

Average Rate Option Product Overview



Bank of Ireland 

Global Markets

Average Rate Option

The Governor and Company of the Bank of Ireland acting through its business unit Global Markets (hereafter “Bank of Ireland”) provide Average Rate Options as a tool for managing cross currency exposure.

An Average Rate Foreign Exchange (FX) Option is a tool for managing FX exposure, which when purchased from Bank of Ireland can provide protection against adverse FX movements.

In exchange for an upfront premium, a worst case FX rate can be secured for a future transaction; this rate is known as the Strike Rate.

As Average Rate Options are always cash settled, on the Expiration Date, if the Average of a pre-defined number of FX fixings is greater than the Strike Rate, the customer receives a cash payment from BOI.

If however the Average of the pre-defined number of FX fixings is equal to or lower than the Strike Rate, the option expires worthless.

Bank of Ireland doesn't provide products for speculative purposes. Products are provided to manage a known exposure e.g. where you have a requirement to exchange currencies to match business requirements.

This document has been prepared as an information/marketing communication. If you would like more detail on these products please contact your Bank of Ireland Relationship Manager or your Bank of Ireland Global Markets contact.

PLEASE NOTE:

Bank of Ireland Global Markets does not provide investment advice and provides risk management solutions on a strictly non-advised basis only.

You should consider seeking your own independent advice on the financial and legal aspects before entering into any derivative transaction

Terminology used in this document is defined within the glossary in our Guide to Interest Rate Management and Guide to Foreign Exchange Management which can be found at <https://corporate.bankofireland.com/library/>.

The product outlined in this booklet is intended for both retail and professional clients taking account of the identified target market in accordance with Appendix 1 of our Guide to Interest Rate Management and Guide to Foreign Exchange Management which can be found at <https://corporate.bankofireland.com/library/>.

Key Benefits

- ▶ Provides protection against adverse FX movements above the Strike Rate
- ▶ Known worst case FX rate for FX transaction
- ▶ Potential to take advantage of favourable exchange rate movements
- ▶ Possibility to sell on the option at the current market value if the future FX protection is no longer required

Portability

- ▶ It may also be possible to novate i.e. transfer an Average Rate Option to another entity or another bank, subject to credit approval.

Early Termination

- ▶ It may be possible to terminate the product during the life of the option, at prevailing market rates. This may incur costs. Please refer to Early Termination section for further information.

Key Risks

- ▶ An Average Rate Option consists of an upfront premium paid by the customer which reduces any benefit from the product and is forgone in the case of an unutilised Option
- ▶ The value of the option may fall prior to maturity, so early breakage (from selling on the Option) may not result in full or any recovery of the initial premium.

Early Termination / Changes to the terms of the Average Rate Option

- ▶ It is sometimes possible to terminate your Average Rate Option early or alter other pre-agreed terms during the life. However, depending on prevailing FX at the time, there may be a cost to you or you may realise a gain. Given these risks it is important that you consider carefully the terms and duration of your Average Rate Option at the time of trading. Please refer to the Early Termination section for further information.

Counterparty Risk

- ▶ By purchasing an option from Bank of Ireland you have an exposure to Bank of Ireland in the event of insolvency or related events such as bail in.

Other Features

- ▶ All variables can be tailored to individual customer requirements
- ▶ These options can be dealt in batches to hedge a stream of future expected cashflows

How does it work

A customer has purchased an Average Rate FX Option to protect against GBP weakness, for GBP sales over 6 months, with an Expiration Date in 6 months' time. The current EUR/GBP spot exchange rate is 0.88 and the 6 month outright forward rate is 0.8875.

The customer wishes to secure a worst case rate of 0.89 but believes that GBP may strengthen over the next 6 months.

A EUR Call / GBP Put Average Rate Option, of GBP 1,000,000 is purchased with a Strike Rate of 0.89 at an upfront cost of 1.0% - cost of EUR 11,236 (EUR1m/0.89)*1% /GBP 10,000 (GBP1m * 1.00%)

This option guarantees a worst case exchange rate of 0.89 while allowing the customer to benefit from a stronger GBP rate.

In 6 months time:

Scenario	Average of EUR/GBP Fixings after 6 months	Is the average of the EUR/GBP Fixings above the 0.89 Strike Rate?	Customer Exercises Option?	Payoff at Expiration Date GBP Notional * Max [0, 1/Strike - 1/ Average]	Potential Gain/Loss (including upfront cost of Option)
1	0.92	Yes	Yes	EUR 36,639	EUR 25,403
2	0.82	No	No	EUR 0	- EUR 11,236

Warning: These figures are estimates only. They are not a reliable guide to the future performance of your investment. This product may be affected by changes in currency exchange rates.

Scenario 1: The option has value and so should be exercised. The customer achieves a gain of EUR 25,403

Scenario 2: The option has no value and the option is expired. The customer can beat the budget rate by c.0.07 less option cost of EUR 11,236

Example of an Early Termination

If you wish to terminate early or partially terminate a transaction before its Maturity Date, we will consider such request as soon as reasonably practicable. Should we agree to such a request, the termination may result in a breakage cost payable by the Bank (to you) (the "Breakage Cost"). This cost will be dependent on the time remaining on the transaction and the relevant market rates available to the Bank on the day on which such Early Termination takes effect. The market rates available are not controlled by the Bank and is impacted by external factors such as volatility, liquidity or lack of thereof and economic or political turbulence. All of these factors will impact the breakage cost. You are strongly advised to discuss potential Early Termination cost with us in advance of requesting an Early Termination of a transaction.

Early Termination cost calculation for an Average Rate Option

The Early Termination cost would be determined by the difference between the current FX spot rate, fixings that have already occurred and the FX spot rate at the time of trading. The difference between the current level of FX volatility in the market and the FX volatility in the market at the time of trading.

It is important to investigate breakage costs implications carefully before you proceed to break a transaction before its agreed termination date. Average Rate Options like all options are designed as risk management tools and are designed to be held to the termination date. Please contact your dealer if you require indication breakage pricing on any Average Rate Options transactions you hold. We will provide individual calculations on request.

Should you wish to transact an Average Rate Option

Please follow the steps below to enter into an Average Rate Option:

- ▶ talk to your Bank of Ireland Relationship Manager who will refer you to the relevant FX derivative contact in our Global Markets unit.
- ▶ ensure you have read and understood this document.
- ▶ you will be required to sign an ISDA Master Agreement.
- ▶ talk to your Bank of Ireland Global Markets contact about the particular parameters of the Average Rate Option you require.

In accordance with the rules and requirements set out by the European Union (Markets in Financial Instruments) Regulations 2017 and the Financial Conduct Authority the Bank of Ireland is required to categorise each client either as eligible counterparty, professional client or retail client. Bank of Ireland also has to assess the appropriateness of the product for each customer. Therefore, you may be required to supply supporting documents in order to establish the client category and the appropriateness of the transaction. Before your first transaction, you should receive a categorisation letter and associated Terms of Business. If you do not receive these before the proposed transaction, please contact your Bank of Ireland Global Markets contact.

Your Bank of Ireland Global Markets contact will give you an indicative quote based on the details of your Average Rate Option. Once you have decided you would like to enter into an Average Rate Option, you will be required to provide the necessary documentation, such as:

- ▶ Mandate and other account opening requirements
- ▶ Credit approval will be required before entering into an Option if you are the seller
- ▶ Confirmation of capacity as detailed in your Memorandum and Articles of Association
- ▶ Execution of an ISDA Master Agreement
- ▶ Any other relevant documents

All conversations such as telephone conversations and electronic communications will be recorded (even where they do not lead to the conclusion of an agreement). Transactions are also executed on recorded lines.

As the prevailing market rates are constantly changing, the rate quoted is only valid for immediate acceptance. This rate may differ from the indicative quote given previously.

Any person authorised in your mandate to trade the relevant product may engage and conclude transactions with Bank of Ireland

Confirmations

Post transaction Bank of Ireland will send you a Confirmation outlining the relevant commercial terms of the transaction.

It is important you check the Confirmation to make sure that it matches your understanding of the Trade. If so, please sign and return the Confirmation as directed. In the case of a discrepancy, you will need to raise the matter with your Bank of Ireland Global Markets contact as a matter of urgency.

Should you wish to transact an Average Rate Option

Typically there is an upfront fee which will incorporate Bank of Ireland's risk, execution, administration costs and revenue margin.

A disclosure of expected Aggregated Costs and Charges and expected Total Consideration will be provided as an indication via a pre trade term sheet in advance of any transaction. This pre trade term sheet will use actually incurred costs as a Proxy for the indication term sheet. We will also provide this information on a post trade term sheet confirming actual Aggregated Costs and Charges and actual Total Consideration following execution of any derivative trade. An itemised break down of costs will be provided on request.

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In the UK, Bank of Ireland is authorised by the Central Bank of Ireland and the Prudential Regulation Authority, and is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and our regulation by the Financial Conduct Authority are available from us on request.

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