

Interest Rate Collar for Borrowers

Product Description Sheet

Customer Treasury Services UK



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

Features

An Interest Rate Collar (Collar) is a combination of an Interest Rate Cap (Cap) and an Interest Rate Floor (Floor).

You can get a Collar from a bank other than the one that gave you the original loan.

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

You can reverse the Collar 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 has borrowed on a three month floating rate basis and will have this requirement over the next three years.

You believe that interest rates may decrease over the course of your borrowing period and you want to take advantage of such a move.

You also want full protection at a worst case rate should interest rates rise against you. You are prepared to give up some of the benefit of lower interest rates. When evaluating the product, if it incurs a premium you need to incorporate its cost.

Action

You pick a protection rate, which is exclusive of your bank's normal credit margin, and buy a Cap at that protection rate. You simultaneously sell a Floor thus giving up some of the benefit of lower interest rates.

When both the Cap and the Floor are of equal value there is no premium.

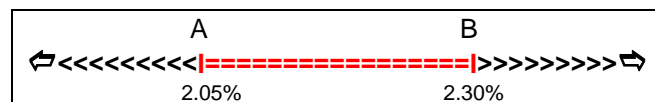
How does the product work?

Example: GBP

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

The fixing rate for the three month GBP offered rate is trading at 0.70%

- 1) You buy a three year Cap rolling quarterly with a strike rate of 2.30%.
- 2) You sell a three year Floor of equal value to the Cap, rolling quarterly with a strike rate of 2.05%.
- 3) Rates between A and B (below) highlight the interest rate range where you will borrow, at each three month fixing date.



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

Potential outcomes for each three month fixing

Outcome (1)
Where the fixing rate is between 2.05% and 2.30% you pay the fixing rate.

Outcome (2)
Where the fixing rate is at or above 2.30% you pay 2.30%.

Outcome (3)
Where the fixing rate is at or below 2.05% you pay 2.05%.



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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