

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	Credit Default Swap
Issuer of this document	Nordea Bank Abp (hereafter "Nordea")
Regulated by	Finnish Financial Supervisory Authority
Produced	01.10.20

What is this product?

Description

A credit default swap (CDS) is an OTC agreement, to buy or sell credit risk on a specified reference entity. Credit default swaps transfer pure credit risk from the protection buyer to the protection seller with no attachment to any underlying funding flows. The buyer of protection pays a premium to the seller of protection. The premium may either be an upfront payment or a series of payments.

If a credit event occurs the protection seller will have to make a payment to the protection buyer. The protection buyer stops making regular premium payments to the seller after a credit event.

A credit event is one of a predefined set of events such as debt rescheduling or default on the payment on a significant debt.

If a credit event occurs the payment from the protection seller is made in one of the following ways:

- The price difference between the reference asset's par value and the value of it after the credit event is paid in cash (Cash Settlement).
- The protection buyer delivers a qualifying debt instrument to the protection seller in return for receiving its full notional amount from the protection seller (Physical Settlement).
- A fixed payment defined when entering into the CDS is paid (a Binary Settlement).

The price is subject to change until the transaction is agreed upon.

The agreed transaction is equally binding until maturity and cannot be cancelled.

However, it may 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 Credit Default Swap is aimed at professional clients and eligible counterparties, who are interested in hedging. The Credit Default Swap is a product for advanced investors.*

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

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 seller of protection is exposed to a credit event in the reference entity. In case of a credit event, the seller will lose the difference between the notional amount of the reference debt and the value of the reference debt after the credit event. The profit is limited to the premium received. When buying protection the loss is limited to the premium paid while the potential profit is the difference between the notional amount of the reference debt and the value of the reference debt after a credit event.

The market value of a credit default swap is exposed to changes in the credit spread on the reference entity.

Also changes in the interest rates will change the value of the credit default swap if the market price is different from the trading price.

Specifically if the protection buyer is hedging a claim on the reference entity (eg a loan given to the entity), the decrease in the market value of the CDS is offset by an increase in the value of the claim.

* 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.

Credit Default Swap		
Market Parameters	Influence on market value when increasing	Influence on market value when decreasing
Credit spread	+	-
Interest rates (credit spread < CDS deal spread)	+	-
Interest rates (credit spread > CDS deal spread)	-	+

What happens if Nordea Bank Abp 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.

Investment (based on above nominal)	Cumulative Costs
Combined cost to buy and exit the product	1000
% p.a. of nominal	0 - 2.0 per annum

Composition of costs on purchase of the product

Detailed Costs	Description	Amount in EUR	%
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.	200 - 1500bp per annum	0.5
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 to contact Nordea

If you need to get in contact with Nordea, you can either visit this website <https://www.nordea.fi/en/personal/get-help/tell-us-what-you-think-about-our-services.html> or write to us at Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Helsinki.