Product & Risk Disclosure

January 2022

Forward Issuance Hedge ("FIH")

Product Features

- A Forward Issuance Hedge locks in a price for the issuance (sale) of a bond on a future date
- The forward price is calculated based on the spot yield of the reference bond and OIS rate for the tenor of the forward
- The forward premium is included in the forward price

Advantages

- FIH is highly customizable and can be executed for any tenor on any reference bond
- If the client enters into FIH, they get full protection against increase in bond yield, however the client does not get any participation in case bond yields decrease

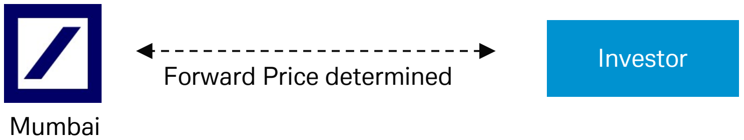
Building Blocks and Primary Risks

- Price of the underlying bond
- INR OIS rate for the tenor of the forward

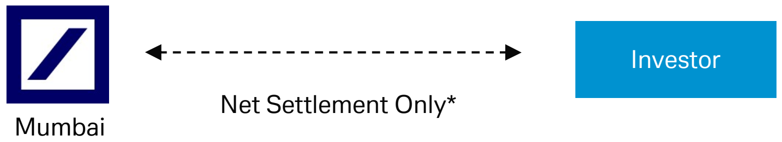
Flow Illustration: FIH

<u>On Trade Date</u>

- Client enters into an FIH for 3 months to hedge against rising interest rate



<u>Settlement at FIH maturity (after 3M)</u>



- Settlement Amount : On the settlement date, if Underlying Bond Price > Forward Price, Client pays (Underlying Bond Price – Forward Price)*Notional / 100. Else, DB pays (Forward Price - Underlying Bond Price)*Notional / 100

*Delivery of bond is not allowed at forward price as per extant regulations

<u>Payoff Profile</u>

Trade: Client enters into an FIH on reference bond 6.54 IGB 2032 for INR 100 Cr notional at 93.86 price

Price of Ref bond on Determination Date	Profit/(Loss) in INR Cr
90	3.86
92	1.86
94	-0.14
96	-2.14
98	-4.14

Forward Issuance Hedge (“FIH”)

Scenario Analysis

The MTM of the product is determined by (1) market price of the underlying bond; and (2) INR OIS curve for the tenor of this Transaction.

The net cashflow will depend on the assumption of Reference Bond price on the Settlement Date of the FIH and the forward purchase price. In MTM sensitivity analysis below we demonstrate the change in MTM for a uniform and equal change in price for all underlying Reference Bonds

Change In Price of Underlying Bond(INR)	Change In MTM(INR)
90	100,000,000
95	50,000,000
100	0
105	-50,000,000
110	-100,000,000

As demonstrated in the scenario analysis above, the value of the Transaction at any time before Termination is dependent on the price of the underlying Reference Bond. Client’s mark-to-market (MTM) is positive if the discounted Forward Purchase Price is lower than the Reference Bond Price and negative if otherwise

In addition, as mentioned in the “Building Blocks” the client is exposed to MTM changes due to changes in the INR OIS rate for the tenor of the forward. For example, for an FIH trade of notional INR 100 crores and tenor 5y, the Gain/Loss in INR for Client for 1bps parallel shift in INR OIS curve is approximately INR 436,800.

Contract terms and conditions – Unwind Cost

An amount equal to Deutsche Bank’s total costs or loss (which shall be a positive number) or gain (which shall be a negative number) in connection with terminating all payments and contingent payments that would otherwise have been made under this transaction in the period from but excluding the relevant Optional Termination Date up to and including the originally scheduled Termination date.
Deutsche Bank’s total costs or loss shall include, without limitation, any loss of bargain, cost of funding, or loss or cost incurred as a result of Deutsche Bank terminating, liquidating, obtaining or re-establishing any hedge or related position.
DB shall provide the Mark to Market value of the trade as and when desired by Client
Client has the option to unwind this trade as specified in the relevant confirmation and subject to unwind costs.

Costs and Fees

Transactions of this nature are executed at an all-inclusive price and there would not be any separate breakup and recovery of costs, fees and other charges. Breakup will however be provided as per the extant RBI guidelines. This doesn’t include statutory charges/levies and same will be recovered separately as applicable.

FIH – Generic Risks

Market Risk

Market Risk is the risk that the value of a Transaction will be adversely affected by fluctuations in the level or volatility of or correlation or relationship between one or more market prices, rates or indices or other market factors or by illiquidity in the market for the Transaction or in a related market. In particular leveraged Transactions will entail a higher degree of risk as the losses arising from a small market movement will be multiplied and you may be required to provide substantial margin at short notice to meet your obligations. Failure to meet such obligations may result in us having to liquidate your position at a loss for which you would be liable. You should also note that while we will seek to observe “stop loss” and “stop limit” orders, market conditions may prevent us from executing any “stop loss” or “stop limit” orders which may have been previously agreed.

Credit Risk

Credit Risk is the risk that we may, under certain circumstances, fail to perform our obligations to you when due.

Funding Risk

Funding Risk is the risk that, as a result of mismatches or delays in the timing of cash flows due from or to you under Transactions or related hedging, trading, collateral or other transactions, you will not have adequate cash available to fund current obligations.

Liquidity Risk

Liquidity Risk is the risk that due to prevailing market conditions it may not be possible to liquidate, nor to assess a fair value of your position. In addition, you should be aware that the operation of exchange rules or any power or system failure affecting electronic trading facilities may, in certain circumstances, impair or prevent us from liquidating or executing your Transactions, thus increasing the likelihood of loss..

Operational Risk

Operational Risk is the risk of loss to you arising from inadequacies in, or failures of, your internal procedures and controls for monitoring and quantifying the risks and contractual obligations associated with Transactions.

Currency Risk

Currency Risk The profit or loss from Transactions in foreign currencies will be affected by fluctuations in currency exchange rates where there is a need to convert from the currency denomination of the Transaction to another currency.

Disclaimer