

Swaptions 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 ✓
---	-------------------------------------	--------------------------

The product – in brief

Features

A Swaption is a product that gives you the right but not the obligation to enter into an Interest Rate Swap (IRS) at a future date.

You can get a Swaption from a bank other than the one where you have the original deposit.

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

You can sell a purchased Swaption 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 cash resources for three years.

Over the next three months you expect fixed interest rate volatility and you want to protect yourself against interest rates falling whilst benefiting should they rise.

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

Action

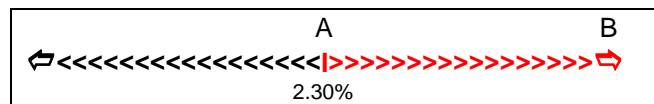
You purchase a Swaption for a three month period which gives you the right but not the obligation to enter into an IRS for the remaining two years nine months of the three year period.

How does the product work?

Example: GBP

Three year IRS bid rate is trading at 2.30%.

- 1) You purchase a three month Swaption on a two year nine month IRS with a rate of 2.30%.
- 2) You pay a premium for this product.
- 3) Area between A and B (below) highlights the range where you can enter an IRS in three months.



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

Potential outcomes in three months time

Outcome (1)

IRS rate for two years nine months is at or lower than 2.30%. You make use of your Swaption and ask us to provide you with an IRS for this period at a rate of 2.30%.

Outcome (2)

IRS rate for two years nine months is higher than 2.30%. You do not want to take up your Swaption at 2.30% and instead you may enter into an IRS at the higher rate.

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 Agreement
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.

This product may not be suitable for your particular circumstances; therefore it is strongly recommended that if you have not already done so you should consult an independent professional financial advisor. This publication is for illustration purposes only and does not constitute investment advice. Changes in market rates may have an adverse effect on the value, price or return of this product. This publication is not to be reproduced in whole or part without prior permission. AIB Customer Treasury Services is a registered business name of Allied Irish Banks, p.l.c. Allied Irish Banks, p.l.c. is authorised by the Central Bank of Ireland. Customer Treasury Services UK is a department of Allied Irish Banks, p.l.c. which conducts business on behalf of AIB Group (UK) p.l.c. AIB Group (UK) p.l.c. is authorised and regulated by the Financial Services Authority. First Trust Bank is a trade mark of AIB Group (UK) p.l.c. incorporated in Northern Ireland. Please note that telephone calls may be recorded in line with market practice.