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	Bermudan Swaption / European Amortising Swaption
Issuer of this document	Nordea Bank Abp (hereafter "Nordea")
Regulated by	Finnish Financial Supervisory Authority
Produced	19.05.2020

What is this product?

Description

Swap settlement
A Bermudan swaption is an agreement between two parties giving the buyer the right, but not the obligation, to enter into an interest rate swap (see separate product description) at a specified fixed rate (strike price) at only one out of a number of specified future dates (exercise dates). Once the buyer has exercised his right, the remainder of the transaction is terminated.

Cash settlement
A cash-settled Bermudan swaption is an agreement between two parties giving the buyer the right, but not the obligation, to receive the cash value of the difference between the strike price and the reference rate of the underlying interest rate swap at only one out of a number of specified future dates. Once the buyer has exercised his right, the remainder of the transaction is terminated. There are two ways of calculating the cash value of the Bermudan swaption:

- Using the yield curve to discount the future cash flows stemming from the difference between the strike price and the reference rate.
- Using the reference rate for the underlying interest rate swap to discount the future cash flows stemming from the difference between the strike price and the reference rate.

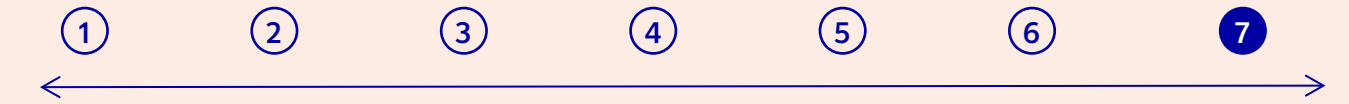
The reference rate for the underlying interest rate swap will typically be based on an official swap fixing, eg ISDAFIX. In case an official swap fixing does not exist, the conditions for the reference rate can be agreed specifically between the two parties.
Whether the transaction has to be swap- or cash-settled and the related discounting method must be agreed between the parties at inception.
The structure of the underlying interest rate swap must be specified at inception. The notional amount is used for payoff calculation only.
The price is subject to change until the transaction is agreed upon.
The agreement is binding for the seller of the Bermudan swaption. However, it will be possible to terminate the transaction before maturity. If the transaction has a market value, an early termination may involve the initial seller paying the present market value to the buyer.

Intended investor

The product Bermudan Swaption / European Amortising Swaption is aimed at professional clients and eligible counterparties, who are interested in hedgingincome. The Bermudan Swaption / European Amortising Swaption is a product for informed investors and advanced investors.* The intended retail investor has a high risk tolerance.

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

Risk indicator



The actual risk can vary significantly if you cash in at an early stage and you lose the entire amount invested.

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.

* 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.

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 Bermudan swaption is exposed to changes in the market rate of interest and to changes in the implied interest rate volatility. When buying a Bermudan swaption the loss is limited to the paid premium, whereas the potential for profit is unlimited. When selling a Bermudan swaption the potential profit is limited to the premium received, while the risk of loss is unlimited. The market value of a Bermudan swaption is exposed to the market parameters listed in the matrix below.

	Bermudan Swaption / European Amortising Swaption	
Market Parameters	**Influence on market value when increasing**	**Influence on market value when decreasing**
Parallel shift in yield curve	+	-
Steepness of yield curve	+	-
Interest rate 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.