



Interest Rate Floor

What is an Interest Rate Floor?

The Interest Rate Floor is an agreement where the buyer of the instrument receives a payment at the end of an interest period for which a floating interest rate is lower than the predetermined interest rate level. Payments are made on a pre-agreed schedule, including notional, payment period and a floating rate value date. The buyer pays a premium in advance for the Interest Rate Floor, which is due on the settlement date of the transaction.

Who is the Interest Rate Floor intended for?

The Bank offers the Interest Rate Floor in order to be used for protection against decreasing interest rates.

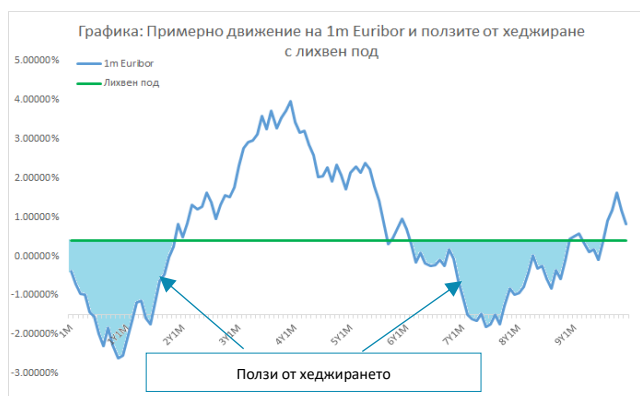
How the Interest Rate Floor works?

The Interest Rate Floor protects its buyer from decreasing interest rates under a certain level (interest rate floor level, strike). In case the floating interest decreases under the strike, the client receives payment equal to the difference between the strike and the floating rate.

Example:

A company has a deposit, which interest is based on 1m Euribor

To hedge its deposit exposure the company can buy an Interest Rate Floor with a strike level of 0.50%. In case the floating interest of the deposit reaches 0.50% or lower interest rate the client receives a payment based on the difference between the floating interest and 0.50%. For the Interest Rate Floor the company pays an upfront premium. Thus, the interest rate of the deposit is not lower than 0.50%.



Main advantages:

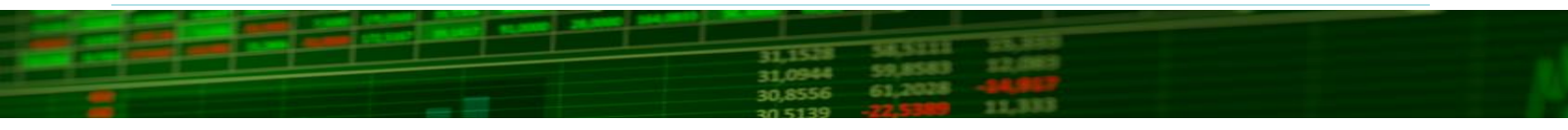
- **Protection** – The clients, which use the Interest Rate Floor for hedging purposes receive protection against decreasing interest rates.
- **Cash flow management** – With the interest rate floor the cash flows become easily predictable.
- **Flexibility** - The Interest Rate Floor is an OTC instrument and its parameters are negotiated between the counterparties of the deal.
- **No opportunity costs** – With the interest rate floor deals, there is no possibility that the client will realize opportunity costs from increasing interest rates.

Main risks and requirements:

- **Early termination** - The Interest Rate Floor does not bear any obligations for the client and its value can only be positive. Upon an early termination, the Bank pays to the client an amount depending on the value of the instrument.
- **Maturity date** – Interest Rate Floor has a maturity date and it is possible that the client does not realize any benefits from it.
- **Market risk** – The value of the instrument is affected by the market conditions, mainly by changes in the interest rate level.
- **Currency risk** – In case the payments of the Interest Rate Floor are denominated in a foreign currency, there is currency risk.
- The client has to pay the **total premium upfront**.

What happens with the Interest Rate Floor, when the hedged deposit / product is terminated before maturity?

The Interest Rate Floor is a separate product and in case of an early termination of the hedged exposure, it continues to exist.



Can the client terminate an Interest Rate Floor before its maturity?

Yes, the client can terminate his Interest Rate Floor before its maturity. The product has its own intrinsic value anytime during its term. Its value can be only positive, because the Interest Rate Floor does not bear any obligations to the client. Upon an early termination, the client receives an up to date quote from the dealers in Department Treasury Sales, which is in line with the current market levels of the instrument. In addition, the clients should also consider the early termination costs.

Collateral for Interest Rate Floor deals:

To buy an Interest Rate Floor the clients pay a premium and no cash deposit or limit approval is required.

Documents:

- Agreement for Interest Rate Options Trading
- General terms & conditions applicable to agreements for the provision of investment services and activities to the clients of DSK Bank AD
- Additional Agreement to settle their relationship in relation to the fulfilment of their obligations under Regulation (EU) No 648/2012 (EMIR)
- Notification-questionnaire for client categorization under the Markets in Financial Instruments Act (MFIA)
- Product's Target Market Compatibility Test
- Information on the nature and risks of financial instruments
- Information on costs
- Order for buying / selling an Interest Rate Floor
- Confirmation for buying / selling an Interest Rate Floor

Key Information Document:

A key information document (KID) has been prepared for the financial instrument Interest Rate Floor, which every client should become acquainted with before entering into such a transaction. The KID can be obtained at the following address: 5 Georgi Benkovski str., Sofia or can be downloaded from the following web address: <https://dskbank.bg/бизнес-клиенти/корпоративно-банкиране/финансови-пазари-и-инвестиции> on the DSK Bank website.

Contacts:

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