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	Zero Coupon Inflation Floor
Issuer of this document	Nordea Bank Abp (hereafter "Nordea")
Regulated by	Finnish Financial Supervisory Authority
Produced	22.09.20

What is this product?

Description
A zero coupon inflation floor is an agreement between two parties where the buyer will receive the higher of:
- zero and
- the difference between the specified zero coupon inflation floor strike and a change in the inflation index.

The zero coupon inflation floor is made up of a string of options called floorlets with varying maturity. Each individual floorlet will be separately fixed at the expiry date of the floorlet. The floorlet will be fixed against the change in the inflation index in the period from the start date of the floor to the expiry date of the individual floorlet. So in case of a 5-year floor with yearly fixing, the first floorlet period will be one year, the next two years and so forth. Thus for each fixing date, the payoff is determined as the higher of zero and the strike minus the total change in the inflation index – this is the zero coupon feature. This also includes the version where the currency of the underlying inflation index is different from the payment currency, ie, the quanto version.

The change in the inflation index is calculated as the percentage change in the value of the underlying index from the start date of the floor to the fixing date, eg from May 2017 to December 2017. The individual floorlets can have varying strike prices and notional amounts, but these must be pre-specified. The reference inflation index must refer to an official inflation index – eg headline CPI or CPI ex tobacco.

In a zero coupon inflation floor there is cash settlement at each fixing date. On each fixing date the value of each floorlet is determined and paid out in cash. Thus the notional amount of the inflation floor is used for payoff calculation only. A zero coupon inflation floor can thus be used as a hedge against the inflation index ever moving below a certain level during the life of the zero coupon inflation floor. The price is subject to change until the transaction is agreed upon. The agreement is binding for the seller of the zero coupon inflation floor. However, it will be possible to terminate the transaction before maturity. An early termination will involve a payment of the present market value from the initial seller to the initial buyer.

Intended investor
The product Zero Coupon Inflation Floor is aimed at professional clients and eligible counterparties, who are interested in preservation of their capital, capital growth and hedging, income and other investment objectives. The Zero Coupon Inflation Floor 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 market value of a zero coupon inflation floor is exposed to changes in the market's implied inflation expectations and to changes in the implied inflation volatility.
For a quanto version the market value is also exposed to changes in the implied volatility of the exchange rate between the payment currency and the currency of the underlying inflation index and to changes in the implied correlation between the inflation index and the exchange rate.

As the market value of a zero coupon inflation floor consists of the sum of the market values of the individual floorlets, it is not possible to unambiguously state the effect of general market changes on the market value of the inflation floor as a whole.
However, a downward (upward) parallel shift in the inflation curve will lead to an increase (decrease) in the market value of the zero coupon inflation floor. Likewise an increase (decrease) in the implied interest rate volatility covering all the floorlets will increase (decrease) the market value of the zero coupon inflation floor.
Furthermore, considering the market value of one specific floorlet, it will be exposed to changes in the markets implied inflation expectations and to changes in the implied inflation volatility for that specific period as listed in the matrix below.

* 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.

	Zero Coupon Inflation Floor	
Market Parameters	Influence on market value when increasing	Influence on market value when decreasing
Inflation expectations	-	+
Implied inflation volatility	+	-
Time to maturity	+	-
Implied FX rate volatility (applies to quanto versions)	+/-	+/-
Implied correlation (FX rate, inflation index- applies to quanto versions)	+/-	+/-

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.