Swaption Termsheet

Final Terms & Conditions

August 31, 2023

Client's Exposure

- If payer swaption is exercised by the Bank, Client will become the floating rate payer in an interest rate swap transaction. Client's view is that the floating rate will stay below the pre-determined *fixed* rate during the (most of the) life of the transaction.

Product Features

- The swaption Seller will receive the option Premium.
- The swaption Seller has an obligation to enter into an interest rate swap transaction with predetermined terms and conditions when the swaption Buyer determines to exercise the swaption on Expiration Date.
- If swaption is exercised, Client will become the floating rate payer in an interest rate swap transaction. Client will make periodic payments based on a floating rate that may be reset periodically, while the Bank makes payments based on fixed rate that is agreed upon at the execution of the swaption.

I. Swaption Terms

Type of Transaction:	Payer Swaption
Trade Date:	19 June 2023
Option Style:	European
Seller:	ABC Limited (the "Client")
Buyer:	The Hongkong and Shanghai Banking Corporation Limited (the "Bank")
Premium:	INR 1,40,000
ATM Vol:	6%
Premium Payment Date:	20 June 2023,subject to Modified Following Business Day Convention.
Business Days:	Mumbai, for Payment and Swaption Exercise

II. Procedure for Exercise

Will be physically exercised by the buyer of the option at 11.30 AM IST on the option expiry date if the option is In-the-Money at that time. So in this case, the Payer Swaption will be physically exercised by the buyer if 1Y OIS is above 6.65% at 11.30 AM IST on the option expiry date

Expiration Date:	19 July 2023 ,subject to adjustment in accordance with the Modified Preceding Business Day Convention.
Expiration Time:	11.30 AM IST

Settlement:	Physical

III. Underlying Swap Transaction

Notional Amount:	INR 2,500,000,000 (2.5bn)
Effective Date:	20 July 2023
Termination Date:	20 July 2024
Fixed Rate Payer:	Buyer
Strike Rate / Fixed Amount:	6.65% p.a., Annually, act/365F, on Notional Amount
Payment Date:	Annually after the Effective Date up to and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention.
Floating Rate Payer:	Seller
Floating Amount:	Overnight FBIL MIBOR, Semi-Annually, act/365F on Notional Amount
Payment Date	Annually after the Effective Date up to and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention
Documentation:	ISDA Master Agreement entered into between the parties, and related Confirmation incorporating the 2006 ISDA Definitions published by ISDA.
Calculation Agent:	The Hongkong and Shanghai Banking Corporation Limited

3. Risk Disclosure Statement

1. Rationale

Client is entering into this transaction to manage interest rate risk on their balance sheet which could be on account of either fixed rate liabilities or floating rate assets

2. Risk Factors

If at the Expiration Date, the fixed rate of the underlying swap is trading higher than the Strike Rate, then Seller of the option will incur a negative cashflow

3. Scenario Analysis

The net cash flow will depend on the prevalent swap rate on Expiration Date being higher/lower than the Strike Rate of the swaption. We demonstrate the net cash flow basis various different swap rates at the Expiration Date compared to the underlying strike for a single interest period.

In case of amortized cashflows, the maximum notional amount is considered for the purpose of calculations below.

Prevalent Swap Rate	Gain/Loss in INR for Seller
6.65%	NIL
7.65%	(25,068,493.15)
8.65%	(50,136,986.30)
9.65%	(75,205,479.45)
10.65%	(100,273,972.60)

One scenario is explained below -

Assume the spot rate of the underlying swap for a payer swaption is 7.65% and the Strike Rate is 6.65%
Net cash flow incurred by Seller on Expiration Date =2,500,000,000 * (6.65%) * 366/365 – 2,500,000,000 * (7.65) * 366/365 = INR -25,068,493.15

Similarly payoffs in each of the above scenarios can be calculated.

Please note that the above scenarios are illustrative only and factors like discount factors have not been applied in the calculation

Disclaimer:

The following analysis is produced for illustrative purposes only, and does not reflect a complete analysis of all possible opportunity gain and loss scenarios that may arise under the actual hedge structure. No representation or warranty is made by The Hongkong and Shanghai Banking Corporation Limited in India ("HSBC" or "HSBC India") that any scenario shown below can be duplicated under the actual structure. Actual results may vary from the results shown below, and variations may be material. The scenario analysis only illustrates potential outcomes on expiration dates and is not considered a reflection of the mark-to-market value nor the exit cost which depends on additional market factors (see sections on 'Building Blocks of the Transaction & Factors impacting pricing', 'Sensitivity Analysis', 'Valuations and Mark to Market' and 'Exit Costs on Early Termination'). The exit cost of the product can fluctuate either upward or downward due to changes in prevailing market conditions. Accordingly, if the hedge structure set out herein is unwound prior to its stated maturity, you may sustain a loss which may well exceed the amount you receive under the said structure.

4. Building Blocks of the Transaction & Factors impacting Pricing

The execution of this transaction involves accessing markets for OIS swap and Interest Rate Options. On having entered into this transaction -

- The Client is receiving the INR Interest rate swap curve(OIS)
- The Client is selling underlying INR Interest rate option volatility

5. Sensitivity Analysis

The transaction is sensitive to the market parameters mentioned above in the 'Building Blocks' section. It is elaborated below as to how the change in these market factors would impact the transaction -

- INR interest rates: If market rate for the underlying swap moves higher than the strike rate during the life of the Swaption, it will adversely impact the transaction (i.e. the Mark to Market will be impacted negatively).

- INR interest rate option volatility: If the underlying implied volatility moves higher it will adversely impact the transaction (i.e. the Mark to Market will be impacted negatively).

6. Valuations and Mark to Market

The Mark-to Market of the structure and future valuations will be impacted by changes in the variables as highlighted in the 'Building Blocks' and 'Sensitivity Analysis' sections.

The valuation of the structure can be ascertained from the MTM updates the bank is willing to provide. These MTM updates can be provided upon specific request and/or the same can be provided periodically based on your specific requirements/requests.

7. Exit costs on Early Termination

In case Buyer/ Seller decides to do an Early Termination of this Transaction there could be Exit costs (or gains) based on market factors as highlighted in the 'Building Blocks' and 'Sensitivity Analysis' sections. Thus there could be scenarios where there could be a cash payout by Buyer/Seller on Early Termination. Estimates of Exit costs can be provided upon specific request.

What is an exit cost?

An exit cost is a cost that the Client might incur should Client wish to terminate the transaction prior to its scheduled end date for any reason.

How are exit costs calculated?

When Buyer/Seller enters into a derivative transaction with us, the price proposed at the time is impacted by the initial mark-to-market value of the trade i.e. the current market value (as driven by different parameters, see above) as well as the cost [to us of entering into] hedging positions expected to cover the term of the hedge to maturity. Should Buyer/Seller request to terminate the hedge prior to maturity, these same factors (all of which fluctuate due to changes in market and

liquidity conditions) will be considered in order to determine the cost of closing out the transaction on the day of the request.

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To illustrate what exit costs might be in the event of changes to the OIS rates, please see the table below. Note that we have not considered changes to any other market factors such as passage of time, discount rates etc in this illustration.

Movedown in spot rate versus Strike rate on trade date (in % p.a.)	Exit cost (INR)
-1	(25,068,493.15)
-2	(50,136,986.30)
-3	(75,205,479.45)

The above numbers should only be taken as a simplified illustration, based only on changes in the OIS rates and on a limited number of scenarios. Actual exit cost is very likely to be different due to changes in the other market factors such as residual maturity, discount rates etc and the difference may be substantial.

In addition, there is a risk that market liquidity may diminish or become unavailable for this type of transaction at the time of close-out, which would increase further the exit cost as interbank trading spreads may have increased.

Therefore, depending on the market conditions at the time of early close-out the exit costs of early terminating the product could result in substantial loss for the Client .

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The Client has read the above termsheet fully and have clearly understood the risks and payoffs of this transaction as highlighted in the Risk Disclosure Statement. The Client's decision to enter into this hedging transaction is based on its own independent assessment and it has not relied on any advice given by HSBC. The Client confirms that they have on hand valid underlying exposure as mentioned above and they are authorising HSBC to execute the transaction. Further the Client confirms that the above transaction is in line with its board approvals and the approved risk management policy of the Client. The Client also confirms that it follows prudent accounting and disclosure norms.

For the Client

Name of Authorized Signatory -

Designation -

Signature -

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The Hongkong and Shanghai Banking Corporation Limited (January 2018)