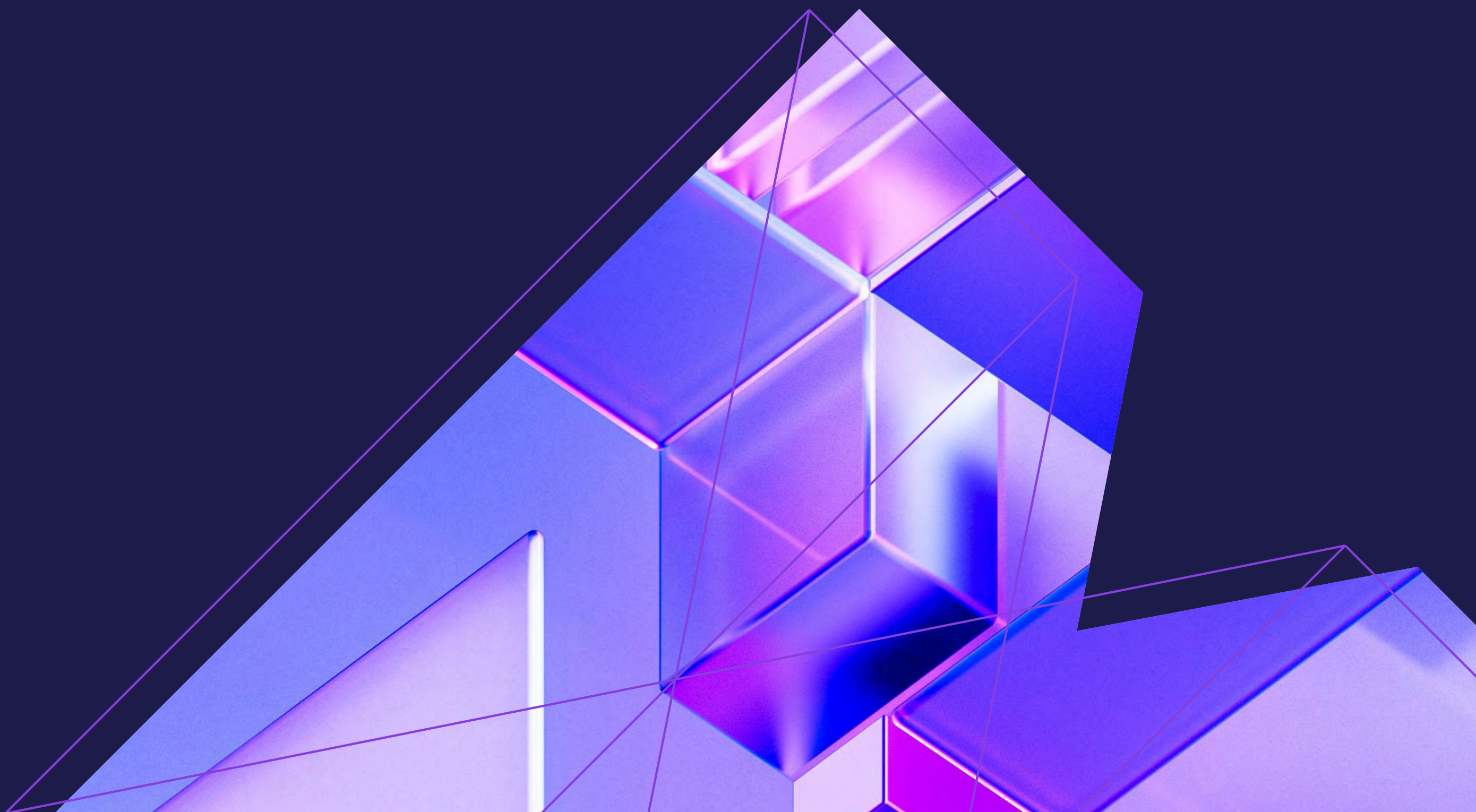


# Structured Products, Unstructured

## 2. Credit-Linked Notes

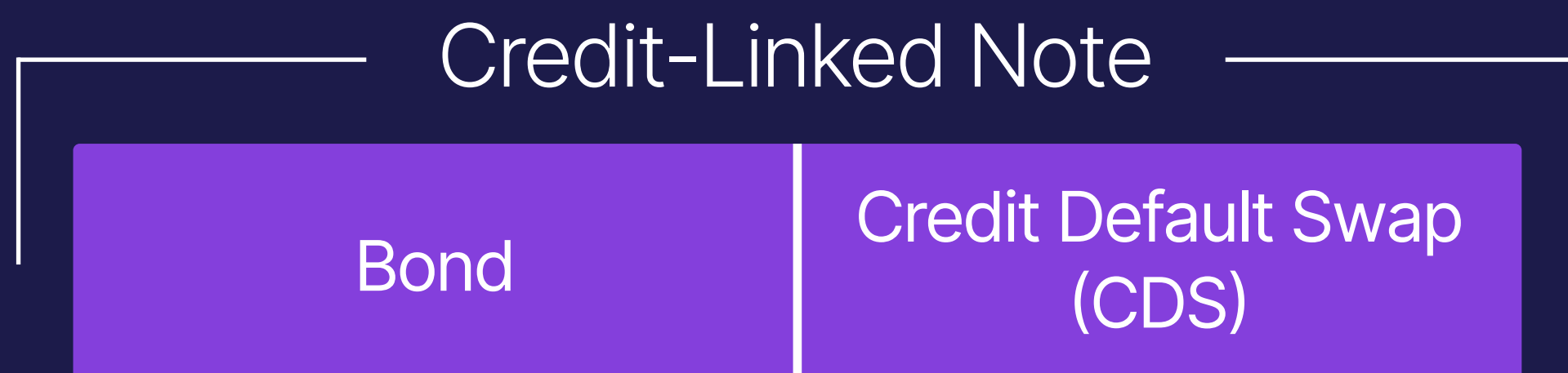


# What are they?

A type of structured product that transfers credit risk from a reference entity to the investor.

Combines a bond with a credit default swap (CDS).

You can earn a higher yield than standard bonds, but you take on the risk of a credit event (e.g. default) linked to a company, sovereign, or portfolio.



# Why use them?

## Enhanced yield

Higher coupon than traditional bonds

## Credit exposure

Access to credit risk of entities without buying their bonds directly

## Portfolio diversification

Broaden exposure beyond equities or sovereign debt

## Flexibility

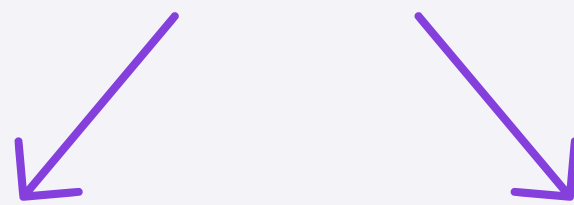
Can be tailored to reference single names or baskets

## Hedging tool

Banks and institutions use CLNs to transfer credit risk

# How do they work?

Invested capital is split



Bond

Provides coupon and repayment at maturity

Credit Default Swap (CDS)

Links returns to the credit performance of the reference entity

If no credit event occurs →  
you receive coupons + principal back

If a credit event occurs →  
you may lose part or all of your principal

# Illustrative example

Reference Entity: JPMorgan Chase & Co.

Annual coupon: 7%

If JPMorgan doesn't default

→ you receive a 7% coupon each year + full principal at maturity

If JPMorgan defaults

→ you may lose part or all of your principal, depending on recovery value

# Points to consider

## Credit risk

Returns depend on the solvency of the reference entity/entities

## No 100% Capital Protection

Unlike CPNs, your principal is at risk if a credit event occurs

## Issuer risk

You also depend on the financial health of the issuing entity

## Fixed term

Usually 2–10 years; funds locked in

# In summary

Credit-Linked Notes = Higher Yield + Credit Risk

A way to earn enhanced returns by taking on the credit risk of companies or portfolios

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