## INTEREST RATE SWAP ("SWAP") VALUATION

The valuation of your swap at any point in time could be an asset, a liability, or have no value to you.
You will only pay or receive breakage costs if the swap is terminated or amended prior to maturity.
Swap breakage is the difference between the original swap rate and the current market replacement swap rate.


In a higher rate environment, the party paying fixed is paying a "below-market" swap rate: swap is an asset.


In a lower rate environment, the party paying fixed is paying an "above-market" swap rate: swap is a liability.

## PREPAYMENT ECONOMICS

As market rates change, the swap will begin to take on or lose value.
WHEN RATES RISE | Replacement swap rate > Actual swap rate, swap is an asset to you. You will receive payment from the Bank for the value of the swap if the swap is terminated early.
WHEN RATES FALL | Replacement swap rate < Actual swap rate, swap is a liability to you. You will make a payment to the Bank for the value of the swap if the swap is terminated early.

| Example |  | Replacement Rate | Change | 4 Years | 3 Years | 2 Years | 1 Year |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Notional: <br> Term: <br> Amortization: <br> Base rate: <br> +Spread: | \$3,000,000 <br> Five (5) years 25 years | 8.15\% | 3.0\% | 308,612 | 235,045 | 159,028 | 87,214 |
|  |  | 7.65\% | 2.5\% | 259,603 | 197,275 | 133,195 | 72,861 |
|  |  | 7.15\% | 2.0\% | 209,657 | 158,957 | 107,096 | 58,435 |
|  | 2.75\% | 6.65\% | 1.5\% | 158,749 | 120,082 | 80,729 | 43,936 |
| All-in Rate: <br> ${ }^{(1)}$ Base Rate inclu ${ }^{\text {(2) }}$ Indicative rate |  | 6.15\% | 1.0\% | 106,855 | 80,637 | 54,091 | 29,363 |
|  | all transaction fees | 5.65\% | 0.5\% | 53,951 | 40,611 | 27,177 | 14,716 |
|  |  | 5.15\% | 0.0\% | - | - | - | - |
|  |  | 4.65\% | -0.5\% | $(54,982)$ | $(41,249)$ | $(27,563)$ | (14,860) |
|  |  | 4.15\% | -1.0\% | $(111,093)$ | $(83,073)$ | $(55,247)$ | $(29,677)$ |
|  |  | 3.65\% | -1.5\% | $(168,311)$ | $(125,545)$ | $(83,294)$ | $(44,627)$ |
|  |  | 3.15\% | -2.0\% | $(226,678)$ | $(168,662)$ | $(111,634)$ | $(59,653)$ |
|  |  | 2.75\% | -2.4\% | $(274,156)$ | $(203,582)$ | $(134,480)$ | $(71,721)$ |

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