

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	Floating Threshold Swap
Issuer of this document	Nordea Bank Abp (hereafter "Nordea")
Regulated by	Finnish Financial Supervisory Authority
Produced	29.03.24

What is this product?

Description

A threshold swap is an agreement whereby a party pays a fixed rate against receiving a floating rate, as long as the floating rate remains below an agreed threshold on the fixing dates specified in the contract. If the floating rate reaches the threshold on a fixing date, the fixed-rate payer will instead pay the floating rate for that fixing period. Thus for each fixing period, it is determined whether the fixed-rate payer is to pay the floating or the agreed fixed rate. The floating rate must refer to an official interbank fixing – e.g. EURIBOR or LIBOR. By using a threshold swap a borrower can hedge against a modest rise in interest rates achieving a lower fixed rate than he could get in a plain vanilla swap. The savings on the fixed rate are increased if the threshold is set closer to the fixed rate. The details to agree before entering a trade in a threshold swap are: Currency, notional amount, amortisation, maturity, fixed rate, reference rate, reference period/payment frequency, threshold level.

Intended investor

The product Floating Threshold Swap is aimed at professional clients and eligible counterparties, who are interested in hedging income. The Floating Threshold Swap is a product for advanced investors.*

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

Market risk

The market value of a threshold swap is exposed to changes in the market rate of interest. For the fixed-rate payer an increase in the market rate of interest will initially lead to a positive change in the market value. However, as the yield increases to levels higher than the threshold, the market value will gradually decrease towards zero. A decrease in the market rate of interest rate from the levels at which the threshold swap was originally fixed will lead to a negative change in the market value. The market value of a threshold swap is further exposed to changes in the implied interest rate volatility. For the fixed-rate payer an increase in the implied interest rate volatility will initially lead to a negative change in the market value, and vice versa. However, if the market rate of interest increases to a level above the threshold, this relation may be neutralized or reversed.

The market value of a payer threshold swap (pay fixed rate) will be positive changed when an increasing parallel shift in the yield curve occur and/ or when the yield curve steepens. The market value will be positive changed when volatility decreases.

An example: The threshold swap is ideal for floating rate payers who wishes to hedge their floating-rate exposure, but believe that the floating rate has limited upside potential. This product is an alternative to a plain vanilla swap for a floating-rate payer who wishes to hedge the floating-rate exposure, provided he does not believe the floating rate will rise above the threshold during the lifetime of the swap. A floating-rate payer wants to pay a fixed rate, but does not believe the floating rate will rise above 2.5% over the next five years. So instead of fixing the interest rate at 2.50% the floating rate payer enters into a threshold swap and pays 2.20% if the floating rate stays below 2.50% (made up levels).

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.

Counterparty credit risk

When buying this product you assume a credit risk on Nordea Bank Abp. In the event that Nordea Bank Abp is unable to fulfil its payment obligations under this product, you may not receive any amount from Nordea Bank Abp. Note that the product is not covered by any investor compensation or deposit guarantee scheme. If we are not able to pay you what is owed, you could incur significant losses.

Termination

A payer threshold swap is a mutually binding contract until maturity that cannot be unilaterally terminated, unless an optional or mandatory break clause has been agreed. The transaction between you and Nordea provides that if certain events occur (1) Nordea may make adjustments to certain terms and/or (2) Nordea or you may terminate the product early. You may not be able to terminate this product even though you or Nordea have terminated or discontinued a product or a commercial flow that this product is aimed to hedge. As the market value of a payer threshold swap may change after entering into the transaction (see section above on market risk), an early termination will usually involve settlement of the outstanding market value, which is calculated at the time of termination. If this market value is positive an amount will be received from Nordea and if negative an amount has to be paid to Nordea.

* 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.

Floating Threshold Swap		
Market Parameters	Influence on market value when increasing	Influence on market value when decreasing
Steepness of yield curve	+/-	-/+
Interest rate volatility	+/-	+/-
Parallel shift in inflation curve	+/-	-/+

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	375
% p.a. of nominal	0,375

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.	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.