

Lists of Interest Rate Movement Insurance Options

Tailored Business Loans {TBLs} were an *“Innovative”* financial product developed by the then parent company of *Clydesdale Bank* (which also traded as *Yorkshire Bank*), **National Australia Bank (NAB)**.

These products were market in the United Kingdom from 2001 to 2012.

SME Borrowers who accepted the offer of a **Variable Interest Rate** Loan from the *“Business Solutions”* division of Clydesdale Bank were advised that a number of Interest Rate Movement Protection Insurance options {Hedging Options} were available should the Borrower wish to fully or partially protect their **Variable Interest Rate** Loan facility from adverse movement in interest rates.

Interest Rate Movement Protection Insurance was also known as an *Interest Rate Hedging Product (IRHP)*.

The number of options promoted was reduced over the years and some new options added.

There are two lists provided below:

- (i) One lists the options promoted around 2005; and
- (ii) The second lists the options promoted around, 2012

The list of Hedging Options were catagorised into three categories:

- (i) *“Floating Rate Loans”*;
- (ii) *“Fixed Rate Loans”*; and
- (iii) *“Hybrid Rate Loans”*

Which was a description of the outcome of utilising a particular hedging strategy with the **Variable Interest Rate Loan** facility that was offered in the *“Facilities”* Letter.

The second list was provided in a communication to SME borrowers in 2012 concerning the FSA mandated review of the *“sale of certain Interest Rate Hedging Products”*.

Customers may have read in the Press that the Financial Services Authority (FSA) has been in discussion with a number of banks, including Clydesdale and Yorkshire Banks (the Bank), about a review of the sale of certain Interest Rate Hedging Products, often referred to as “Interest Rate Swaps”. This letter sets out what the Bank has agreed with the FSA, the steps that we propose to take and details of where you can obtain further information.

In practice, a smaller number, typically three of these options, was discussed in further detail in a *“Strategy Letter”* that was provided to SME Borrowers before they received the loan offer document {*“Facilities”* Letter} which they were then required to sign.

These two lists are summarised in the following Table.

List of Available Hedging Options (around 2005)

Schedule 2

Types of Facilities Available to You

Available in 2012

{Hedging Instrument Type}

Floating Rate Loans

Floating Rate Loan Facility	<i>Unhedged</i>
Floating Capped Rate Loan Facility	Cap
Floating Range Rate Loan Facility	Collar
Pay If Used Capped Rate Loan Facility	
Extinguished Capped Rate Loan Facility	

Fixed Rate Loans

Fixed Rate Loan Facility	?
Fixed Rate Flexible Drawdown Loan Facility	Structured Collar
Fixed Rate Flexible Maturity Loan Facility	Swap
Fixed Rate Flexible Start Loan Facility	

Hybrid Rate Loans

Convertible Fixed Rate Loan Facility	
Convertible Floating Rate Loan Facility	Swap
Discounted Fixed Rate Loan Facility	Swap
Dual Discounted Fixed Rate Range Loan Facility	Structured Collar
Dual Participating Fixed Rate Loan Facility	
Fixed Trigger Rate Loan Facility	Structured Collar
Modified Participating Fixed Rate Loan Facility	Structured Collar
Participating Fixed Rate Flexible Balanced Loan Facility	
Participating Fixed Rate Loan Facility	Structured Collar
<u>Additional Hybrid Rate Types {after 2005}</u>	
Ratched Rate Loan Facility	Swap
Flexible Drawdown Participating Fixed Rate Loan Facility	Structured Collar

List of Hedging Options around 2005

Schedule 2

Types of Facilities Available to You

Floating Rate Loans

Floating Rate Loan Facility

This **facility** allows **you** to enter into a floating rate loan commencing on a specified date and terminating on the **maturity date**. The facility is priced off **LIBOR**. It allows for variable interest rates to be set on a regular basis across an agreed period of time.

Floating Capped Rate Loan Facility

This **facility** allows **you** to enter into a floating capped rate loan commencing on a specified date and terminating on the **maturity date**. The facility is priced off **LIBOR**. It allows for variable interest rates to be set on a regular basis across an agreed period of time. The Cap Rate ensures a known maximum cost of funding.

Floating Range Rate Loan Facility

This **facility** allows **you** to enter into a floating range rate loan commencing on a specified date and terminating on the **maturity date**. The facility is priced off **LIBOR**. It allows for variable interest rates to be set on a regular basis across an agreed period of time but with the added advantage of having both a minimum and maximum cost of funding.

Pay If Used Capped Rate Loan Facility

This **facility** allows **you** to enter into a pay if used capped rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** is a **floating rate facility** with the protection of a Capped Rate. The advantage this **facility** offers over a capped rate loan is that the cost of the protection afforded by the Capped Rate, namely the Cap Fee, only becomes payable when the protection is utilised.

Extinguishable Capped Rate Loan Facility

This **facility** allows **you** to enter into an extinguishable capped rate loan on a specified date and terminating on the **maturity date**. The **facility** is a **floating rate facility** with the added protection of a Capped Rate provided that the Capped Rate has not been extinguished. The Capped Rate will be extinguished if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period equals or falls below the Benchmark Rate. If the Capped Rate is extinguished the **facility** will revert to a **floating rate facility** for the remaining **term** of the **facility**.

Fixed Rate Loans

Fixed Rate Loan Facility

This **facility** allows **you** to enter into a fixed rate loan commencing on a specified date and terminating on the **maturity date**. The interest rates and **interest periods** are agreed at the time of the first drawing.

Fixed Rate Flexible Drawdown Loan Facility

This **facility** allows **you** to enter into a flexible drawdown fixed rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** has a fixed interest rate with the added advantage of being able to increase or decrease the outstanding **loan** balance within a specified range on any rollover date. The range is defined by reference to pre-agreed Minimum and Maximum Loan Amounts.

Fixed Rate Flexible Maturity Loan Facility

This **facility** allows **you** to enter into a fixed rate loan commencing on a specified date and terminating on the **maturity date** with an added ability to extend the term of the **loan** at the same fixed interest rate. The interest rates, **interest periods** and the date **you** wish to notify **us** of **your** intention or otherwise of extending the fixed rate loan must be agreed at the time of entering into the **facility**.

Fixed Rate Flexible Start Loan Facility

This **facility** allows **you** the choice of entering into a fixed rate loan commencing on a specified future date and terminating on the **maturity date**. The interest rates, **interest periods** and the date **you** wish to notify **us** of **your** intention or otherwise of taking up the fixed rate loan must be agreed at the time of entering into the **facility**.

Hybrid Rate Loans

Convertible Fixed Rate Loan Facility

This **facility** allows **you** to enter into a convertible fixed rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** has a fixed interest rate with the added advantage that if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period is less than the Conversion Rate, the **facility** will convert to a **floating rate facility** for the remainder of the **term** of the **facility**. After conversion of the **facility** **you** have the added protection that if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period exceeds the Capped Rate **you** will only pay the Capped Rate.

Convertible Floating Rate Loan Facility

This **facility** allows **you** to enter into a convertible floating rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** is a **floating rate facility** priced off **LIBOR**, with the added advantage that if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period exceeds the Conversion Rate the **facility** will convert to a **fixed rate facility** at the pre-agreed Fixed Interest Rate for the remainder of the **term** of the **facility**.

Discounted Fixed Rate Loan Facility

This **facility** allows **you** to enter into a fixed rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** offers a fixed interest rate provided that on the first day of any **interest period** the **LIBOR** rate for the Designated Period does not equal or exceed the Benchmark Rate. If the **LIBOR** rate for the Designated Period equals or exceeds the Benchmark Rate the **facility** will revert to a **floating rate facility** in respect of that **interest period** only. The **facility** is benchmarked on the first day of each **interest period**. Whilst the **facility** is a **floating rate facility** **you** do have the added protection that if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period equals or exceeds the Capped Rate, **you** will only pay the Capped Rate.

Dual Discounted Fixed Rate Range Loan Facility

This **facility** allows **you** to enter into a discounted fixed rate range loan commencing on a specified date and terminating on the **maturity date**. The **facility** has the advantage of a discounted fixed interest rate which applies when on any drawdown or rate reset date, the **LIBOR** rate for the Designated Period falls within the specified range. The specified range is determined by reference to pre-agreed Minimum and Maximum Rates. The **facility** has two further fixed interest rates, the Minimum Fixed Interest Rate and the Maximum Fixed Interest Rate, which apply if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period sets outside the specified range.

Dual Participating Fixed Rate Loan Facility

This **facility** allows **you** to enter into a dual participating fixed rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** allows for variable interest rates to be set across an agreed period of time if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period falls within the specified range. The specified range is determined by reference to pre-agreed Minimum and Maximum Rates. The **facility** has two further fixed interest rates, the Minimum Fixed Interest Rate and the Maximum Fixed Interest Rate, which apply if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period sets outside of the specified range.

Fixed Trigger Rate Loan Facility

This **facility** allows **you** to enter into a fixed trigger rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** has two fixed interest rates the applicability of each being dependant upon where the **LIBOR** rate for a Designated Period falls in relation to the nominated Trigger Rate. This **facility** gives **you** the advantage of being able to benefit from taking a view as to the direction interest rates will take in the future.

Modified Participating Fixed Rate Loan Facility

This **facility** allows **you** to enter into a modified participating fixed rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** has a fixed interest rate with the added advantage of obtaining a lower modified **LIBOR** rate if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period falls within the specified range. The specified range is determined by reference to pre-agreed Minimum and Maximum Rates. The determination of the relevant interest amount payable in respect of each **interest period** occurs on each drawdown or rate reset date.

Participating Fixed Rate Flexible Balance Loan Facility

This **facility** allows **you** to enter into a participating fixed rate flexible balance loan commencing on a specified date and terminating on the **maturity date**. The **facility** allows for variable interest rates to be set across an agreed period of time if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period falls within the specified range. The specified range is determined by reference to pre-agreed Minimum and Maximum Rates. The **facility** has two further fixed interest rates, the Minimum Fixed Interest Rate and the Maximum Fixed Interest Rate, which apply if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period sets outside the specified range. Additionally, the **facility** has the added advantage of being able to increase or decrease the outstanding **loan** balance within an agreed specified range on any drawdown or rate reset date. The range is defined by reference to pre-agreed Minimum and Maximum Loan Amounts.

Participating Fixed Rate Loan Facility

This **facility** allows **you** to enter into a participating fixed rate loan commencing on a specified date and terminating on the **maturity date**. The **facility** has a fixed interest rate with the added advantage of obtaining a lower interest rate if on any drawdown or rate reset date the **LIBOR** rate for the Designated Period falls within a specified range. The range is determined by reference to pre-agreed Minimum and Maximum Rates. The determination of the relevant interest amount payable in respect of each **interest period** occurs on each drawdown or rate reset date.

List of Hedging Options around 2012



Information relating to Clydesdale and Yorkshire Banks Review of Interest Rate Hedging Products (12 October 2012)

Appendix 1: Full list of products falling within scope of the review as categorised A, B and C for both Interest Rate Hedging Products (Standalone) and Tailored Business Loans (TBLs)

Hedging Product	FSA Category	Product Category	Product Name
Standalone	A	Structured Collar	Ladder Swap
	A	Structured Collar	Pivot Swap
	A	Structured Collar	Window Swap
	B	Collar	Collar
	B	Swap	Callable Swap
	B	Swap	Extendable swap
	B	Swap	Swap
	B	Swap	Swaption
	C	Cap	Cap
Tailored Business Loan	A	Structured Collar	Discounted Fixed Range Rate Loan
	A	Structured Collar	Fixed Trigger Rate Loan
	A	Structured Collar	Flexible Drawdown Participating Fixed Rate Loan
	A	Structured Collar	Modified Participating Fixed Rate Loan
	A	Structured Collar	Participating Fixed Rate Loan
	B	Collar	Range Rate Loan
	B	Swap	Convertible Floating Rate Loan
	B	Swap	Discounted Fixed Rate Loan
	B	Swap	Fixed Rate Flexible Maturity Loan
	B	Swap	Flexible Drawdown Fixed Rate Loan
	B	Swap	Ratchet Rate Loan
	C	Cap	Capped Rate Loan

Note: “**Standalone Interest**” Rate Hedging Products {IRHPs} were generally marketed to larger businesses, while “**Tailored Business Loans**” were marketed to Small to Medium sized businesses {SMEs}