

Forward Rate Agreements for Cash Managers

Product Description Sheet

Customer Treasury Services UK



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

Features

A Forward Rate Agreement (FRA) is a product that provides the purchaser with rate protection against adverse rate movements by committing to a fixed rate for a future period.

You can get a FRA from a bank other than the one where you will deposit the funds.

The FRA does not need to be based on a particular deposit. You can use the FRA for any deposits you already have or expect to have.

You can cancel the FRA at any time. This may result in a profit or loss to you depending on the interest rates at the time of reversal.

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

Scenario

Your company will have cash resources for six months in three months time.

You believe that interest rates may be trading at levels detrimental to your cash position in three months time. You want to protect yourself against this happening.

Action

You lock into an FRA at the fixed bid rate for the period of your deposit. In FRA terms this is known as a “3v9” FRA as you will be depositing for the six months between three months time and nine months time.

How does the product work?

Example: GBP

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

The 3v9 FRA bid rate is trading at 1.00%.

- 1) You enter into the 3v9 FRA with a fixed rate of 1.00%.
- 2) You do not pay a premium for this product.



- A. Interest rate you will effectively receive in three months time for six months

Outcome in three months time

You receive interest at a rate of 1.00% for the six month period regardless of market rates.



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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