

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	CDS Index Options (payer and receiver)
Issuer of this document	Nordea Bank Abp (hereafter "Nordea")
Regulated by	Finnish Financial Supervisory Authority
Produced	06.09.24

What is this product?

Description

A CDS index option (CIO) is an agreement between two parties giving the buyer the right, but not the obligation, to buy or sell credit protection on a specified CDS index at a specified price (strike price) on a specified future date (expiry date). The right to buy credit protection is referred to as a payer option, and the right to sell credit protection is referred to as a receiver option.

A CIO can either be cash settled at expiry using a specified reference spread or reference price, or it can be physically settled at the strike price.

In case of cash settlement, the method determining the price of the reference spread at expiry must be specified at trade inception.

Market conventions

The underlying CDS index has a fixed coupon. The market price of the CDS index can thus trade at either a premium at par or at a discount in relation to the fixed coupon. The market price can be quoted as a spread or as an upfront price. The specified strike price of the CIO will follow the prevailing market convention.

In the following two paragraphs it is important to distinguish between the option buyer/seller and the protection buyer/seller.

In case the option is exercised by the option buyer, the buyer of credit protection (that is, the buyer of a payer option or the seller of a receiver option) is entitled to the proceeds stemming from past credit events occurring during the life of the option in any of the names underlying the CDS index.

Vice versa, in case the option is exercised by the option buyer, the seller of credit protection (that is, the buyer of a receiver option or the seller of a payer option) is liable to pay the debt stemming from past credit events during the life of the option in any of the names underlying the CD index.

Thus the decision for the option buyer about whether to exercise on the expiry date has to take into account the value of past credit events in the underlying index names during the life of the option.

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

The agreement is binding for the seller of the option. 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 the initial seller paying the present market value to the buyer.

Intended investor

The product CDS Index Options (payer and receiver) is aimed at professional clients and eligible counterparties, who are interested in hedging and leveraged participation. The CDS Index Options (payer and receiver) is a product for advanced investors.*

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

The risk and profit/loss description 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 CIO is exposed to changes in the market price of the underlying CDS index, the implied volatility of the underlying CDS index, credit events, the market rate of interest and the time to expiry.

When buying a CIO the loss is limited to the premium paid, whereas the potential for profit is unlimited. When selling a CIO the potential profit is limited to the premium received, while the risk of loss is unlimited. The market value of a CIO is exposed to the market parameters 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.

CDS Index Options (payer and receiver)		
Market Parameters	Influence on market value when increasing	Influence on market value when decreasing
Credit spread	-	+
CDS index volatility	+	-
Credit events	+/-	+/-
Interest rate	+/-	+/-
Time to expiry	+	-

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	3000
% 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	1.5
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, Satamarakkatu 5, FI-00020 NORDEA, Helsinki.