

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	Capped IRS
Issuer of this document	Nordea Bank Abp (hereafter "Nordea")
Regulated by	Finnish Financial Supervisory Authority
Produced	03.11.21

What is this product?

Description

A Capped IRS is an agreement between two parties to receive (pay) a floating rate and to pay (receive) a capped rate. The floating rate is fixed at the beginning of each interest period, which is usually three or six months. The reference rate for the floating rate payment is based on an official interbank fixing – e.g. Euribor or Libor. The capped rate is initially agreed at the beginning of the contract (called the agreed capped rate). However, the agreed capped rate can be reduced for individual interest periods, if the reference rate for the capped rate is below a determined floor rate on the fixing date. If this is the case the agreed capped rate is reduced with the difference between the floor rate and the reference rate for that interest period, if not the capped rate will stay equal to the agreed capped rate. The reference rate for the capped rate is based on an official interbank fixing – e.g. Euribor or Libor. The interest periods for the capped leg and the floating leg may or may not be coinciding. Advantages to the payer of the capped rate:

- No obligatory premium payable in advance
- Full advantage of a rise in interest rates
- Limited exposure against falling rates after the determined floor rate

Disadvantages to the payer of the capped rate:

The agreed capped rate is higher than the fixed rate in a comparable fixed versus float interest rate swap

The notional amount in a Capped IRS is used solely as the basis for calculating the interest payment. Cash flows consist purely of the interest payments. Typically, a net settlement arrangement will be agreed, so that the payments 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 it cannot be cancelled. However, it will be possible for each party 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. Furthermore Nordea Bank Abp may have the option of calling for an early termination of the agreed transaction depending on the terms stated in the specific agreement between Nordea and the client.

Intended investor

The product Capped IRS is aimed at retail clients, professional clients and eligible counterparties, who are interested in hedging income. The Capped IRS is a product for informed investors and 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 market value of the Capped IRS is exposed to changes in the yield curve and to changes in the implied interest rate volatility. As the market value of the Capped IRS consists of the sum of the market values of the individual interest periods, it is not possible to unambiguously state the effect of general market changes on the market value of the Capped IRS as a whole. However an upwards parallel shift in the yield curve will lead to an increase in the market value of the Capped IRS and vice versa. Likewise an increase in the implied interest volatility covering all the interest periods for the capped rate will increase the market value of the capped IRS and vice versa. Furthermore considering the market value of one specific interest period, it will be exposed to the underlying market rate of interest and volatility for that specific period as listed in the matrix below.

* 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.

Market Parameters	Capped IRS	
	Influence on market value when increasing	Influence on market value when decreasing
Market rate of interest	+	-
Implied interest rate volatility	+	-
Time to maturity	+	-

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.

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 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.