

# Fraption 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 ✓
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### The product – in brief

#### Features

A Fraption is an option on a forward rate agreement that provides the purchaser with rate protection against adverse rate movements by providing the option to commit to a fixed rate for a future period.

You can get a Fraption from a bank other than the one with which you will deposit your funds.

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

You can sell the Fraption back to the bank before expiration and receive any residual value.

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

#### Scenario

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

You believe that interest rates may increase in three months time and you want to take advantage of such a move.

You also want protection at a worst case rate should interest rates fall against you.

When evaluating the product you incorporate the cost of the premium.

### How does the product work?

#### Action

You pick a protection rate, which is exclusive of your bank's normal credit margin, and buy a Fraption at that protection rate.

#### Example: GBP

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

- 1) You buy a 3v9 Fraption with a fixed rate of 1.00%.
- 2) You pay a premium for this product.
- 3) Rates between A and B (below) highlight the range where you will deposit in three months time.



- A. Worst Case Rate.
- B. Best Case Rate Unlimited

#### Outcomes in three months time

**Outcome (1)**  
The six month bid rate is above 1.00%. You do not exercise your Fraption and deposit at the prevailing market rate.

**Outcome (2)**  
The six month offered rate is at or below 1.00%. You exercise your Fraption and deposit at 1.00%.

For all outcomes 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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