Illustrative Termsheet and RDS (Risk Disclosure Statement)

USD/INR Importer Range Forward with Knock in

Terms & Conditions

Transaction Reference Number:	XXX	
Party A	ICICI BANK LTD	
Party B (Counterparty)	ABC	
Trade Date	TBD Illustratively	(03/Jan/22)
Initial Spot Price	USD/INR 74.8000	

Description of Option Structure:

	Option Type 1	Option Type 2
Expiration Date	6-Aug-22	6-Aug-22
Settlement Date	8-Aug-22	8-Aug-22
Expiration Time	Tokyo Cut (11.30 a.m IST)	TKY Cut (11:30 a.m IST)
Automatic Exercise	Inapplicable	Inapplicable
Premium	INR 400,000	
Premium Payment Date	5-Jan-22	
Premium Payer	Party B	
Premium Receiver	Party A	
Currency Option Style	European	European
Currency Option Type	USD Call/INR Put	USD Put/INR Call
Currency Pair	USD/INR	USD/INR
Put Currency & Put Currency Amount	INR 77,000,000.00	USD 1,000,000.00
Call Currency &Call Currency Amount	USD 1,000,000.00	INR 75,000,000.00
Strike Price	77.00	75.00
Buyer	Party B	Party A
Seller	Party A	Party B
Barrier Event	Inapplicable	Applicable
Event Type	Inapplicable	Knock-In
Spot Exchange Rate Direction	Inapplicable	Less than or equal to the Barrier Level
Barrier Style	Inapplicable	American
Barrier Level	Inapplicable	73
Event Period Start Date and Time	Inapplicable	January 03, 2022 at 11 a.m. (local time in India (IST))
Event Period End Date and Time	Inapplicable	August 06, 2022 at 11:30 a.m. (local time in India (IST))

Barrier Definition	From the Event Period Start Date and Time to Event Period End Date and Time. As observed during USDINR market hours as published by FEDAI and amended from time to time.
Calculation Agent	ICICI Bank Ltd.
Business Day	Mumbai, New York
Business Day Convention	As per FEDAI rules
Settlement Basis	Net Settlement Net Flows in INR to be exchanged based on USD/INR Spot Exchange Rate prevailing <2> business days prior to every settlement date
Documentation	ISDA Master Agreement as amended and supplemented from time to time (together with Schedule(s) thereto and any other document/supplement/instrument, if any) executed between Party B and Party A
Exposure	Contracted/Anticipated Exposure

ANNEXURE

Risk Disclosure Statement

1 **Scenario Analysis**

Scenarios	**Scenario Analysis**						**Net Profit/Loss #**
	Party B likely to Pay to Party A						**INR**
	Premium in INR		Fx Rate	INR Amount			
	400,000.00		1.00	400,000.00			
	Party B likely to receive from Party A						
	Total USD Notional	Average USD/INR Rate @	USD Call Strike Rate	USD Sell Put Strike	USD Sell Put AKI 73	INR Amount	Net INR Amount
Scenario A	1,000,000.00	67.3200	77.0000	75.00	KI Hit	-7,680,000.00	**(8,080,000.00)**
Scenario B	1,000,000.00	71.0600	77.0000	75.00	KI Hit	-3,940,000.00	**(4,340,000.00)**
Scenario C	1,000,000.00	74.8000	77.0000	75.00	KI Hit	-200,000.00	**(600,000.00)**
Scenario D	1,000,000.00	74.8000	77.0000	75.00	KI Not Hit	0.00	**(400,000.00)**
Scenario E	1,000,000.00	77.4000	77.0000	75.00	KI Hit /Ki Not Hit	400,000.00	**0.00**
Scenario F	1,000,000.00	78.5400	77.0000	75.00	KI Hit /Ki Not Hit	1,540,000.00	**1,140,000.00**
Scenario G	1,000,000.00	82.2800	77.0000	75.00	KI Hit /Ki Not Hit	5,280,000.00	**4,880,000.00**

@ Indicative USD/INR Spot Exchange Rate prevailing <2> business days prior to every cash flow date

The net profit / loss mentioned herein is from the view point of Party B and is only indicative as per limited simulation and may not coincide completely with the actual profit/loss, it could be higher or lower depending upon various market factors.

Assumptions made for above scenario analysis includes but is not limited to following: For transactions having FX and /or Interest Rate risk, the FX rate is varied at +/-<5>%, +/-<10>% and/or Interest rate is varied at +/-<10>%, +/-<20>% along with other variation(s) to cover additional payoff(s)

2. Sensitivity Analysis

In case the transaction is held till maturity,

(1) If USD/INR spot rate trades below 75.0000 on expiry date then Party B will incur a loss to the extent as mentioned in the scenario analysis above.

(2) If USD/INR spot rate trades above 77.0000 on expiry date but the moneyness is less than the amount of premium paid then Party B will incur a loss to the extent in the transaction, as illustrated in the scenario analysis above.

In case the transaction is terminated before maturity, assuming everything else remaining constant,

(3) If the value of USD against INR decrease then Party B will incur a loss to that extent in the transaction, illustratively Party B may lose INR 0.38 million if the value of USD against INR decreases to 71.06 from the current level of 74.80.

(4) If USD LIBOR forward rates go up or INR MIFOR forward rates go down or both then Party B will incur a loss to that extent in the transaction, illustratively Party B may lose INR 0.18 million if USD LIBOR forward rates go up by 0.5% or INR MIFOR forward rates go down by 0.5%, assuming USD/INR spot rate of 74.80

3. Description and Rationale

In the above description of the Option Structure, Buying call option helps the Party B in hedging the risk of the underlying foreign currency payables against movements in exchange rate beyond the strike rate by paying premium. Selling a put option with a knock-in barrier reduces cost of this transaction and defines the range in which the hedge is effective if the option is knocked-in.

Delta: USD 0.8 million

The Counterparty confirms that it has specific clause in its risk management policy, that allows it to enter into this type of cost reduction structure.

Additional conditions: Party B may unwind the Transaction with Party A on a mutually agreed basis.

Various risks associated in the transaction:

The Counterparty acknowledges that before entering into Derivative Contracts, it understands the underlying risk of the above mentioned transaction. The Counterparty acknowledges that derivative transactions are in general exposed to various types of risk, including but not restricted to the following:

1. Credit Risk: Credit risk is the risk of loss due to a counterparty's failure to perform on an obligation to the institution. Credit risk in derivative products comes in two forms:

a. Pre-settlement risk: Pre-settlement risk is the risk of loss due to a counterparty defaulting on a contract during the life of a transaction. The level of exposure varies throughout the life of the contract and the extent of losses will only be known at the time of default.

b. Settlement risk: Settlement risk is the risk of loss due to the counterparty's failure to perform on its obligation after an institution has performed on its obligation under a contract on the settlement date. Settlement risk frequently arises in international transactions because of time zone differences. This risk is only present in transactions that do not involve delivery versus payment and generally exists for a very short time (less than 24 hours).

2. Market Risk: Market risk is the risk of loss due to adverse changes in the market value (the price) of an instrument or portfolio of instruments. Such exposure occurs with respect to derivative instruments when changes occur in market factors such as underlying interest rates, exchange rates, equity prices, and commodity prices or in the volatility of these factors.

3. Liquidity risk: Liquidity risk is the risk of loss due to failure of an institution to meet its funding requirements or to execute a transaction at a reasonable price. Institutions involved in derivatives activity face two types of liquidity risk: market liquidity risk and funding liquidity risk.

a. Market liquidity risk: Market liquidity risk is the risk that an institution may not be able to exit or offset positions quickly, and in sufficient quantities, at a reasonable price. This inability may be due to inadequate market depth in certain product (e.g. exotic derivatives, long-dated option), market disruption, or inability of the bank to access the market (e.g. credit down-grading of the institution or of a major counterparty).

b. Funding liquidity risk: Funding liquidity risk is the potential inability of the institution to meet funding requirements, because of cash flow mismatches, at a reasonable cost. Such funding requirements may arise from cash flow mismatches in swap books, exercise of options, and the implementation of dynamic hedging strategies.

4. Operational risk: Operational risk is the risk of loss occurring as a result of inadequate systems and control, deficiencies in information systems, human error, or management failure. Derivatives activities can pose challenging operational risk issue because of the complexity of certain products and their continual evolution.

5. Legal risk: Legal risk is the risk of loss arising from contracts which are not legally enforceable (e.g. the counterparty does not have the power or authority to enter into a particular type of derivatives transaction) or documented correctly.

6. Regulatory risk: Regulatory risk is the risk of loss arising from failure to comply with regulatory or legal requirements.

7. Reputation risk: Reputation risk is the risk of loss arising from adverse public opinion and damage to reputation.

8. IBOR Discontinuation: If the Counterparty transacts in any derivatives linked to an interbank offer rate (IBOR) such as LIBOR, or any synthetic rate (such as MIFOR) that use an IBOR in its calculation, please note that there is a risk that such IBOR may be discontinued prior to the maturity of the derivatives contract. There are public consultations by different industry groups, including by ISDA for derivatives contracts, to develop contractual fallbacks that will apply in the event of an IBOR discontinuation. A contractual fallback will define the events that will trigger the benchmark fallback and the methodology that will determine the fallback rate. ISDA has consulted on technical issues related to new benchmark fallbacks for derivatives contracts that reference certain IBORs. As and when the benchmark fallbacks are finalized, market participants are expected to incorporate them into existing derivatives contracts, by way of bilateral amendment or multilateral protocol adherence, to enhance contractual robustness. Please note that application of the benchmark fallbacks may cause a change in value of existing derivatives contracts. In addition, there is no assurance that the same trigger events and fallback methodologies will be incorporated into cash products (such as bonds, loans or other non-derivative products). Accordingly, you may run basis risks if you are using derivatives contracts to hedge your obligations or investments in cash products (or another financial instrument) that adopt different triggers and fallbacks. The potential mismatches may impact the hedge effectiveness, financial reporting and value of existing derivatives contracts.

Other Terms:

a) The Counterparty acknowledges that it has given consideration to its objectives, financial situation and needs and has formed the opinion that dealing in Derivative Contracts is suitable for its purposes and is within its internal Risk Management Framework and policies and procedures, with respect to derivative transactions.

b) The Counterparty acknowledges that under this contract, Party A acts solely in the execution of Derivative deals, and not as its adviser or in a fiduciary capacity in respect of the Transaction, and that the Counterparty will use its own judgement, before entering into any such Transaction and will make an independent assessment of the appropriateness of the Transaction, including the possible risks and benefits arising from this Transaction. The Counterparty shall consult its own independent, financial, legal and tax advisers in order to assess the risks in relation to such Transaction.

c) The Counterparty further acknowledges that it has read and understood this term-sheet, including the Risk Disclosure Statement and the various risks associated with the transaction.

Conditions apply:

This term sheet is for indicative purposes only, and is neither meant to be, nor should it be construed as an attempt to define all of the terms and conditions regarding a proposed derivative transaction or all risks or material considerations, which may be associated therewith.

This document does not constitute an offer, or an invitation to offer, advertisement, invitation or a recommendation by Party A to the Counterparty, or any other person or persons, to enter into an agreement to acquire, dispose of or subscribe for securities or any form of commitment to enter into any transaction in relation to the subject matter of the term-sheet. Party A does not make any representation or warranty as to the completeness or accuracy of the information contained in this document, and accepts no liability whatsoever with respect to the use of this document or its contents.

This term sheet also does not contain or constitute any investment advice to the Counterparty. Party A is acting as principal and not as the Counterparty's financial adviser or in a fiduciary capacity in respect of this proposed transaction with the Counterparty, unless otherwise expressly agreed by Party A in writing. Accordingly, this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document and does not constitute investment, legal, accounting or tax advice, or a representation that any investment is suitable or appropriate to any specific person's individual circumstances, or otherwise constitute a personal recommendation to any specific person.

The information herein is not to be taken in substitution for the exercise of judgement by the Counterparty who may obtain separate investment, legal accounting, tax or financial advice. Before entering into any transaction, the Counterparty may take steps, wherein the Counterparty understands the transaction and risks thereof, and has made an independent assessment of the appropriateness of the transaction in the light of the Counterparty's own specific investment objectives, financial situation and particular needs and circumstances, including the possible risks and benefits of entering into such a transaction.

In particular, the Counterparty may seek advice from a licensed or exempt financial adviser or make such independent investigations, as he/she/they considers/consider necessary or appropriate for such purposes. Party A, its related companies, their directors and/or employees may have interests or positions in, and may effect transactions in the underlying product(s) mentioned in this document. An offer, if any, may be made at a later date and is subject to mutually acceptable legal documentation, due diligence, internal approvals and market conditions.