment. It is only intended as a supplement to the information you should obtain before making an investment or to the advice you receive from the bank after defining your investment profile.

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Trading in equity futures and forwards involves a risk that the strike price is unfavourable relative to the market price the contract is settled against at the settlement date.

The transaction will result in a loss if you have bought the underlying asset in a forward transaction that is to be settled at a price higher than the market price. The loss will equal the difference between the strike price and the market price. Similarly, the transaction will yield a gain if the strike price is lower than the market price.

If you sell the underlying asset in a forward transaction that is to be settled at price lower than the market price, the transaction will be loss-making. The loss may be unlimited corresponding to the difference between the market price and the strike price. Similarly, the transaction will yield a gain if the strike price is higher than the market price.

In addition to the risk of changes in the price of the underlying asset, you should also follow developments in the money market rate. If an equity future or forward contract is settled early, a change in the interest rate differential will trigger a change in the premium or discount in excess of the change resulting from the shorter term to maturity. This “basis risk” could cause you to incur a loss.

The risk of a loss is increased by the instrument’s leverage component. The leverage component is the relationship between the instrument’s underlying value and the amount invested or received.

Collateral
When you enter into transactions with Danske Bank as the counterparty, we may require that you provide collateral.
When you enter into contracts with Stockholmbörsen AB as the counterparty, the stock exchange will require that you provide collateral through Danske Bank. See the rules of the stock exchange on derivatives trading at www.omxgroup.com.

Special market conditions
Under special market conditions, it may be difficult or impossible to close a position; for example if, during periods of frequent price fluctuations, prices rise or fall to such an extent that we are unable to fix a price or the stock exchange suspends or restricts trading in contracts.

Tax
The tax treatment of gains or losses on equity futures or forwards depends on whether

- you are trading as a private individual or on behalf of a company;
- the instruments are settled on physical delivery of the underlying asset or are settled in cash.

Due to the complex nature of this area, we recommend that you consult an accountant or other professional adviser to clarify the tax and accounting consequences to you of engaging in such trading.

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