

# Cancellable Interest Rate Swaps for Borrowers

## Product Description Sheet

Customer Treasury Services UK



Your view anticipates interest rate uncertainty ✓	Rate protection with this product ✓	Cost paid as a premium ✓
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### The product – in brief

#### Features

A Cancellable Interest Rate Swap (CIRS) is a product that provides the purchaser with rate protection against adverse rate movements by committing to a fixed rate whilst also giving the purchaser the right but not the obligation to cancel the swap after a predetermined period.

You can get a CIRS from a bank other than the one that provided you with the original loan.

The CIRS does not need to be based on a particular loan. You can use the CIRS for any loans you already have.

You can cancel the CIRS at any time. This may result in a profit or loss to you depending on the interest rates and any residual value inherent in the structure at the time of reversal.

This product can be customised to suit specific amounts and dates in all major currencies.

#### Scenario

Your company has borrowed on a three month floating rate basis and will have this requirement for between one and three years.

You believe that interest rates may trade at levels detrimental to your cost of borrowing for the period. You want to protect yourself against this happening.

You are happy to lock in at the current fixed rate for the interest rate swap but you want the option to cancel the swap without penalty after one year up to three years.

### How does the product work?

#### Action

You lock into a CIRS at the three year fixed offered rate which allows you to cancel at each fixing date without penalty after one year.

#### Example: GBP

All interest rates in this example are exclusive of your bank's normal credit margin.

Three month offered rate is trading at 0.70%.  
Three year CIRS offered rate is trading at 2.30%.

- 1) You enter into a three year CIRS with a fixed rate of 2.30% rolling quarterly.
- 2) You pay a premium for this product.



- A. Interest rate you will borrow at for a minimum of one year and a maximum of a further two years.

#### Outcome for each three month fixing

You pay interest at a fixed rate of 2.30% up to one year and have the option to pay a fixed rate of 2.30% up to a further two years.

If you cancel you no longer have a hedge in place for the remaining period.

You need to incorporate the cost of the premium when evaluating this product.



## Do not use this product if:

The use of this structure is out of line with your company's treasury policy.

You do not have the underlying commitment outlined in this structure.

You do not understand the benefits/risk of this structure.

In the worst case scenario, you cannot forego rate gains and endure any potential loss embedded in this structure.

## Products to consider

Below is a range of Interest Rate products which should be considered when evaluating Interest Rate risk.

Caps/Collars/Floors (Vanilla & Knock-In)  
Cross Currency Swaps  
Fixed Loans and Deposits  
Forward Rate Agreements  
Fraptions  
Swaps (Vanilla, Bermudan & Cancellable)  
Swaptions

For further details on these products refer to the relevant product description sheet.

Note: Rates are based on indicative mid-rates at the time of production and for illustration purposes only.

## Other issues to consider

The Bank may require confirmation as to the capacity of an entity to enter into particular treasury transactions. The requirements will vary depending on the type of entity involved and its place of incorporation. For example, for entities incorporated in overseas jurisdictions, a legal opinion which confirms capacity to enter into treasury transactions may be required. For certain companies, the Bank may require that the entry into treasury transactions is included as a specific object in the memorandum of association. These requirements can be discussed with you.

**Having considered these points, your Treasury Relationship Manager at AIB Customer Treasury Services would be pleased to discuss any queries you may have and also to offer you a competitive price should you wish to proceed.**

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