Seagull

FX Derivatives

This document is a presentation for information purposes only and is not a solicitation of a transaction

Markets - June 2023

This is a structured product that involves derivatives. Do not enter this trade unless you fully understand and are willing to assume the risks associated with it. HSBC India (“HSBC” /“Bank”) provides foreign exchange risk management solutions to customers on a strictly non-advised basis.

Client’s Exposure

The Client needs to buy USD and sell INR and would like to manage their FX exposure. The Client thinks that USDINR Spot Rate is likely to stay above 81.0000 in this period and would like to take advantage of a gradual USD depreciation without paying a Premium. The Client is prepared to accept a Hedge Rate worse than the Par Forward and limited protection beyond a certain level in order to have some potential for gain

Product Description

The Seagull is a product designed for clients who wish to mitigate an FX exposure and want to enjoy upside potential if the Spot Rate moves in their favour. In order to benefit from a favourable Spot Rate move, the Client is willing to accept a Hedge Rate worse than the Par Forward, and limited protection above the Cap Strike.

In this Strategy, the Client has the right, but not the obligation, to buy USD in 100% of Notional Amount at the Strike Rate 1 provided Spot Rate at Expiry is at or above the Strike Rate 1 and below the Cap Strike.

If the Spot Rate is at or below the Strike Rate 2 at Expiry, the Client is obliged to buy USD in Notional Amount at the Strike Rate 2. If Spot Rate is at or above the Cap Strike at Expiry, the Client buy USD at a rate equivalent to the Spot Rate minus a Spread.

Main Benefits

- Potential to benefit from a favourable spot move down to the pre-defined strike (Strike Rate 2)

Main Risks

- If spot is trading at or below the Strike Rate 2 at Expiry. This would represent a loss as the Client will be buying USD at a worse rate (Strike Rate 2) than the prevailing Spot Rate (see scenario #4)
- If spot is trading above the Cap Strike at Expiry. This will represent a loss as the Client has to buy USD at a Varied Strike, which is worse than the Par Forward at inception (see scenario #2)

Indicative Terms For Seagull	
Trade Date	21-Jun-2023
Counterparties	To be determined ("You", "Your", "the Client") and HSBC ("HSBC")
Expiry Time	Refer to Trade Confirmation
Expiry Date(s)	31-May-2024
Settlement Date(s)	04-Jun-2024
Strike Rate 1	81.2500
Strike Rate 2	81.0000
Cap Strike	81.5000
Notional Amount	USD 10,000,000.00 per Expiry Date
FX transaction on Settlement Date	Client receives in INR the amount of Notional * (Cap Strike - Strike Rate 1) if USDINR Spot Rate at Expiry Time on Expiry Date is trading at or above the Cap Strike or Client buys USD Notional Amount and sells INR at Strike Rate 1 if USDINR Spot Rate at Expiry Time on Expiry Date is trading at the Strike Rate 1 or between the Strike Rate 1 and the Cap Strike or No FX Transaction if USDINR Spot Rate at Expiry Time on Expiry Date is trading between the Strike Rate 1 and the Strike Rate 2 or Client buys USD Notional Amount and sells INR at Strike Rate 2 if USDINR Spot Rate at Expiry Time on Expiry Date is trading at or below the Strike Rate 2
Settlement	Physical delivery of INR and USD
Premium	Zero
Reference Information	Spot Rate at Trade Date: 82.0330 Par Forward: 83.4232
Par Forward	Par Forward is the average of outright forward rates in transactions with multiple settlement dates. In this term sheet, Par Forward is being used as a reference rate only for the purpose of comparison of pay-offs against the structure described in the term sheet.
USDINR Spot Rate	The Global Spot Foreign Exchange Market for INR per USD, which, for these purposes, shall, unless otherwise agreed, be treated as being open continuously from 5am Sydney time on a Monday in any week to 5pm New York time on the Friday of that week
Calculation Agent	HSBC
Business Days	Refer to Trade Confirmation
Business Day Convention	Refer to Trade Confirmation
Documentation	Refer to Trade Confirmation

Trade Analysis

- If the USDINR USDINR Spot Rate at Expiry Time on the Expiry Date is trading at or above the Cap Strike, Client receives in INR the amount of Notional Amount * (Cap Strike - Strike Rate 1) and the protection is limited
- If the USDINR Spot Rate at Expiry Time on the Expiry Date is trading at or between the Strike Rate 1 and the Cap Strike, Client buys USD Notional Amount and sells INR at Strike Rate 1
- If the USDINR USDINR Spot Rate at Expiry Time on the Expiry Date is trading between the Strike Rate 2 and the Strike Rate 1, there is no FX transaction. The Client is free to buy USD and sell at the prevailing Spot Rate, benefiting from a favourable move
- If the USDINR USDINR Spot Rate at Expiry Time on the Expiry Date is trading at or below the Strike Rate 2, the Client buys USD Notional Amount and sells INR at Strike Rate 2 (which is better than the Par Forward on Trade Date, but worse than the prevailing Spot Rate)

Scenario Analysis

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 unwind cost which depends on additional market factors (refer sections on Scenario Analysis, Unwind Costs and the appendix attached separately). The unwind 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.

The following scenario analysis is based on the first Settlement Date.

Scenario 1: USD strengthens and at Expiry Time on the Expiry Date USDINR Spot Rate is at or above the Strike Rate 1 and below the Cap Strike. Client is entitled to buy USD Notional Amount at the Strike Rate 1

Ex #	% move in Spot Rate	FX at Expiry	Notional Amount (USD)	Strike Rate	Gain/ Loss Structure (INR)	Gain/ Loss Forward (INR)	Structure vs Forward (INR)
0	-0.95%	81.2500	10,000,000	81.2500	0	(21,732,000)	21,732,000
1	-0.92%	81.2750	10,000,000	81.2500	250,000	(21,482,000)	21,732,000
2	-0.89%	81.3000	10,000,000	81.2500	500,000	(21,232,000)	21,732,000
3	-0.86%	81.3250	10,000,000	81.2500	750,000	(20,982,000)	21,732,000
4	-0.83%	81.3500	10,000,000	81.2500	1,000,000	(20,732,000)	21,732,000
5	-0.80%	81.3750	10,000,000	81.2500	1,250,000	(20,482,000)	21,732,000
6	-0.77%	81.3999	10,000,000	81.2500	1,499,000	(20,233,000)	21,732,000
7	-0.74%	81.4249	10,000,000	81.2500	1,749,000	(19,983,000)	21,732,000
8	-0.71%	81.4499	10,000,000	81.2500	1,999,000	(19,733,000)	21,732,000
9	-0.68%	81.4749	10,000,000	81.2500	2,249,000	(19,483,000)	21,732,000
10	-0.65%	81.4999	10,000,000	81.2500	2,499,000	(19,233,000)	21,732,000

Scenario 2: USD strengthens and at Expiry Time on the Expiry Date USDINR Spot Rate USDINR Spot Rate at Expiry Time is above the Cap Strike. The Client receives in INR the amount of Notional * (Cap Strike - Strike Rate 1).

Ex #	% move in spot	FX at Expiry	Notional Amount (USD)	Varied Strike Rate	Gain/ Loss Structure (INR)	Gain/ Loss Par Forward (INR)	Structure vs Forward (INR)
0	-0.65%	81.5000	10,000,000	81.2500	2,500,000	(19,232,000)	21,732,000
1	3.32%	84.7600	10,000,000	84.5100	2,500,000	13,368,000	(10,868,000)
2	7.30%	88.0200	10,000,000	87.7700	2,500,000	45,968,000	(43,468,000)
3	11.27%	91.2800	10,000,000	91.0300	2,500,000	78,568,000	(76,068,000)
4	15.25%	94.5400	10,000,000	94.2900	2,500,000	111,168,000	(108,668,000)
5	19.22%	97.8000	10,000,000	97.5500	2,500,000	143,768,000	(141,268,000)
6	23.19%	101.0600	10,000,000	100.8100	2,500,000	176,368,000	(173,868,000)
7	27.17%	104.3200	10,000,000	104.0700	2,500,000	208,968,000	(206,468,000)
8	31.14%	107.5800	10,000,000	107.3300	2,500,000	241,568,000	(239,068,000)
9	35.12%	110.8400	10,000,000	110.5900	2,500,000	274,168,000	(271,668,000)
10	39.09%	114.1000	10,000,000	113.8500	2,500,000	306,768,000	(304,268,000)

Scenario 3: USD weakens, USDINR Spot Rate at Expiry Time on the Expiry Date is below the Strike Rate 1 but above the Strike Rate 2 No FX transaction, Client has no obligation and is free to buy USD at the prevailing market rate.

Ex #	% move in Spot Rate	FX at Expiry	Notional Amount	Strike Rate	Gain/ Loss Structure	Gain/ Loss Forward	Structure vs Forward

			(USD)		(INR)	(INR)	(INR)
0	-0.95%	81.2499	10,000,000	n/a	0	(21,733,000)	21,733,000
1	-0.99%	81.2249	10,000,000	n/a	0	(21,983,000)	21,983,000
2	-1.02%	81.1999	10,000,000	n/a	0	(22,233,000)	22,233,000
3	-1.05%	81.1750	10,000,000	n/a	0	(22,482,000)	22,482,000
4	-1.08%	81.1500	10,000,000	n/a	0	(22,732,000)	22,732,000
5	-1.11%	81.1250	10,000,000	n/a	0	(22,982,000)	22,982,000
6	-1.14%	81.1000	10,000,000	n/a	0	(23,232,000)	23,232,000
7	-1.17%	81.0750	10,000,000	n/a	0	(23,482,000)	23,482,000
8	-1.20%	81.0501	10,000,000	n/a	0	(23,731,000)	23,731,000
9	-1.23%	81.0251	10,000,000	n/a	0	(23,981,000)	23,981,000
10	-1.26%	81.0001	10,000,000	n/a	0	(24,231,000)	24,231,000

Scenario 4: USD weakens, USDINR Spot Rate at Expiry Time on the Expiry Date is at or below the Strike Rate 2, Client is obliged to buy USD Notional Amount at Strike Rate 2

Ex #	% move in Spot Rate	FX at Expiry	Notional Amount (USD)	Strike Rate	Gain/ Loss Structure (INR)	Gain/ Loss Forward (INR)	Structure vs Forward (INR)
0	-1.26%	81.0000	10,000,000	81.0000	0	(24,232,000)	24,232,000
1	-5.13%	77.8220	10,000,000	81.0000	(31,780,000)	(56,012,000)	24,232,000
2	-9.01%	74.6440	10,000,000	81.0000	(63,560,000)	(87,792,000)	24,232,000
3	-12.88%	71.4659	10,000,000	81.0000	(95,341,000)	(119,573,000)	24,232,000
4	-16.76%	68.2879	10,000,000	81.0000	(127,121,000)	(151,353,000)	24,232,000
5	-20.63%	65.1099	10,000,000	81.0000	(158,901,000)	(183,133,000)	24,232,000
6	-24.50%	61.9319	10,000,000	81.0000	(190,681,000)	(214,913,000)	24,232,000
7	-28.38%	58.7539	10,000,000	81.0000	(222,461,000)	(246,693,000)	24,232,000
8	-32.25%	55.5758	10,000,000	81.0000	(254,242,000)	(278,474,000)	24,232,000
9	-36.13%	52.3978	10,000,000	81.0000	(286,022,000)	(310,254,000)	24,232,000

Worst Case Scenario

In the worst case that USD depreciates significantly and USDINR Fixing decreases to near Zero at Expiry Date, the Client would have to buy the relevant USD Notional Amount against INR at the relevant Strike Rate; the Client could face unlimited loss.

Liquidity/ Unwind Costs

As this transaction is a bilateral, over-the-counter derivative transaction between the Client and HSBC, there is no secondary market for this transaction. If for any reason (including for the purposes of Restructuring*) the Client wishes to terminate this transaction before the scheduled termination date, HSBC may accept or decline, in its reasonable discretion, such request to terminate. Should HSBC accept such request to terminate, any amount payable to the Client may be reduced significantly due to the 'unwind cost' which is associated with the cost that HSBC incurs as a result of the early termination.

That said, it is possible that HSBC might not make any loss in the event that the Client terminates early and indeed if the Client's position is 'in-the-money' it may receive an early termination pay-out from HSBC.

When the Client enters into a transaction with HSBC, HSBC will generally transact one or more financial instruments in the market (which are HSBC's hedging transactions) in order to ensure that HSBC can deliver any amount payable to the Client and/or to hedge HSBC's position and manage HSBC's own risk. If the Client terminates the transaction early, HSBC will need to account for the costs of buying or selling back its hedging transactions in the market. The costs of doing this will depend on the market at that time, including the possibility of reversing those hedging transactions, which may result in HSBC incurring a loss, which the Client will be responsible for paying.

It is not possible to determine the unwind costs in advance as they are linked to the market variables prevailing at the time of terminating the transaction.

Any request from the Client to terminate the transaction early will be evaluated on a case-by-case basis by HSBC whether to accept such request and upon terms to be agreed between the Client and HSBC. There is no obligation to accept it at any time. Any agreement to terminate the transaction early will be dependent on a reasonable assessment of the market conditions and the availability of credit limits and HSBC may require further documentary evidence from the Client.

The Client should not enter into this transaction unless the Client intends to keep it until the scheduled end date, as any amount payable to the Client may be reduced significantly due to the unwind costs. The Client should be aware of the tenor of this transaction. Transactions with a longer tenor may be associated with higher risks and higher costs of early termination.

An example of unwind costs under the transaction

To illustrate what unwind costs might be in the event of changes to the spot rate, please see the table below. This is an example only and does not take into account any other market factors, which may impact the amount repayable to the Client (if applicable) due to unwind costs. Actual unwind costs will depend on the market at the time the Client wishes to terminate the transaction early. If the Client has any further questions about unwind costs, please contact HSBC before proceeding any further.

Movement versus Spot on Trade Date	Spot reference	Unwind cost illustrations (INR)
-10%	73.8297	57,693,303.38
-20%	65.6264	133,622,890.24
-30%	57.4231	211,526,544.67

The market value of the derivative on the start date will be negative even assuming zero movements in the spot rate as it reflects an element of HSBC's profit margin, hedging costs and other related costs and charges. As with all unwind costs, the Client would not need to pay this initial market value to HSBC unless the Client were to terminate immediately.

HSBC is unable to predict at present what the unwind costs might be in the future, i.e. at any particular time that the Client might choose to unwind the transaction. This is because, as further described above, unwind costs depend on a variety of factors at the time the Client chooses to early terminate. The actual unwind costs could be within the range illustrated or in some circumstances, significantly higher. Please speak to HSBC if the Client would like HSBC to provide further information on magnitude of unwind costs.

*Restructuring

Restructuring refers to instances where, prior to the scheduled end date, the Client seeks to amend the terms of a transaction which changes the economics of the transaction, subject to the applicable Reserve Bank of India guidelines.

RISK DISCLOSURE STATEMENT

Derivatives / Market Risks

This transaction contains derivative instruments whose values are sensitive to changes to market factors. If the transaction involves exposure to foreign currency risk or is settled in a foreign currency, the Client may suffer a loss as a result of exchange rate fluctuations. The economics of this transaction may also be asymmetrical because of these components and the potential benefit may be capped or limited (see scenario analysis). There is no assurance that a particular transaction will provide the Client with a positive or anticipated return or achieve the Client's objectives. Past performance is not necessarily a guide to the future results. The Client's decision to invest should not be based mainly or solely on past performance. Prior to maturity, depending on the market conditions, the mark-to-market value of the transaction can fluctuate either upward or downward. In case of any early termination due to default or similar events or unwinding of the transaction before maturity for any reason, it may result in substantial losses to the Client.

The value of the transaction is determined by the prevailing market rates of different parameters reflecting the market conditions at that time, as well as the remaining terms and tenor of the transaction (which may have been impacted by the market movements since the inception of the trade). Therefore, this value is not determined solely by reference to the prevailing spot rate or price and the relevant Strike Rate or price, but also by reference to other factors such as but not limited to the expected forward rate or price, volatility, interest rates, valuation model or method and other market data which we believe to be appropriate at the time of calculation. At times of high market volatility the changes in valuation can be very significant. While we may provide mark-to-market valuation on the transaction from time to time, we are not obliged to do so; and given the bilateral, over-the-counter nature of the trade, the Client may find it difficult to obtain a valuation from another independent source. Moreover, the value or price of the transaction (in relation to, for example, any mark-to-market determinations, or restructuring or unwind requests) may be calculated by reference to, or by discounting using, one or more benchmark or rate curves, as applicable. Such benchmarks or rates may be discontinued in the future or may over time no longer be appropriate, as determined by HSBC. As a result, HSBC may in the future apply a different discounting methodology, which may result in a different valuation or price.

Addendum to the Risk Disclosure Statement

a) For the description and rationale of the transaction:

Refer to sections "Client's Exposure" and "Product Description"

b) The sensitivity analysis identifying the various parameters that may affect the transaction:

The value of the transaction is determined by the prevailing market rates of different parameters reflecting the market conditions at the time, as well as the terms and the remaining tenor of the transaction (which may have been impacted by market movements since the inception of the trade) as described in the "Derivatives / Market Risks" section. Therefore, the value of the transaction could be impacted by various parameters (if applicable) at the time of calculation including but not limited to:

- Spot rate or price ; strike rate or price ; forward rate or price ; volatility ; interest rates

The sensitivity to some of the above parameters (as on inception) is as below:

Delta (calculated from the Client's point of view as at Trade Date)	USD 2,591,469.28 Delta is calculated by taking the first order derivative value of the underlying derivative price with respect to spot rate. This could change during the tenor of the transaction subject to market parameters changing. To illustrate, for the purposes of this transaction, if there is a small increase in spot rate: • a positive Delta means such small increase in spot rate will result in an increase in the underlying derivative price; and • a negative Delta means such small increase in spot rate will result in a decrease in underlying derivative price. The above illustration assumes a small increase in spot rate. If there is a large movement in spot rate, both the direction and/or the magnitude of the change in underlying derivative price as a result of the movement in spot rate may be different from the above.
Vega (calculated from the Client's point of view as at Trade Date)	USD -31,490.70 Vega is calculated by taking the first order derivative value of the underlying derivative price with respect to implied volatility. This could change during the tenor of the transaction subject to market parameters changing. To illustrate, for the purposes of this transaction, if there is a small increase in implied volatility: • a positive Vega means such small increase in implied volatility will result in an increase in the underlying derivative price; and • a negative Vega means such small increase in implied volatility will result in a decrease in underlying derivative price. The above illustration assumes a small increase in implied volatility. If there is a large movement in implied volatility, both the direction and/or the magnitude of the change in underlying derivative price as a result of the movement in implied volatility may be different from the above.

c) For a comprehensive scenario analysis covering key upside and downside risks on the pay-off profile:

Refer to section "Scenario Analysis"

d) Notwithstanding anything to the contrary contained in the "Derivatives / Market Risks" section in the Risk Disclosure Statement, the mark-to-market valuation on the transaction shall be provided from time to time to the extent required by applicable regulations.

Please see below explanation of the terminology used in this term sheet:

	Term sheet terminology	**Explanation**
1	Product Description	Product Features
2	FX Transaction(s)	Pay-off profile
3	Trade Analysis	An illustration of how the product works

Acknowledgements

Name of Authorised Signatory -

Designation -

Signature -

The Client has read this term sheet in detail and has clearly understood the risks and payoffs of this transaction as highlighted in the term sheet, the nature and extent of its exposure to risk and to loss as well as the consequences of the transaction. The Client is aware that the transaction entered into by it is subject to the applicable regulations issued by the Reserve Bank of India (RBI). These regulations are also supplemented by the guidelines issued by the Foreign Exchange Dealer's Association of India (FEDAI) (including around product permissibility), as amended from time to time. 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 a valid underlying exposure and they are duly authorized 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.

Transaction Documents

The Client should read and understand all of the terms and conditions governing the transaction (including without limitation the term sheet in respect of this transaction, the relevant master agreement (if any) and other transaction documents, including all notices, risk warnings and disclaimers contained therein) before deciding whether to enter into this transaction. The Client's decision to trade should be made on the basis of such documents and the terms and conditions therein.

HSBC Hedging Activities

HSBC and/or its affiliates may, in its discretion, decide to engage in hedging activities with respect to the transaction. Such activities may include buying and selling, on a dynamic basis, the underlying currency in the spot market or entering into derivatives on such currency. The hedging strategy may entail unwinding the hedge when a trigger event occurs under the transaction. HSBC and/or its affiliate may anticipate such event occurring and begin unwinding the hedge before such event occurs, or HSBC's hedging strategy may require greater and more frequent dynamic adjustments to the hedge as market prices approach the trigger. Unwinding or adjusting the hedge typically consists of buying or selling a quantity of the underlying currencies, or terminating or entering into derivatives positions with market counterparties. This activity may affect the likelihood of the trigger event occurring or not occurring. In addition, currency or currency derivative transactions that HSBC executes in other capacities (such as trading for proprietary accounts, for accounts under management or to facilitate transactions on behalf of customers) may affect the probability that a trigger event will occur.

Hedging Mismatch Risk

If this transaction is to be used for risk management purposes, and if the asset or liability that is being hedged is of a different quantum or is realised on a different date, or the Client has entered into similar transactions with other institutions, there may be a mismatch in the Client's asset or liability and its hedge. The Client should check the portfolio of financial instruments and promptly notify HSBC should it become aware that it is (or will become as a result of entering into this transaction) over-hedged or that there is any mismatch in its asset or liability position and the transactions entered into to hedge such position. The Client should consider its ability and potential costs to terminate the transaction in such circumstances, and whether the excess notional amount remaining under the transaction (if applicable) may create any implications under which the asset or liability is subject. Unless otherwise expressly agreed at the time, HSBC has no obligation to terminate or modify any transaction in response to these changes or other changes in light of the Client's circumstances.

Concentration Risk

If the client is entering into this transaction for investment purposes, the Client should avoid excessive exposure in a single financial instrument with regard to its total proportion of the Client's overall portfolio, in order to guard against over-exposure to any single financial instrument or asset class. The Client should promptly notify HSBC should it become aware that its exposure to a single financial instrument or asset class becomes (or will become as a result of entering into this transaction) over-concentrated whether on account of the Client having entered into similar transactions with other institutions or otherwise. Unless otherwise expressly agreed at the time, HSBC has no obligation to terminate or modify any transaction in response to these changes or other changes in light of the Client's circumstances.

Reference Rates

Prior to entering into a transaction that is priced or settled or that includes a contingency based on one or more reference rates or prices, the Client should endeavour to fully understand how those reference rates or prices are established. This includes, among others, the nature, quality and sources of data inputs, the methodology and process for the construction or generation of such reference rates or prices and the contingency arrangements maintained by the sponsor, publisher or administrator, the governance and oversight arrangements maintained by the sponsor, publisher or administrator of such reference rates or prices (including with respect to any submission process or other data input selection process) and its management of conflicts of interest, and the transparency and availability of disclosures by the sponsor, publisher or administrator regarding the foregoing matters. The Client should independently assess the suitability of the transaction in comparison to its needs. Information regarding a reference rate or price may be available through the sponsor, publisher or administrator, including its publications or websites or through other sources.

Credit/Default Risk

Unless this transaction is secured by collateral posted by HSBC when the Client enters into this transaction, it will be relying on HSBC's, the Issuer's and the Guarantor's (if applicable) creditworthiness and it is exposed to the insolvency risk of the same. If HSBC or the Issuer or the Guarantor (if applicable) becomes insolvent or defaults on its obligations under this transaction, the Client will become an unsecured creditor of HSBC and/or the Issuer and/or the Guarantor (if applicable), the market value (or the termination value) of this transaction may result in the Client suffering a substantial mark-to-market loss and there is a risk that this transaction may become valueless. What the Client will receive in respect of this transaction will depend on the liquidation procedure applicable to companies incorporated in the jurisdiction of HSBC and/or the Issuer and/or the Guarantor (if applicable).

Collateral Call Risk

Where the Client has entered into a collateral arrangement with HSBC and the market conditions go against the Client, HSBC may call for margin/collateral pursuant to the terms of any such collateral arrangement and therefore the Client could face substantial liquidity risks. The Client must ensure that it is fully aware of the terms and conditions of any collateral arrangement entered into with HSBC, in particular:

1. the Client needs to be prepared for meeting margin calls which may require them to make top-up payment to cover the full marked-to-market losses for the remaining period of this transaction. Such payment can be substantial in poor market conditions and/or when the remaining tenor of this transaction is long;

2. in poor market conditions, the Client may have to meet margin calls at short notice while his/her/their ability to make top-up payments may be much worse than during normal times, due to the significant fall in market value of other financial assets; and

3. if the Client fails to meet margin calls, this transaction may be terminated without the Client's consent and the Client will have to bear the consequential losses and costs which could be very substantial.

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