

Average Rate Forward Product Overview

Bank of Ireland 

Global Markets

Average Rate Forward

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

An Average Rate Forward allows the buyer to lock in forward points and a spot rate (a forward hedge “Strike” rate) today, in a similar manner to a conventional forward. However, the volatility of the payout is reduced, as the final settlement is calculated based on the average spot rates observed over an agreed period (the “Average” rate) and not simply the final spot price. The Average rate is calculated using spot rates and can be observed daily, weekly, monthly or quarterly depending on the buyer’s preference. When the Average rate is calculated it is compared to the Strike rate and this will determine the payout at expiry.

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/>.

Applications

May be an appropriate hedge where:

- ▶ a buyer wants to hedge their FX exposure by incorporating an average of spot rate observations in their forward settlement calculation.
- ▶ where the buyer seeks to lock in a fixed and specified forward strike rate today.
- ▶ where the buyer has a view that spot rate will be range-bound but volatile over the agreed averaging period.

Key Benefits

- ▶ Provides protection against adverse currency movements.
- ▶ Potentially a higher realised average rate than the committed strike rate will result in a positive cash settlement to the customer.
- ▶ Lessens the effect of spot rate volatility on forward settlement cashflow.

Key Risks

- ▶ A lower realised average rate than the committed Strike rate will result in a negative cash settlement for the customer.
- ▶ It is sometimes possible to terminate your Average Rate Forward 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 Forward at the time of trading. Please refer to the Early Termination section for further information
- ▶ Counterparty risk – by entering into a transaction with Bank of Ireland you have an exposure to Bank of Ireland in the event of insolvency or related events such as bail in.

Example

A EUR-based customer who will be in receipt of GBP 1,000,000 revenues in three months' time. The customer enters into an average rate forward with a 0.8438 strike rate, slightly below the simple outright forward rate of 0.8448, to protect this cashflow from future GBP weakening. The customer wishes to use weekly spot observations to calculate the average rate.

Here are three possible outcomes in three months' time after the average rate has been calculated from the averaging observations.

Scenario	Average EUR/GBP	Is Average EUR/GBP higher than the 0.8438 Strike?	If higher: GBP Notional * Max(0,(1/Strike) – (1/Average)) If lower: GBP Notional * Max(0,(1/Average) – (1/Strike))
1	0.8630	Yes	Customer receives €26,366.40
2	0.8438	Equals it	No cash settlement
3	0.8230	No	Customer pays €29,951.87

Scenario 1: Average EUR/GBP is higher than the strike, resulting in a payment to the customer.

Scenario 2: Average EUR/GBP has been calculated as the same as the strike, resulting in no payment being made by either side.

Scenario 3: Average EUR/GBP is lower than the strike, resulting in a payment from the customer.

Other

- ▶ All variables can be tailored to individual customer requirements.
- ▶ The customer can specify the Average rates observation frequency and fixing source.
- ▶ A strip of Average Rate Forwards can be arranged to hedge a stream of future expected cashflows.

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 either you (to the Bank) or 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 Forward

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 Forwards 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 Forwards transactions you hold. We will provide individual calculations on request.

Should you wish to transact an Average Rate Forward

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

- ▶ 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 Forward 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.

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

Your Bank of Ireland Global Markets contact will give you 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. Once you have decided you would like to enter into an Average Rate Forward, 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. This will confirm the 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.

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.

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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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