

# Portfolio Bonds

Balanced | Growth

**SALE PERIOD:**

1 June – 4 September 2015

**INVESTMENT PERIOD:**

About 6 years

**REFERENCE ASSETS:**

3 equity indices which represent the US, European and Pan Asian markets





## Portfolio Bonds

Portfolio Bonds offer the opportunity to make a safer investment, particularly to savers who wish to take advantage of the high expected return in the equity market but are unwilling to expose themselves to the risks of direct equity investments. The product range being sold now has been tailored to two different risk and return profiles. Savers can choose between the Balanced and Growth alternatives to pick the saving solution that best suits their needs. Our Portfolio Bonds offer full capital protection.\*

The European, US and Pan Asian markets make up the majority of the global economy and equity markets. The reference assets

of the Investment Bonds are three equity indices that reflect the performance of these three economic areas. The bonds seek a strong return by utilising Nordea's investment strategy when determining the weights of the equity indices. The Investment Bonds on sale now have the following weights: Europe 50 %, United States 35 % and Pan-Asia 15 %.

Source: Investment Product Sales, Nordea Markets

\* The bonds involve an issuer risk. The bonds involve a premium which will not be repaid.



Global diversification  
with a single investment



# Market overview

## Solid returns

Equity and fixed income investments have both generated solid returns over the last few years. Economic growth, although modest, has supported companies' profit performance and share prices at the same time as they have squeezed out more earnings growth through efficiency measures. The central banks' loose monetary policy has boosted not only the equity markets, but the fixed income markets, too, as their measures to push down interest rates has caused bond investments to appreciate in value. This, however, has led to a situation where investors are left with no alternatives for equity investments, as fixed income investments have become expensive, offering meagre yields going forward.

## We favour the equity market

We have favoured equity investments for a long time and continue to do so. For us to significantly alter our recommendations, market conditions would have to change significantly – for better or worse. No such shift is on the horizon and we feel that the underlying circumstances still favour the equity markets: the global economy is growing, although with a slight limp, interest rates are not poised to rise rapidly and central banks are doing all they can to keep economic growth going.

It is clear that the market tailwinds will not continue forever, with the investment environment bound to take a turn for the worse at some point. Usually the largest and most prolonged drops in equity prices coincide with economic recessions. The next recession is likely to occur before too long, but it is difficult to find any signs from economic indicators about a clear slowdown in the global economy. In our view, the rise

in equity prices is not a threat to the equity market because concurrent corporate earnings growth has prevented prices from reaching "bubble-like" levels.

## Equities from different regions

Our investment advice is always based on a well-diversified portfolio, as it is crucial for risk management. Price fluctuations in the equity market are generally speaking more pronounced than in the fixed income market, and therefore different asset classes will balance an investment portfolio's return as a whole. It is also recommended that you make different investments within the asset classes – for example, geographical diversification in equities is a wise strategy.

North American equities represent about half of the global equity market, which means the region should permanently form a large chunk of a well-diversified portfolio. Europe also accounts for a significant share of the global market, and European shares are currently supported by the region's improved economic outlook. Led by China, Asia (including Japan) has grown in importance in the global investment markets, and its weight in a well-diversified portfolio has similarly increased. Although Asia's most vigorous economic growth is now behind us, the region is still set to outpace growth in the Western countries.

**Juha Kettinen,**  
Strategist, Nordea Wealth Management,  
May 2015

# Reference assets

The reference assets of the Portfolio Bonds are the low volatility indices of the US, European and Pan Asian markets, respectively the S&P 500 Low Volatility Index, S&P Europe 350 Low Volatility Index and S&P Pan Asia Low Volatility Index. The companies are selected to the indices every three months based on their historical price volatility. The low volatility indices have historically outperformed their benchmark indices and their performance has been more even. Put simply, investors who have invested in low volatility equities have historically received a higher return than from the benchmark index at a lower price volatility, which means a lower risk.\*

## S&P 500 Low Volatility Index

The S&P 500 Low Volatility Index has one hundred constituents selected every three months from the renowned S&P 500 Index, which includes some of the largest and best-known US companies. The constituents of the S&P 500 Low Volatility Index come from ten different sectors, the largest of which are financials, utilities and consumer staples. In the long term, the equity index has upside potential due to the strong performance of the US economy, which is expected to remain a driver of global economic growth.

## S&P Europe 350 Low Volatility Index

Alongside its US counterpart, the European equity market is one of the most tracked markets in the world. The S&P Europe 350

Low Volatility Index consists of companies from twelve national equity markets, covering ten different sectors. Companies listed in the United Kingdom have the largest weight in the index, accounting for about 37%. The biggest sector in the index is financials, with a share of 24%. Besides US companies, European listed companies point the way for the global equity market's performance and thus form an essential part of every well-diversified equity portfolio.

## S&P Pan Asia Low Volatility Index

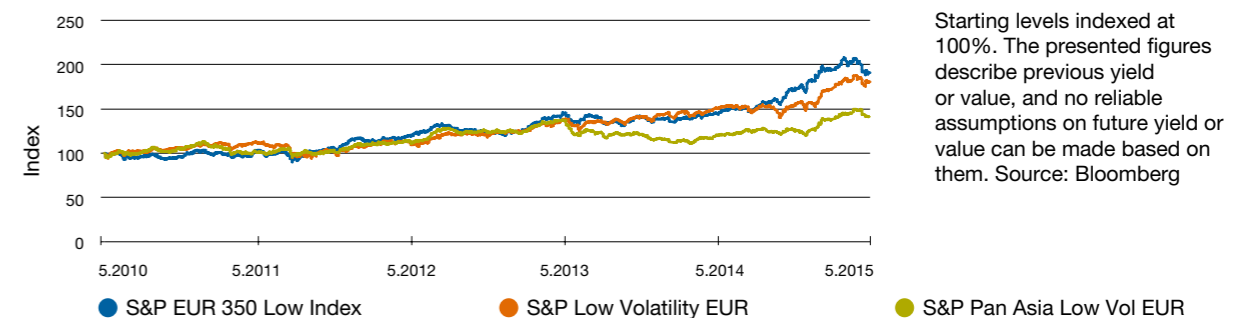
Besides the US and European markets, a balanced equity portfolio should also include investments in Pan Asian markets. The growth and return expectations in the Pan Asian are higher than in the developed markets. The same applies to the respective markets' risks. For this reason, the emerging markets should have a moderate weight in an investment portfolio. The S&P Pan Asia Low Volatility Index consists of fifty companies from the equity markets of Singapore, Australia, Malaysia, Hong Kong, Taiwan and Japan. The three largest sectors are financials, telecommunication services and industrials, accounting for around 58% of the index's sector diversification.

The index descriptions are based on the situation on 3.2.2015. More information on the indices is available at: <http://us.spindices.com>.

\* Past performance is not a guarantee of future results.

” Diversification utilizes  
Nordea's investment strategy

Performance of the equity indices May 2010–May 2015.

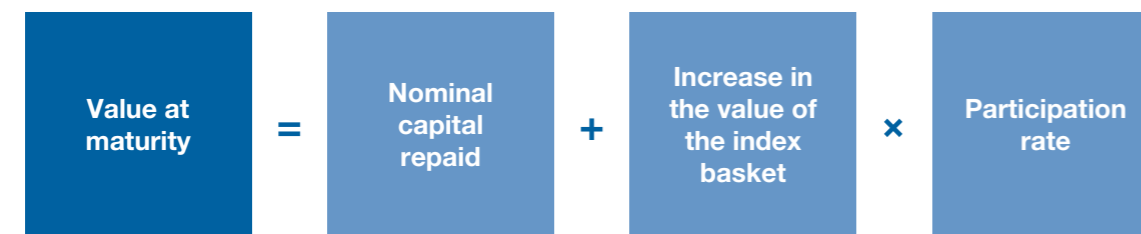


# Yield calculation and repayment of capital

The yield paid at maturity is determined based on the index basket performance and the participation rate. The index basket performance is the weighted average of the performances of the equity indices serving as the reference asset. The performance of each index is calculated by dividing the difference between its final price and initial price by the initial price. The initial price of the indices is the average of their closing values on 16 February 2015, 16 March 2015, 16 April 2015 and 29 May 2015. The final price is the average of the semi-annual closing values of the indices from 10 May 2016 to 10 May 2021. The S&P Europe 350 Low Volatility Index's weight is 45%, the S&P 500 Low Volatility Index's weight is 40% and the S&P Pan Asia Low Volatility Index's weight is 15%.

If the index basket performance is positive in accordance with the yield calculation, the yield will be calculated by multiplying the increase in value by the participation rate of the Investment Bond. If the index basket performance in accordance with the issue terms is zero or negative, no yield is paid. The Balanced alternative has a participation rate of 60%, the Growth alternative has a participation rate of 125%.

In the case of the Portfolio Bonds' Balanced and Growth alternatives, the nominal capital is repaid in full at maturity, regardless of the index basket performance.



The calculation examples below illustrate the performance of the Portfolio Bonds in three different scenarios.\*

**Positive scenario: Index basket performance in accordance with the yield calculation is 50%**

	Index basket performance in accordance with yield calculation	Participation rate	Yield	Repayment of nominal capital	Maturity value	Annual yield
<b>Balanced</b>	50 %	60 %	30 %	100 %	130 %	3,5 %
<b>Growth</b>	50 %	125 %	62,5 %	100 %	162,5 %	6,4 %

**Neutral scenario: Index basket performance in accordance with the yield calculation is 25%**

	Index basket performance in accordance with yield calculation	Participation rate	Yield	Repayment of nominal capital	Maturity value	Annual yield
<b>Balanced</b>	25 %	60 %	15 %	100 %	115 %	1,5 %
<b>Growth</b>	25 %	125 %	31,3 %	100 %	131,3 %	2,8 %

**Negative scenario: Index basket performance in accordance with the yield calculation is -20%**

	Index basket performance in accordance with yield calculation	Participation rate	Yield	Repayment of nominal capital	Maturity value	Annual yield
<b>Balanced</b>	-20 %	60 %	0 %	100 %	100 %	-0,8 %
<b>Growth</b>	-20 %	125 %	0 %	100 %	100 %	-1,5 %

” Choose the risk and return profile that suits you

\* The 5% premium for the Balanced alternative and the 10% premium for the Growth has been taken into account in the calculation of the annual yield. The premium will not be returned. Taxes have not been accounted for. The information above is intended as an example and does not reflect the product's historical or expected performance.

The index basket performance in accordance with yield calculations takes into consideration the semi-annual averaging of the indices. 50 % performance is reached if the index basket rises circa 10,9 % p.a., 25 % performance is reached if the index basket rises circa 6,0 % p.a. and -20 % performance is reached if the index basket falls by circa 5,9 % p.a.

# Portfolio Bonds

Portfolio Bonds are bonds issued by Nordea Bank Finland Plc. Their yield is determined by the performance of their reference asset and the bond-specific yield calculation method. Their reference assets are typically various foreign equity indices. As with direct equity and fund investments, Portfolio Bonds benefit from a rise in their reference markets but offer at least partial capital protection in the event of the reference markets' decline.

The Balanced and Growth alternatives of the Portfolio Bonds are capital protected, meaning their nominal capital will be repaid on the maturity date regardless of the reference asset's performance.

All Portfolio Bonds have a pre-specified investment horizon, usually around six years. Portfolio Bonds are sold in denominations of 1,000 euros.

Portfolio Bonds involve a risk of the issuer's insolvency. Read more about this and other risks involved in Portfolio Bonds on page 10.

## Subscription price may vary

With Portfolio Bonds issued by Nordea, the subscription price may fluctuate during the subscription period, rising above or falling below 100%. The fluctuation in the subscription price is caused by movements in the fixed income and equity markets. If the subscription price is more than 100%, the Portfolio Bonds involves a premium risk. The premium will not be returned.

## You can also buy and sell Portfolio Bonds during the investment period

Investors do not have to wait until the maturity date to sell their investment. Daily buy and sell quotes are provided for Nordea's Portfolio Bonds, which can be traded in Netbank, for example. If an investment is sold on the secondary market before maturity, the secondary market price may be higher or lower than 100%. It is important to note that capital protection for the Balanced and Growth alternatives is only valid on the maturity date.

## Building blocks of the Portfolio Bonds

The invested nominal capital is divided into a fixed income investment, a yield component and a structuring cost. The enclosed illustration presents the building blocks for the two different Portfolio Bonds.

### Fixed income investment:

A certain proportion of the nominal capital is invested in the fixed income market in order to provide the potential nominal capital protection at maturity. The higher the percentage of the nominal capital that is protected, the more nominal capital must be invested in fixed income instruments.

### Yield component:

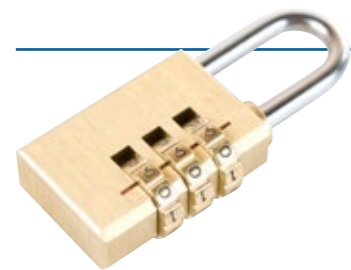
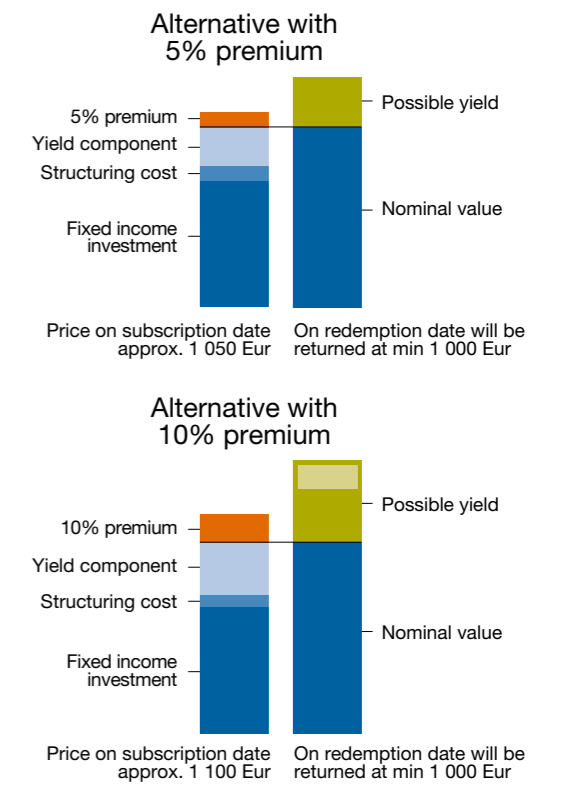
The yield component makes it possible to benefit from the reference asset's positive performance. The amount of nominal capital left after the fixed income investment and the structuring cost is invested in the yield component.

### Structuring cost:

The structuring cost covers all expenses incurred by the issuer from the Portfolio Bonds, such as issuing, licensing, material and marketing costs.

### Premium:

The premium is the amount exceeding the subscription price and is used for the yield component. The higher the premium, the larger the yield component. This, in turn, leads to a higher participation rate.



An alternative to direct equity investments

# Risks of the Portfolio Bonds

## Issuer risk

The Portfolio Bonds involve a risk related to the issuer Nordea Bank Finland Plc's repayment ability. The risk relating to the issuer's repayment ability refers to the risk of the issuer becoming insolvent and being unable to fulfil its commitments in a bankruptcy etc. The investor may lose his or her invested capital and any potential yield partially or in full in the event of the issuer's insolvency. Nordea has a credit rating of Aa3 (negative outlook) by Moody's and AA- by Standard & Poor's (negative outlook). The bonds are unsecured.

## Yield and market risk

The Portfolio Bonds' yield at maturity is determined on the basis of the reference indices' performance in accordance with the yield calculation. The performance in accordance with the yield calculation differs from that of a direct investment in the reference index during the investment period. The reference indices of the Portfolio Bonds are price indices. This means that when calculating an index's value, any dividends paid on the shares included in the index are disregarded.

## Premium risk

The potential premium, i.e. the proportion of the subscription price exceeding the nominal value of the bond, will not be returned. The size of the loss incurred by the investor from

the premium depends on how much the yield is below the premium paid.

## Secondary market risk

In normal market conditions Nordea Bank Finland Plc quotes a secondary market price on the investment on nominal values of 1,000 euros or more. If the investor sells the bond on the secondary market before maturity, the repurchase price may be higher or lower than the nominal value of the bond.

## Risk classification



**LOW RISK. CAPITAL PROTECTION.** Structured investment products, the nominal capital of which is returned at maturity if the issuer is solvent. The investment may

include a premium of 15% at the most. The capital protection is only valid on the maturity date and it does not cover the premium or the fees and costs paid by the investor. The risk relating to the issuer's repayment ability is described in this marketing brochure. The risk classification does not remove the investor's obligation to carefully study this marketing brochure, the product-specific terms and conditions and the prospectus, if any, and the risks mentioned in them.

# Product-specific information on the Portfolio Bonds

## BALANCED

Subscription price	Participation rate	Bond number and ISIN
Variable, about 105%*	65%	A989 and FI4000149174

## GROWTH

Subscription price	Participation rate	Bond number and ISIN
Variable, about 110%*	120%	A990 and FI4000149182

## Sale period

1 June–4 September 2015

## Issue date

1 June 2015

## Maturity

20 September 2021

## Minimum subscription

1,000 euros

## Places of subscription

Nordea Bank AB Lithuania branch, [www.nordea.lt](http://www.nordea.lt)

## Reference asset

Index basket consisting of three equity indices with specific weights:

S&P Europe 350 Low Volatility Index, weight 50%

S&P 500 Low Volatility EUR Index, weight 35%

S&P Pan Asia Low Volatility EUR Index, weight 15%

## Initial price

The average of the reference indices' closing values on 1 June 2015, 1 July 2015, 1 August 2015 and 1 September 2015.

## Final price

Average of the semi-annual closing prices of the reference indices from 5 September 2016 to 5 September 2021.

## Yield calculation

The yield paid at maturity is determined based on the index basket performance and the bond-specific participation rate. The index basket performance is the weighted average of the performances of the indices serving as the reference asset. The performance of each index is calculated by dividing the difference between its final price and initial price by the initial price. If the index basket performance is positive, the yield will be calculated by multiplying the increase in value by the bond-specific participation rate. If the index basket performance is zero or negative, no yield is paid.

## Repayment of capital

In the case of the Balanced and Growth alternatives of the Portfolio Bonds, the issuer will repay the nominal capital of the bonds at maturity, regardless of the reference asset's performance. The premium will not be returned. The premium is determined on the basis of the subscription date. Portfolio Bonds involve a risk of the issuer's insolvency.

## Structuring cost

The subscription price includes a structuring cost of 3.5%, which is the equivalent of an annual cost of about 0.58%. The structuring cost is based on the values of the fixed income and derivative investments included in the bond on the valuation date of 18 May 2015. The structuring cost includes all expenses incurred by the issuer from the bond, such as issuing, licensing, material and marketing costs. The issuer does not charge a separate subscription fee or separate custody fees for the bond.

## Issuer

Nordea Bank Finland Plc; credit ratings Aa3 (Moody's, negative outlook) and AA- (Standard & Poor's, negative outlook).

## Secondary market

In normal market conditions the issuer, Nordea Bank Finland Plc, will quote a repurchase price for the bonds, which may be lower or higher than the nominal value.

## Taxation

Potential yield at maturity is subject to tax at source on interest income for natural persons with general tax liability in Lithuania in accordance with valid tax legislation.

## Custody

Free of charge with Nordea Bank AB.

## Security

The bonds are unsecured.

## Listing

No application will be made for listing the bonds.

\* According to the market situation on 18 May 2015.

**Bonds A989 and A990 are issued under the Structured Note Programme (a bond programme reported to the Finnish Financial Supervisory Authority from Ireland) of Nordea Bank Finland Plc dated 19 December 2014. The base prospectus in English is also available on the issuer's website at [www.nordea.fi/bonds](http://www.nordea.fi/bonds). The final terms of the bonds and the base prospectus can be obtained from the seller. The English version of the terms is binding and thus applicable in possible conflict situations.**

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