

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	Spread Cap Floor
Issuer of this document	Nordea Bank Abp (hereafter "Nordea")
Regulated by	Finnish Financial Supervisory Authority
Produced	11.12.24

What is this product?

Description

A cap (floor) is an agreement between two parties giving the buyer the right, but not the obligation, to pay (receive) interest at the specified cap (floor) strike and receive (pay) a floating reference rate at specified future dates. No exchange of the interest payments takes place, as the net difference between the cap (floor) strike and the reference rate is cash settled at the end of each reference period. Thus the notional amount of the cap (floor) is only used for the payoff calculation.

A cap (floor) is constructed as a string of consecutive options called caplets (floorlets). Each individual caplet (floorlet) will be separately fixed against the chosen reference rate at the caplet's (floorlet's) expiry date.

The individual caplets (floorlets) can have varying strike prices and notional amounts, but these must be prespecified.

As each individual caplet (floorlet) is fixed, the buyer of the cap (floor) will receive the higher of

- zero and
- the difference between the floating reference rate and the strike of the caplet (floorlet) at the maturity date of the caplet (floorlet).

The relation between the expiry date and the start date of the caplet (floorlet) period depends on the business day convention of the underlying market. Thus each caplet (floorlet) is fixed prior to or at the start date of the caplet (floorlet) period, and the potential payment is settled at the end of the caplet (floorlet) period.

The floating rate must refer to an official interbank fixing – eg EURIBOR or LIBOR. As in the case of interest rate swaps, the floating rate is reset typically for 3- or 6-month periods using the official fixing.

A special version is the Aggregate Cap (Floor). In this case the potential payments from the fixings of multiple caplets (floorlets) are aggregated and paid at one specified future date.

The premium of the cap (floor) is the sum of the market value of the individual caplets (floorlets). The buyer can pay the premium to the seller either up front or in instalments over the life of the cap (floor).

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

The agreement is binding for the seller of the cap (floor). However, it will be possible to terminate the transaction before maturity. If the transaction has a market value, an early termination may involve the initial seller paying the present market value to the buyer.

Intended investor

The product Spread Cap Floor is aimed at professional clients and eligible counterparties, who are interested in hedging. The Spread Cap Floor is a product for informed investors and advanced investors.*

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

The market value of the cap (floor) is exposed to changes in the yield curve and to changes in the implied interest rate volatility.

As the market value of the cap (floor) consists of the sum of the market values of the individual caplets (floorlets), it is not possible to unambiguously state the effect of general market changes on the market value of the cap (floor) as a whole.

However an upwards (downwards) parallel shift in the yield curve will lead to an increase in the market value of the cap (floor) and vice versa. Likewise an increase in the implied interest volatility covering all the caplets (floorlets) will increase the market value of the cap (floor) and vice versa.

Furthermore considering the market value of one specific caplet, it will be exposed to the underlying market rate of interest and volatility for that specific period as listed in the matrix below.

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.

* 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	Spread Cap Floor	
	Influence on market value when increasing	Influence on market value when decreasing
Time to maturity	+	-
Implied interest rate volatility	+	-
Market rate of interest	+	-

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.