Vertical Spread

Product Disclosure Statement ("PDS")
(This Product Disclosure Statement is to be read in conjunction with the Terms and Conditions available on this website).

Purpose
The purpose of this document is to provide you with key information about various products offered by ICICI Bank. ICICI Bank is providing you with this PDS, so that you receive adequate information about Vertical Spreads. It will help you understand their features, risks, benefits, an illustration of how the product works and assist you in making an informed decision about entering into Vertical Spreads, and also facilitate comparison with other products (please refer to the PDS for key information on other FX products). Please read this PDS in full, before deciding to enter into a Vertical Spread.

Components determining the value of options
The Option value would be determined by the prevailing spot rate, strike rate, forward rates, volatility, tenor and interest rate differentials.

Termination
If you wish to terminate the Vertical Spread before the expiry date, the Vertical Spread will be terminated at the prevailing market rates. The termination value may either be positive (gain) or negative (loss).
The termination value would be a function of the prevailing spot rate, strike rate, forward rates, volatility, residual tenor, discount factors and interest rate differentials for the residual tenor. Any illiquidity in the market for the specific currency or tenor or notional could lead to a wider bid-offer spread, which would adversely affect the market value of the outstanding derivative contract.
Currency markets are highly volatile and the prices of the underlying currencies can fluctuate rapidly and over wide ranges and may reflect unforeseen events or changes in conditions. Thus, fluctuations in the underlying currencies will affect the benefit or cost to you, when you terminate a Vertical Spread.
The risks mentioned in this document are not exhaustive. There may be other risks that are relevant to you while entering into a Vertical Spread.

Costs and fees
Any specific transaction of this nature will be concluded at an all-inclusive price and there would not be any separate costs, fees and charges. The break-up of all-inclusive price will be provided, as per the extant RBI guidelines. The statutory levies and charges will be recovered separately, as applicable from time to time.

Principal Terms and Other Terms
Please refer to the website for 'Principal Terms' and 'Other Terms' applicable to the product.

Vertical Spread

General information
Please refer to the disclaimer at the end of this document.
Please note that all products are also subject to regulatory risks (not limited to change in regulation, product discontinuation by the regulator, etc.)

Vertical Spread

Description and Features

A Vertical Spread consists of a buy call (put) and a sell call (put).
It is a cost reducing strategy, wherein the buyer of a vanilla call (put) can reduce the cost of the vanilla option, by selling another call (put) option, thereby limiting the protection of the buy option up to the strike of the sell option.
There are two types of Vertical Spreads:

- Buy (Sell) Call Spread: Combination of buy (sell) call, along with the sell (buy) call of a higher strike
- Buy (Sell) Put Spread: Combination of a buy (sell) Put, along with a sell (buy) put of a lower strike.

Purpose

A bought call (put) option helps the buyer in hedging the risk of foreign currency payables / receivables against movements in the exchange rate, beyond the strike rate of the bought call (put) option. The selling call (put) option in this structure limits the protection up to the sell leg.

Illustration for USD/INR Call Spread

Parameters:

1. Strike: Buy USD call/INR put at <74>.00
   Sell USD call/INR put at <78>.00
2. Spot reference: <73.36>
3. Forward: <1.77>
4. Tenor: <6> months
5. Notional: USD <1> Mn
6. Upfront Premium: INR <1.42>/USD

Pay off Profile/ Possible scenario(s) at expiry

If the USD/INR spot rate is below <74>.00
For example, if the USD/INR rate is <73.50>, none of the options will be exercised.
The contract holder can buy the USD/INR at the prevailing market rate.

If the USD/INR spot rate is at or above <74>.00 but below <78>.00
For example, if the USD/INR rate is <75>.00, only the USD/INR call at <74>.00 will be exercised.
The contract holder can buy the USD/INR at <74>.00.

If the USD/INR spot rate is above <78>.00
For example, if the USD/INR rate is <78.50>, both the options at the strike of <74>.00 and <78>.00, will be exercised. Hence, the contract holder will receive the difference between the two strikes i.e. in this case INR <4>.00. The net gain of the client would be capped at the difference between the buy call and sell call levels. Hence, effective rates to buy the USD/INR will be the prevailing market rate minus INR <4>.00.

Benefits

- Protection from unfavorable forex movements between the strike rates of the buy and sell option
- Full participation when the spot at expiry trades in a favorable direction beyond the buy call strike rate.

- Lower cost vis-a-vis the vanilla option.

Predominant Risks

- A premium is payable for the buying option structure, irrespective of the scenario at expiry
- Protection is limited up to the sell option strike.

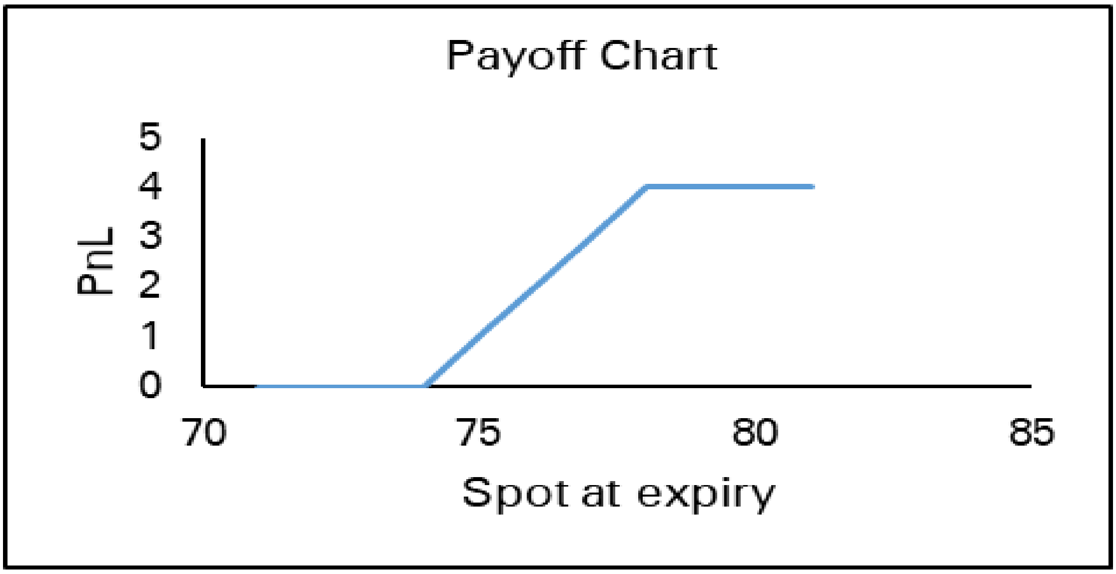
Other Risks

- Please refer section 'Various Risks associated with the Transaction'

Alternates

- A series (strip) of the Vertical Spread can be entered for periodic settlements
- Payment of the premium may be deferred.

Payoff* at maturity for a Buy Call Spread
(*excludes premium)



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 risks, 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 derivative activities face two types of liquidity risks: 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 products (e.g. exotic derivatives, long-dated options), market disruption, or inability of the bank to access the market (e.g. credit downgrading 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. Derivative activities can pose as a 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 derivative transaction) or not documented correctly.

6. Regulatory risk: Regulatory risk is the risk of loss, arising from the 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 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 finalised, market participants are expected to incorporate them into the 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 the 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 the existing derivatives contracts.

DISCLAIMER

This document has been prepared for providing standard information on the products mentioned in this document and for facilitating an understanding of product alternatives. ICICI Bank Limited, ("ICICI Bank") 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 document does not constitute or contain advice, or an offer, invitation to offer, advertisement, invitation or a recommendation by ICICI Bank to the counter party ("Counter Party"), or any other person or persons, to enter into an agreement or any form of commitment to enter into any transaction in relation to the subject matter of the 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. ICICI Bank has not taken any steps to ensure that the transaction contemplated hereunder is suitable for the Counter Party and ICICI Bank is acting as principal and not as the Counter Party's adviser or in a fiduciary capacity in respect of this proposed transaction or any other transaction, unless otherwise specifically agreed 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 view or have access to this document and does not constitute transaction, product legal, accounting or tax advice, or a representation that any transaction or product 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 judgment by the Counter Party who should obtain separate transaction, product, legal, accounting, tax and financial advice. Before entering into any transaction, the Counter Party should take steps to ensure that he/she/they understands/understand the transactions contemplated hereunder and risks thereof and has/have made an independent assessment of the appropriateness of the transactions contemplated hereunder in the light of the Counter Party's own specific objectives, risk appetite, financial situation and particular needs. In particular, the Counter Party may wish to 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.

ICICI Bank, 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.

Transactions in respect of the products mentioned in this document can be executed only as per the regulatory guidelines of the geography of the proposed execution and other laws and guidelines applicable to such transactions. The Counter Party should note that the sensitivity analysis and scenario analysis of products would be contained in the Confirmation provided to the Counter Party, in respect of executed transactions.

For any further information in relation to the subject matter of this document, the Counter Party may contact its treasury Relationship Manager.