# Product and Risk Description

## Purpose

This document provides you with key information about this product. The information is intended to help you understand the nature, risks, costs, potential gains and losses of this product.

## Summary

| | |
|---|---|
| **Product name** | Knock Out/In Previous Coupon Swap |
| **Issuer of this document** | Nordea Bank Abp (hereafter "Nordea") |
| **Regulated by** | Finnish Financial Supervisory Authority |
| **Produced** | 19.05.2020 |

## What is this product?

## Description

A knock-out previous coupon swap is an agreement between two parties to pay (receive) a fixed or a floating interest rate in a given period against receiving (paying) an initially agreed coupon in the same currency and period. The initially agreed coupon can be adjusted during the life of the swap, depending on a chosen reference rate. In case the chosen reference rate is fixed above (below) a specified barrier, the adjustable coupon will be permanently fixed at an agreed level for the remaining life of the swap. The barrier can be active either from inception of the transaction or after a specified future date. In case of a fixed rate, it is fixed for the entire life of the swap at inception, whereas a floating rate is reset for each individual interest period, normally 3- or 6-month periods. The adjustable coupon will be reset for each individual interest period, after a number of specified interest periods, where it is equal to the initially agreed coupon. The reference rate for the floating rate and the coupon is based on an official interbank fixing, eg Euribor or Libor. It is subject to agreement whether the floating rate and the coupon are reset at the beginning or at the end of the individual interest periods. As long as the reference rate is not fixed above (below) the barrier, the adjustable coupon is determined as described below.

Depending on the swap terms agreed the initially agreed coupon can either

- stay unchanged or gradually increase with each interest period (Step Up) or
- • stay unchanged or gradually decrease with each interest period (Step Down).

In the following the Step Up case is explained. The Step Down will follow the same logic.
The determination of the adjustable coupon for the prevailing interest period is based on the following logic:

- On the fixing date, if the reference rate fixes below an agreed price (strike price), the coupon for the prevailing interest period will equal the coupon of the previous period.
- If the reference rate fixes above the strike price, the coupon for the prevailing interest period will be increased by the difference between the fixing rate and the strike price multiplied by a specified leverage factor.

Thus, if the reference rate is fixed at the same level above the strike price in consecutive periods, the adjustable coupon will gradually increase at a constant pace, even though the reference rate does not increase any further, but stays at the same level above the strike price.
In order to limit the risk on the adjustable coupon payments, a cap for the adjustable coupon payments can be applied. In order to fund such a cap, the initial coupon rate needs to be adjusted higher and/or the strike price(s) need to be adjusted lower.
The strike prices will typically be chosen to be monotonically upward sloping, but they can be flat as well. A standard approach is to place them slightly above the forward rates.
The notional amount in a knock-out previous coupon swap is used solely as the basis for calculating the interest payments. Cash flows under a knock-out previous coupon swap consist solely of the interest payments. Typically, a net settlement arrangement will be agreed, so that payments of both parties fall due on the same payment dates.
The price is subject to change until the transaction is agreed upon.
The agreed transaction is mutually binding until maturity and cannot be cancelled. However, it will be possible to terminate the transaction before maturity. As the market value of the transaction may have changed since it was initiated, an early termination will usually involve a payment of the present market value from one party to the other.

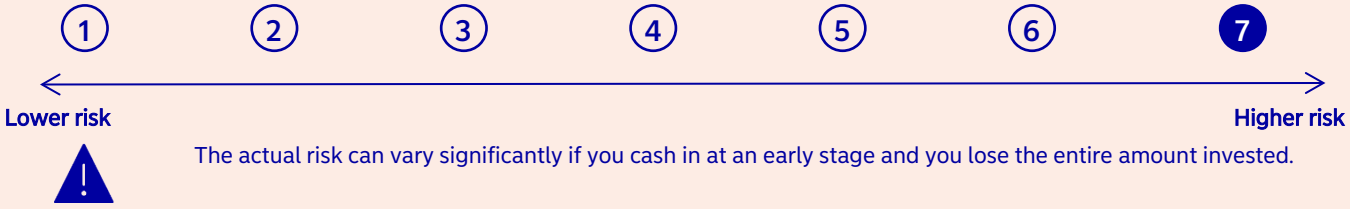
## Intended investor

The product Knock Out/In Previous Coupon Swap is aimed at retail clients, professional clients and eligible counterparties, who are interested in hedgingincome. The Knock Out/In Previous Coupon Swap is a product for informed investors and advanced investors.[*]
The intended retail investor has a high risk tolerance.

[*] Informed investors have average knowledge of relevant financial products and/or some financial industry experience. Advanced investors have good knowledge of relevant financial products and transactions, and/or financial industry experience or accompanied by professional investment advice or included in a discretionary portfolio service.

## What are the risks and what could I get in return?

**Risk indicator**




The summary risk indicator is a guide to the level of risk of this product compared to other products with a similar risk profile sold by Nordea. It shows that the potential risks that the product will lose money because of movements in the markets or because the issuer of this product or the counterparty (which may be Nordea), as applicable, is not able to pay you.
We have classified this product as 7 out of 7, which is the highest risk class.
The risk and profit/loss descriptions relate to this product only.
If this product is combined with other products or commercial positions, the total portfolio will have a significantly different profile than the one for this product alone.

The market value of a knock-out previous coupon swap is exposed to changes in the market rate of interest and to changes in the implied interest volatility.

For the party paying the adjustable coupon against receiving a floating rate the right to initially pay fixed is worth more, the higher the market rate of interest (ie the more the party saves by having the right to pay fixed). However, as the market rate of interest increases, the prospect of the adjustable coupon, increasing has an opposite impact on the market value.
Also changes in the shape of the yield curve may affect the market value of the contract. Initially a steeper yield curve (ie an increased difference between long- and short-term interest rates) tends to decrease the market value for the party paying the adjustable coupon. That is because a steeper curve decreases the expected interest rate saving during the initial fixed-rate period and increases the expected adjustable coupon. Furthermore the above effects are influenced by the nature of the barrier and the level of the agreed fixed rate that becomes active if the barrier is breached.

It is not possible to unambiguously state the effect of changes in implied interest volatility. The impact may be positive or negative depending on the market situation as a change both affects the risk of interest rate adjustments and the chance/risk of rates being permanently fixed at the agreed fixed rate if the barrier is breached.
If the barrier is breached, the knock-out previous coupon swap will become an ordinary interest rate swap, for which a separate risk description is available.
The impact of different factors is summarised in the table below.

| | Knock Out/In Previous Coupon Swap | |
|---|---|---|
| **Market Parameters** | **Influence on market value when increasing** | **Influence on market value when decreasing** |
| Market rate of interest rate | +/- | +/- |
| Steepness of yield curve | +/- | +/- |
| Implied yield curve volatility | +/- | +/- |

## What happens if Nordea Bank Abp [LEI: 529900ODI3047E2LIV03] is unable to pay out?

You are exposed to the risk that the issuer of this product or the counterparty (which may be Nordea), as applicable, might be unable to fulfil its obligations in respect of the product e.g. in the event of insolvency, an administrative order or bail-in. The product is not covered by any deposit protection scheme. Thus, you could lose the entire amount invested.

## What are the costs?

The total costs take into account one-off, on-going, transaction, ancillary and incidental costs.
They include potential early exit penalties. The figures assume you invest 100,000 EUR nominal. The figures are estimates and may change in the future.
The costs charge for the investment is dependent on the risks associated with the transaction and the term of the investment.
We may include additional costs and charges on a case by case basis. If so, Nordea will provide you with information about these costs and charges prior to the point of sale, and will explain the impact that these costs will have on your investment over time.
The cost amount in EUR is for 5 year maturity and has been calculated based on annual transaction cost shown below. For longer contracts the cost amount may be higher.

| Investment (based on above nominal over a 5 year term) | Cumulative Costs |
|---|---|
| Combined cost to buy and exit the product | 1500 |
| % p.a. of nominal | 1.5 |

### Composition of costs on purchase of the product

| Detailed Costs | Description | Amount in EUR p.a. | % p.a. |
|---|---|---|---|
| One-off costs | All costs and charges relating to the handling of the financial instrument paid to product suppliers as an entry cost or exit cost. | 0 | 0 |
| Ongoing costs | All on-going costs and charges that are related to the management of the financial instrument and deducted from the value of the financial instrument during the holding period of the investment in the financial instrument. | 0 | 0 |
| Transaction costs | All execution costs and charges associated with the buying or selling of the financial instrument performed by Nordea or another party. | 300 | 0.3 |
| Ancillary services | Any other costs and charges tied to servicing the financial instrument during the holding period of the financial instrument – such as research commissions. | 0 | 0 |
| Incidental costs | Any costs and charges tied to events during the holding period of the financial instrument – such as performance fees. | 0 | 0 |

## How can I complain?

Any complaint regarding the product or the conduct of the persons within Nordea advising on, or selling the product can be submitted under the following website https://www.nordea.fi/en/personal/get-help/tell-us-what-you-think-about-our-services.html, in written form to Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Helsinki.