

# Positioning for Rising Interest Rates

Pre-Hedging 3 years Out

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**Presentation to:**  
**IACT**

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**Bank of Ireland** 

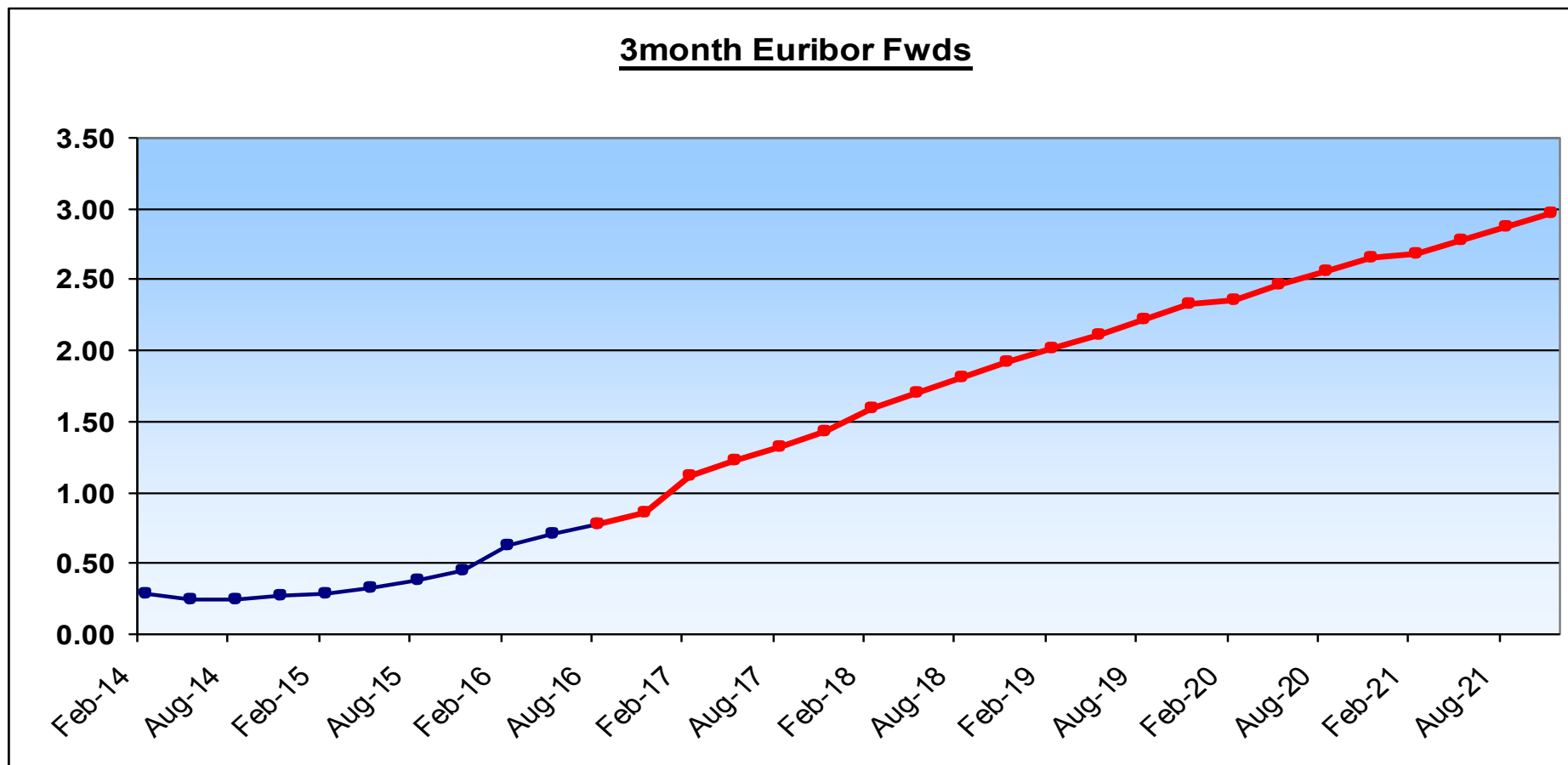
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# Significant refinancing due 2017

## Points to consider

- ▶ Company has no plans to raise debt until 3 years time
- ▶ Likely term of debt ?
- ▶ What rate can be currently locked in ?
- ▶ What degree of Flexibility is required ?
- ▶ What cashflow assumptions ?
- ▶ Also need to factor in lending margin / swap spread.

# Future (expected) path of interest rates



# Is there value in the Forward Swap curve?



# Which instrument to use?

- ▶ **Forward starting IRS**

- ▶ No upfront cost, known swap rate, reduced flexibility, potential significant break cost

- ▶ **Interest Rate Collar**

- ▶ More flexible than IRS, known max interest rate, min rate payable, breakage costs can apply

- ▶ **Interest Rate Cap**

- ▶ Flexible, may benefit from lower rates, relatively costly, premium upfront

- ▶ **Payers Swaption**

- ▶ Right but not obligation to enter into IRS, premium payable
- ▶ Maximum cost of forward swap known, flexible, opt for “cash settlement”

# Which instrument to use?

Option Volatility : around average



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# Which Instrument to use?

## Indicative Pricing

### ▶ **Forward Start IRS**

- ▶ Nominal: €100million
- ▶ From 2/2017 to 2/2022
- ▶ Current rate: 2.15% (Q/Q, A/360)
- ▶ Locked in, regardless of refinancing debt / direction of rates

### ▶ **IR Collar**

- ▶ Nominal: €100million
- ▶ From 2/2017 to 2/2022
- ▶ Floor / Cap Rate: 1.75 – 3.00%
- ▶ Premium: Zero Cost

# Contact us

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# Which Instrument to use?

## Indicative Pricing

### ▶ Payers Swaption

- ▶ Nominal: €100million
- ▶ From 2/2017 to 2/2022
- ▶ Strike Rate: 2.15%
- ▶ European Style
- ▶ Cash / Physical settled
- ▶ Premium: 2.75% (€2.75million)

### ▶ IR Cap

- ▶ Nominal: €100million
- ▶ From 2/2017 to 2/2022
- ▶ Strike Rate: 2.15%
- ▶ Premium: 3.80% (€3.8million)

# Forecasts

End Qtr	ECB	3 year	5 year
Q1 2014	0.10	0.70	1.20
Q2	0.10	1.00	1.50
Q3	0.10	1.00	1.50
Q4	0.10	1.10	1.60
Q1 2015	0.10	1.10	1.60
Q2	0.10	1.10	1.60
Q3	0.10	1.15	1.70
Q4	0.10	1.50	2.00
Q1 2016	0.10	1.90	2.30
Q2	0.25	2.40	2.70
Q3	0.50	2.70	2.90
Q4	0.75	2.90	3.00
<b>Average 1999 - 2008</b>	<b>(3.10)</b>	<b>(3.86)</b>	<b>(4.13)</b>

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