BNP PARIBAS FX & IR PRODUCT DISCLOSURE STATEMENT

Pursuant to
Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021

This product disclosure statement contains standard product information about the products offered by BNP India. It shall be made available to users for providing adequate information to decide if the product will meet its needs and to facilitate comparison with other products
Users are requested to carry out the necessary due diligence

BNP PARIBAS The bank for a changing world

VANILLA FX FORWARD

FEATURES

- Under a FX Forward client buys /sells a given quantity of underlying FX at a pre-determined price (strike) and date
- The FX Forward protects the client against risk of adverse exchange rate movements
- Client is also unable to participate in favorable FX movements

OBJECTIVE

Clients may opt for a vanilla FX Forward to remove any uncertainty in FX buying/selling rate. They can be effectively employed as:

- Bought USDINR forward may be suitable for clients looking to hedge USD imports
- Sold USDINR Forward may be suitable for clients looking to hedge USD exports

PROS & CONS

PROS/BENEFITS

- No upfront cost
- Offers protection against adverse FX moves

RISKS/CONS

- Client is unable to participate in favorable FX moves

PAYOFF PROFILE

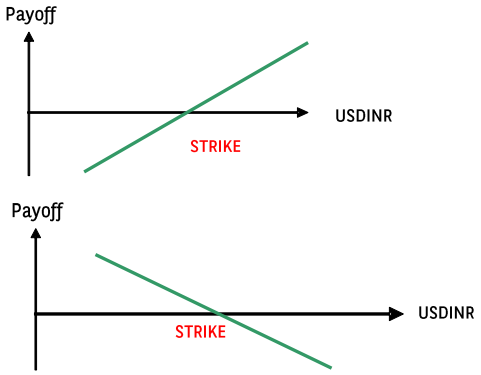

ILLUSTRATION	
Tenor	6 Months
Underlying	USDINR
Spot/ Outright Rate	95.00
Strike Rate	96.50
Settlement	Client buys USD notional against INR at Strike Rate

COSTS AND FEES

The final price that the client pays for a product consist of trading charges and capital charges. The trading charges result from dynamic hedging carried out by the bank as per guidelines from the management.
Credit and capital charge are computed as per the Bank's standard policy to ensure credit/liquidity/capital risk are incorporated into the pricings to the clients.

Risks

The instrument may involve a significant degree of risk, including, but not necessarily limited to, Fixing Risk, Volatility Risk, Liquidity Risk and Credit Risk. Key components of the market risk may be described as:

Vega = sensitivity of price to volatility (volatility risks)
Delta = sensitivity of price to underlying price (spot risks)
Gamma = sensitivity of delta to underlying price
Rho = sensitivity of price to interest rate level

Any unwind may be done at the prevailing market conditions at BNP's discretion and in line with applicable regulatory guidelines

VANILLA FX SWAP

FEATURES

- Under a FX swap client buys /sells a given quantity of underlying FX at the Near Date at Near Rate and simultaneously sells/ buys the same quantity at the Far Date at the Far Rate.
- The FX Swap protects the client against risk of adverse exchange rate movements
- Client is also unable to participate in favorable FX movements on both near and far legs

OBJECTIVE

Clients may opt for a vanilla FX Swap to remove any uncertainty in FX buying/selling rate. They can be effectively employed as:

- Buy/Sell FX Swap may be suitable for clients looking to hedge the risk of appreciation of the first currency against the second on the near leg and depreciation of the first currency against the second currency on the far leg
- Sell/Buy FX Swap may be suitable for clients looking to hedge the risk of depreciation of the first currency against the second on the near leg and appreciation of the first currency against the second currency on the far leg

PROS & CONS

PROS/BENEFITS

- No upfront cost
- Offers protection against adverse FX moves

RISKS/CONS

- Client is unable to participate in favorable FX moves on both the near and far legs

PAYOFF PROFILE

FOR BUY/SELL SWAP

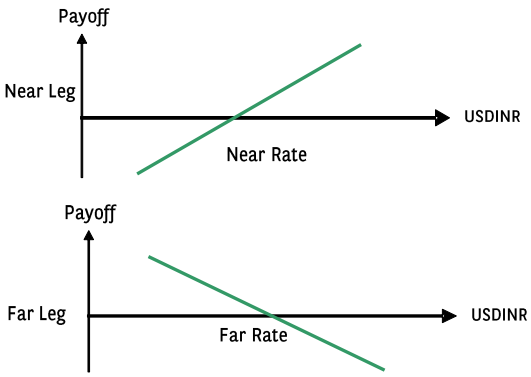

ILLUSTRATION	
Tenor	Near Date: 1 Month / Far Date: 6 Months
Underlying	USDINR
Near Rate	95.00
Far Rate	96.50
Settlement	Client buys USD notional against INR at Near rate on Near date and then sells the USD notional against INR on the Far rate on Far date.

COSTS AND FEES

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VANILLA FX OPTION

FEATURES

- The FX Option protects the client against adverse exchange rate movements, in return for an option premium payable by the buyer
- The call/put options gives the right to option buyer to buy/sell, respectively, a given quantity of underlying FX at a pre-determined price (strike) at a future date
- If the price of the underlying goes ITM (i.e. above/below Strike when Client longs call/put option), Client can purchase/sell at a better price (i.e. Strike) than prevailing market rate. If underlying goes OTM otherwise, Client does not have the obligation to buy/sell the underlying at the Strike rate. Client is able to enjoy the favourable market movement in which Client can buy/sell the underlying at the prevailing market rate
- Combination of buy/sold Vanilla FX Call and Put Options can be used by client to create different ranges/payoffs including but not limited to seagull, call spread , range forward, risk reversal

OBJECTIVE

Clients may opt for vanilla call/put option to obtain a guaranteed worst case hedge rate by paying an option premium. Client will also be able to participate in case of favorable spot movement. They can be effectively employed in:

Target Clients:

- Bought USDINR call may be suitable for clients looking to hedge USD imports
- Bought USDINR put may be suitable for clients looking to hedge USD exports
- Sold USDINR call may be suitable for clients looking to hedge USD exports
- Sold USDINR put may be suitable for clients looking to hedge USD imports

PROS & CONS

PROS/BENEFITS

- Enables client to cap the maximum purchasing cost of the derivative instrument
- Offers clients participation in favorable spot movement

RISKS/CONS

- The client is required to pay premium in case of bought options

PAYOFF PROFILE

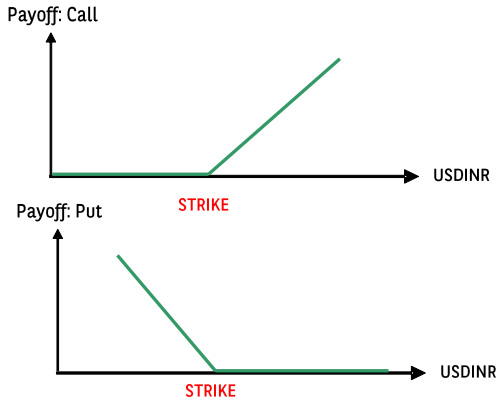

ILLUSTRATION	
Tenor	6 Months
Underlying	USDINR
Upfront Premium	Client pays **Premium**
Settlement	**Call:** If USDINR Final Fixing > Strike, Client buys USD against INR at Strike **Put:** If USDINR Final Fixing < Strike, Client sells USD against INR at Strike Otherwise, no settlement between Client and BNPP

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KNOCK OUT BARRIER OPTION/FORWARD

FEATURES

- A Knock-Out barrier option/forward ceases to exist if the underlying breaches a pre-determined barrier before maturity
- A Knock-Out barrier may be ITM i.e. above strike for call option and below strike for a put option
- In case KO event doesn't occur, the option/forward hedge works like a vanilla hedge instrument
- Client may choose a KO option/fwd best suited to their requirements amongst the following variations

Barrier Type	Features
Continuous / American	▪ Barrier is observed continuously throughout the life of the trade ▪ Since KO observation is continuous, chance of option KO is higher, client faces higher rolling/reinvestment risk. ▪ Client may have to reestablish the hedge in case of KO event
European	▪ Barrier is observed only once at expiry basis the fixing page/time defined ▪ Client's option KO risk is concentrated at the expiry date, hence KO probability is lower than American option
Discrete	▪ Barrier is observed at pre-defined schedule of observation dates, typically based on observable fixing pages ▪ Client's KO risk is spread across the pre-defined observation dates
Window	▪ Barrier is observed only during a predetermined window period, which is typically shorter than the life of transaction. ▪ Allows the client to limit the KO to a defined period

OBJECTIVE

Clients may opt for knock-out if:

- The underlying is expected to trade in a range (ie not breaching the KO Barrier)
- Client wants to establish the hedge at a lower cost or better strike
- Client wants to participate to an extent in favourable spot moves

PROS & CONS

BENEFITS

- In case of ITM barrier, hedge cost is cheaper than a vanilla option or best case strike is better than vanilla forward
- When OTM, hedge cost is more expensive than a vanilla option or client participates in favorable FX moves
- In case the option is not knocked out , the hedge behaves like a vanilla option

RISKS

- In case of KO, client may have to re-establish the hedge
- Upfront premium may be payable

PAYOFF

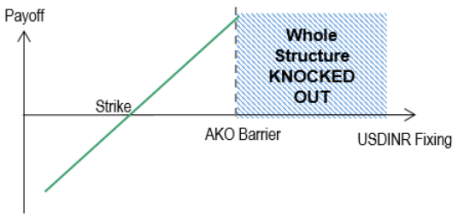

ILLUSTRATION	
Tenor	6 Months
Underlying	USDINR
Strike / KO Barrier	96.35 / 98.50
AKO Event	If USDINR has ever traded at or above the KO barrier, AKO Event is deemed to have occurred
Settlement Profile	If AKO Event has NOT occurred, • Client buys USD Monthly Notional against INR at Strike If AKO Event has occurred, • There is no settlement between Bank and Client

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KNOCK IN BARRIER OPTION/FORWARD

FEATURES

- A Knock-In barrier option/forward becomes live if the underlying breaches a pre-determined barrier before maturity
- A Knock-In barrier may be ITM i.e. above strike for call option and below strike for a put option
- In case KI event occurs, the option/forward hedge works like a vanilla hedge instrument
- Client may choose a KI option/fwd best suited to their requirements amongst the following variations

Barrier Type	Features
Continuous / American	▪ Barrier is observed continuously throughout the life of the option/fwd ▪ Since KI observation is continuous, chance of option KI is higher ▪ Client may have to reestablish the hedge in case KI event doesn't occur
European	▪ Barrier is observed only once at expiry basis the fixing page/time defined ▪ Client's option KI risk is concentrated at the expiry date, however KI risk is lower than American option.
Discrete	▪ Barrier is observed at pre-defined schedule of observation dates, typically based on observable fixing pages ▪ Client's KI risk is spread across the pre-defined observation dates
Window	▪ Barrier is observed only during a predetermined window period, which can be shorter than the life of transaction. ▪ Allows the client to limit the Ki to a defined period

OBJECTIVE

Clients may opt for knock-in if:

- The underlying is expected to trade in a range
- Client wants to establish the hedge at a lower cost or better strike if it is a ITM KI Barrier
- Client wants to establish the hedge with protection and to participate to an extend in favourable spot movement if it is OTM KI Barrier

PROS & CONS

BENEFITS

- In case of ITM barrier, hedge cost is cheaper than a vanilla option or best case strike is better than vanilla forward
- When OTM, hedge cost is cheaper than a vanilla option or client participates in favorable FX moves
- In case the option is knocked in , the hedge behaves like a vanilla hedge

RISKS

- In case the option is not knocked In, the client may have to re-establish the hedge
- Upfront premium may be payable

PAYOFF

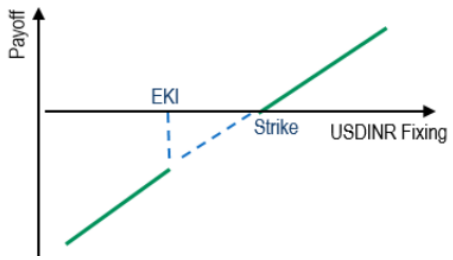

ILLUSTRATION	
Tenor	6 Months
Underlying	USDINR
Strike / EKI	95.79 / 96.00
Settlement	At Maturity, • If USDINR Fixing ≥ Strike, Client buys USD Notional against INR at Strike • If USDINR Fixing ≤ EKI, Client buys USD Notional against INR at Strike • Otherwise, there will be no settlement

COST AND FEES

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CANCELLABLE FORWARD

FEATURES

- This hedge strategy consists of a strip of multiple hedges wherein some or all of the hedges may be cancelled at client's discretion or bank's discretion or in case if a predefined spot level is reached
- Such callability (cancellability) condition may be observed continuously during the life of the trade or at predefined intervals during the trade

OBJECTIVE

This hedge strategy allows clients to hedge the FX exposure for multiple cashflows.

It also allows clients to achieve better hedge rates if they have flexibility in their hedge ratios

PROS & CONS

BENEFITS

- Enables the client to hedge at an improved rate (callability by bank)
- OR enables the client to re-enter into hedge at better rates in case of favorable market moves (callability by client)

RISKS

- If the cancellable option is exercised the bank, Client may have to enter into fresh hedges
- OR Client may have to hedge at a rate worse than prevailing market rate in case client wishes to retain callability option

PAYOFF

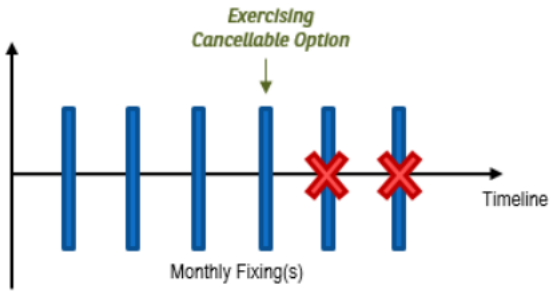

iLLUSTRATION	
Tenor	6 Months
Underlying	USDINR
Settlement	At maturity, Client buys USDINR at Forward Rate
Callable Option	Client has the right to exercise the Callable Option on any of the Callable Dates, in which once such option has been exercised, starting the next fixing, all the remaining payments between BNPP and Client will be terminated at zero cost.
Settlement Profile	On each Monthly Settlement Date, 1) If Callable Option has not been exercised, Client buys USD Monthly Notional against INR at Strike, and the trade goes on. 2) If Callable Option has been exercised, Client buys USD Monthly Notional against INR at Strike, and then the trade will be terminated starting next fixing.

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CANCELLABLE OPTION

FEATURES

- The Cancellable Option gives the Option buyer the right to cancel the option at any on the pre decided cancellable dates
- Once the Cancellation option has been exercised, all future payment obligations between Bank and Client are terminated at zero cost
- If Client does not exercise the Cancellable Option, the transaction will become a vanilla option at maturity

OBJECTIVE

Clients may opt for Cancellable Option for greater flexibility and in the wake of uncertain events. They can be effectively employed to:

- Effectively hedge convertible bonds or liabilities that would be refinanced in future that are contingent on specific events
- Client can early terminate hedge in such cases and save premium
- Client wants to terminate the existing hedge if prevailing rates are better

PROS & CONS

BENEFITS

- Client is not obliged to pay the future premium if the client decides to exercise the cancellability
- Effectively enables the client to hedge uncertain events

RISKS

- In case Client chooses to cancel the hedge and the underlying exposure still exist, the client is left unhedged
- Premium is payable and if the client decides to cancel the option, the paid premium is not refunded

PAYOFF

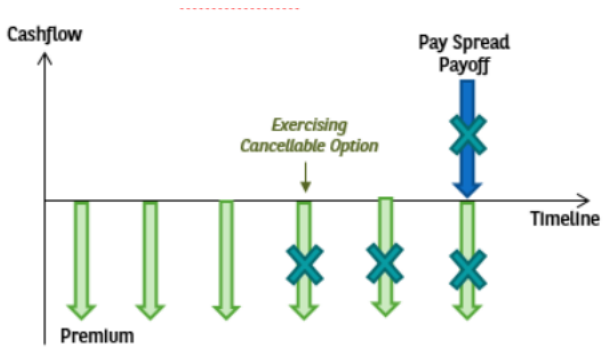

ILLUSTRATION	
Tenor	6 Months
Underlying	USDINR
Cancellable Option	Client has the right to exercise the cancellable option, which when exercised, would mean all obligation between bank and client
Premium	If the cancellation event has not occurred, client pays premium every month till maturity
Strike	Strike : 94.32 Cap: 96.00
Settlement	At maturity, if the cancellable option has not been exercised: • If Strike ≤ Fixing Rate < Cap, Client buys USDINR at Strike • If Fixing Rate ≥ Cap, Client buys USDINR at [Fixing – (Cap – Strike)] • Otherwise, there will be no settlement between BNPP and Client
Reference	USDINR Spot 94.88

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INTEREST RATE SWAP

FEATURES

- An Interest Rate Swap is a contractual agreement between two parties to exchange interest payment at pre-defined interval
- The parties exchange interest payments where at least one leg is benchmarked against a floating interest rate index, on a pre-defined Notional for fixed dates dates
- IRS may be used by clients to manage interest rate exposure on their borrowings, investments OR for general asset liability matching

OBJECTIVE

Interest Rate Swap may be employed to:

- Convert floating interest rate borrowing to fixed rate borrowing or vice-versa
- Manage fixed vs floating rate differential between investment/borrowings

PROS & CONS

BENEFITS

- Manage interest rate risk
- May cheapen the cost of fixed rate borrowing

RISKS

- Client may be unable participate in the favorable rates movement (e.g. if rates reduce for a floating rate liability)
- Client may be exposed to adverse rates moves (e.g. if rates move higher post a fixed to floating IRS)

PAYOFF

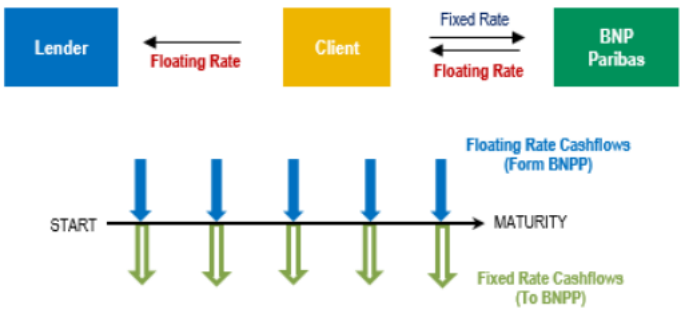

iLLUSTRATION	
Start Date	Spot Start
Maturity	5 Years
Notional	USD
BNPP Pays	O/N SOFR (Q, A360) on USD Notional
Client Pays	0.30% p.a. (Q, A360) on USD Notional

COSTS AND FEES

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INTEREST RATE SWAPTION

FEATURES

- An Interest Rate Swaption gives the buyer a right to enter into an interest rate swap.
- If the Swaption is in the money and therefore exercised, the two counterparties either:
  - Enter into the swap, based on pre-agreed terms, or
  - the seller pays the buyer the present value of the swap on exercise date (Cash Settled)

OBJECTIVE

Interest Rate Swaption may be employed by clients to have a right (but not an obligation) to enter into an interest rate swap to manage interest rate exposure on their borrowings, investments OR for general asset liability matching

PROS & CONS

BENEFITS

- Manage interest rate risk
- Offers clients participation in favorable rates movement, while protecting their downside

RISKS

- The client, incase a buyer of swaption, is required to pay premium.

PAYOFF

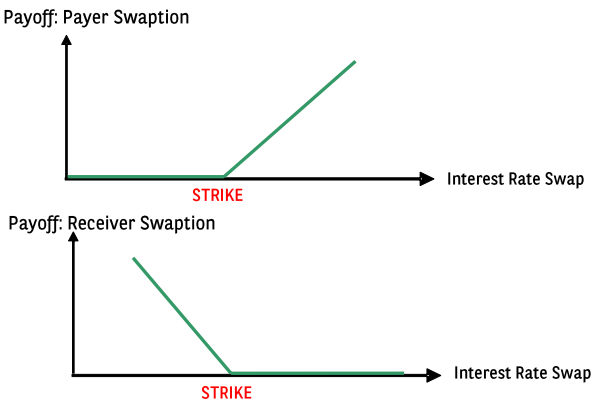

iLLUSTRATION FOR PAYER SWAPTION	
Trade Date	01 Sep 2026
Exercise Date	01 Mar 2027
Premium	X% of Notional Amount payable by Swaption Buyer to Swaption Seller on 03 Sep 2026
Settlement	Delivery
Details of Underlying Swap	
Start Date	03 March 2027
Maturity	03 March 2032
Notional	USD
BNPP Pays	O/N SOFR (A, A360) on USD Notional
Client Pays	X% p.a. (A, A360) on USD Notional

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CROSS CURRENCY SWAP

FEATURES

- A cross currency swap hedges the exchange rate risk and/or interest rate risk for both coupons and maturity principal payment
- The client may use CCS to synthetically convert a specific currency liability/asset to another currency
- CCS provides certainty of the exact cost of servicing the lability at the outset

OBJECTIVE

Cross currency swap may be used to:

- Swap the borrowing liabilities to the operating currency
- Minimize market risk on debt servicing cost
- Cost reduction for liabilities

PROS & CONS

BENEFITS

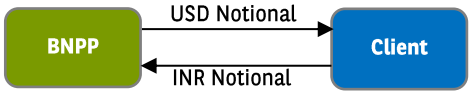
- Provides complete hedge for the FX risk arising from a foreign currency liability
- No upfront cost
- May be used for cost reduction

RISKS

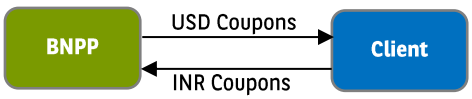
- FX rate is fixed locked at the start & the client cannot benefit from favorable movement of the underlying
- In case if CCS is used for cost reduction, client may be exposed to adverse market moves

PAYOFF

Initial Notional Exchange



Coupons Exchange



Final Notional Exchange

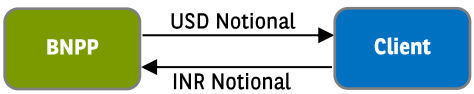


iLLUSTRATION	
Start Date	Spot Start
Maturity	6 months
Notional	USD 100mio and INO equivalent
FX Rate	USDINO 95.57
Initial Notional Exchange	Client Pays USD notional BNPP pays INO Notional
Coupon Exchanges	Client receives USD 2%(Q, A360) BNPP recs INO 6.68%(Q, A360)
Final Notional Exchange	Client recs USD Notional BNPP recs INO Notional

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RESETTABLE FORWARD

FEATURES

- A resettable forward consists of 2 parts
  - Vanilla forward used to hedge cash flow mismatch
  - Reset feature
    - Under the reset feature, client exchanges with the Bank "in-the-moneyness" of the forward by observing the FX fixing compared to the strike.

OBJECTIVE

Resettable forward can be effectively employed to:

- Achieve better hedge rate as the structure reduces capital implication (i.e Credit charges)

PROS & CONS

BENEFITS

- Credit consumption is less as compared to the vanilla forward.
- Lesser credit charge that enables the client to get a better all in rate

RISKS

- The client needs to maintain a larger cash reserves to service the exchange of Reset Payments
- Outstanding Reset payments are returned to each party only at maturity

PAYOFF

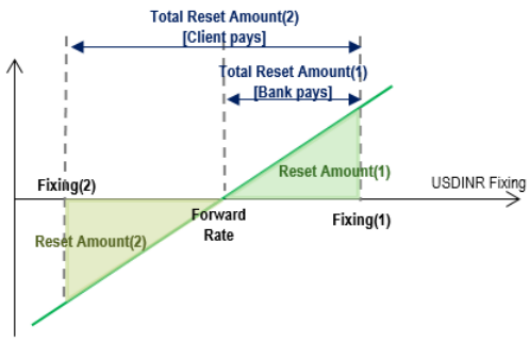

iLLUSTRATION	
Tenor	6 Months
Underlying	USDINR
Settlement	At maturity, Client buys USDINR at Forward Rate
Reset Amount	Reset Amount for month j = Notional * (USDINR Fixing(j) - Forward Rate) / USDINR Fixing(j) which in USD
Total Reset Amount	Total Reset Amount(j) for month j = Reset Amount(j) – Reset Amount(j-1)
Reset Payment	On each Monthly Reset Date, If Total Reset Amount > 0: Bank pays Client the Total Reset Amount If Total Reset Amount < 0: Client pays Bank the absolute of Total Reset Amount At Maturity, all the outstanding Total Reset Amount will be returned to respective counterparty.

COSTS AND FEES

The final price that the client pays for a product consist of trading charges and capital charges. The trading charges result from dynamic hedging carried out by the bank as per guidelines from the management
Credit and capital charge are computed as per the Bank's standard policy to ensure credit/liquidity/capital risk are incorporated into the pricings to the clients

Risks

The instrument may involve a significant degree of risk, including, but not necessarily limited to, Fixing Risk, Volatility Risk, Liquidity Risk and Credit Risk. Key components of the market risk may be described as:

Delta = sensitivity of price to underlying price (spot risks)
Rho = sensitivity of price to interest rate level

Any unwind may be done at the prevailing market conditions at BNP's discretion and in line with applicable regulatory guidelines

CAP & FLOOR

FEATURES

- Cap/floor enable the client to manage their interest rate risk by outlining the maximum/minimum payout in a particular transaction
- Client can perfectly hedge their upside/downside risk using floor/cap ensuring a certain range of interest rate cost
- They can be used to hedge the risks associated with the floating leg with the worst case/maximum rate known at trade inception
- In case of the cap/floor, the client can hedge at better/worse than prevailing market rates. In case the interest rate has not breached the floor/cap, the instrument behave like a vanilla instrument

OBJECTIVE

Clients may opt for cap/floor to obtain a guaranteed worst case hedge rate/better than vanilla rates. They can be effectively employed in:

- Low volatility environment which imply lower premium
- When the spot vs forecast in unfavorable

Target Client: The product may be suitable for clients looking to hedge interest rate risks

PROS & CONS

BENEFITS

- it enables client to cap the maximum/minimum payout in a particular transaction
- It offers clients the ability to manage the associated tail risks of the transaction

RISKS

- For cap/floor, client can partially participate in upside/get worse than vanilla rate.

PAYOFF PROFILE

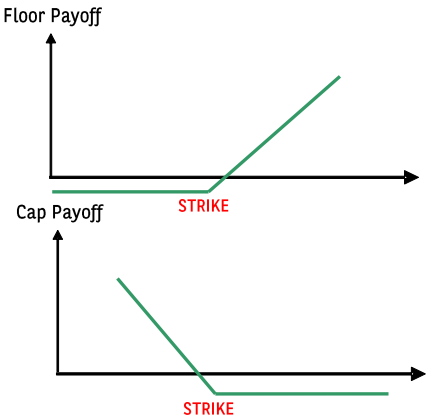

ILLUSTRATION	
Tenor	5 Years
Underlying	Reference Rate
Upfront Premium	Client pays **Premium**
Settlement	**Cap** Max(Strike - Fixing, 0) p.a. **Floor** Max(Fixing – Strike, 0) p.a.

COSTS AND FEES

The final price that the client pays for a product is consist of trading charges and credit charges. The trading charges result from dynamic hedging carried out by the bank as per guidelines from the management, credit risk is represented in the price in form of the xVA charges as described below:

Risk Management

BNP Paribas manages the risks under dynamic portfolio-hedging concept. FX options traders monitor and manage the risk via portfolio's Greeks. New transaction will be decomposed into risks components (Greeks) and viewed as an impact on overall portfolio. Greeks are managed within limits set by the Bank's senior management. Risk of option is reduced to sensitivities

Vega = sensitivity of price to volatility (volatility risks)
Delta = sensitivity of price to underlying price (spot risks)
Gamma = sensitivity of delta to underlying price
Rho = sensitivity of price to interest rate level

These Greek Risks (sensitivities) are aggregated with all other options in the portfolio (including vanillas and other exotics)

Credit and capital charge are computed as per the Bank's standard policy to ensure credit/liquidity/capital risk are incorporated into the pricings to the clients.

CALLABLE INTEREST RATE SWAP

FEATURES

- An Interest Rate Swap is a contractual agreement between two parties to exchange interest payment where one of the parties has the right to call the structure at pre-determined call dates prior maturity
- The parties exchange interest payments where at least one leg is benchmarked against an interest rate index, on a pre-defined Notional on pre-determined dates. Once called, the IRS is terminated at zero cost
- Since the client carries the risk of losing the hedge, they enjoy better than vanilla IRS rates. Callable IRS can be used by bond investors to manage their interest rate risk or to covert their interest rate obligation into fixed/floating rates.

OBJECTIVE

Interest Rate Swap can be effectively employed to:

- Synthetically convert interest obligation to the client's convenience
- Gain exposure for moves in the interest rate market without the initial capital investments

PROS & CONS

BENEFITS

- Callable IRS is simple, liquid and transparent
- Client receives a better rate than vanilla IRS

RISKS

- Client cannot participate in the favorable movement of the rates
- In the event of issuer call, client will have to re-establish the hedge

PAYOFF

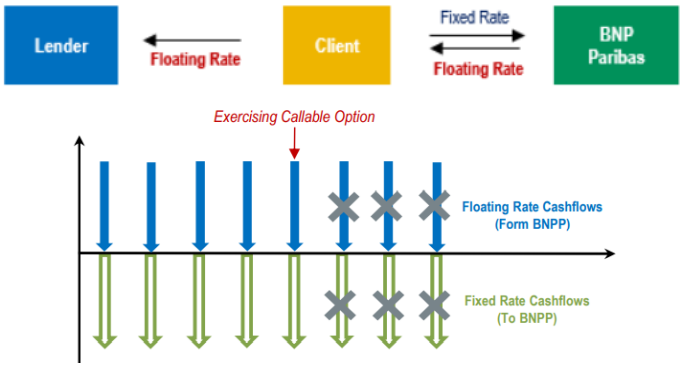

iLLUSTRATION	
Start Date	Spot Start
Maturity	6 months, quarterly callable
Notional	USD
BNPP Pays	Daily compounded SOFR (Q, A360)
Client Pays	0.25% p.a. (Q, A360)
Callable Option	Issuer has the right to exercise the callable option on any of the callable dates Once executed, the trade will be terminated and there will be no further obligation between the issuer and client

COSTS AND FEES

The final price that the client pays for a product is consist of trading charges and credit charges. The trading charges result from dynamic hedging carried out by the bank as per guidelines from the management, credit risk is represented in the price in form of the xVA charges as described below:

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FORWARD RATE AGREEMENT (FRA) ON IGB

FEATURES

- A FRA is a contractual agreement between two parties to exchange cash-flows (Fixed amount and Floating Amount) on the settlement date of the transaction.
- The parties exchange cash-flows where one leg is Fixed Amount and the Floating Amount. The Floating Amount is determined through a waterfall mechanism provided in the termsheet.

OBJECTIVE

FRA may be employed to hedge the interest rate risk on forecasted transactions :

- Reinvestment of maturity proceeds of existing fixed income investments
- Investment of interest income receivables
- Expected policy premium income receivables on the insurance contracts which are already underwritten in Life, Pension & Annuity business (For Life insurers) and General Insurance business (for General insurers)

PROS & CONS

BENEFITS

- Hedge interest rate risk on reinvestment risk
- Manage portfolio duration

RISKS

- Client is subject to the risk of downside performance in IGBs. Client will be required to pay BNP an amount, which may be significant, if the Floating Amount on the relevant Settlement Valuation Date (or the Early Unwind Date) has fallen below the Fixed amount.
- Client is be exposed to Mark to Market fluctuations due to movement in INR interest rates (OIS) and IGB prices

PAYOFF

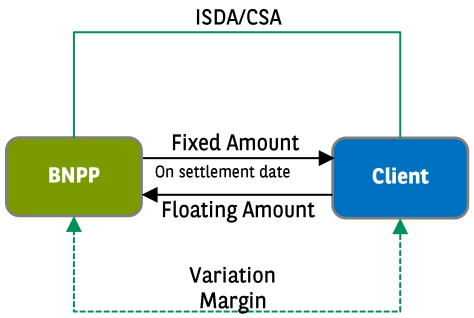

ILLUSTRATION	
Settlement Date	3y
Bond	IGB 8.13% 2045 [Spot yield (for reference only)= 6.92%]
Benchmark Security	Relevant 10y benchmark as on the 1BD prior to settlement valuation date
Notional Amount	INR 100,000,000
BNPP Pays (Fixed Amount)	112,230,300 [Forward Bond price * Notional Amount/100] [Forward Bond Price = 112.2303; Forward Yield (for reference only) = 7.1990%]
BNPP Receives (Floating Amount)	Bond Final Price * Notional Amount / 100 Bond Final Clean Price = FBIL Yield of Bond + (NDS OM Yield of the Benchmark Security – FBIL Yield of the Benchmark Security) subject to certain conditions*, **If conditions are not met, waterfall mechanism provided in the termsheet is used to determine the floating amount*

COSTS AND FEES

The final price that the client pays for a product consist of trading charges and capital charges. The trading charges result from dynamic hedging carried out by the bank as per guidelines from the management.
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Risks

The instrument may involve a significant degree of risk, including, but not necessarily limited to, Fixing Risk, Volatility Risk, Liquidity Risk and Credit Risk. Key components of the market risk may be described as:

Delta = sensitivity of price to underlying price (spot risks)
Rho = sensitivity of price to interest rate level

Any unwind may be done at the prevailing market conditions at BNP's discretion and in line with applicable regulatory guidelines

EARLY UNWIND

Client may request for a early unwind by delivering a "Unwind notice" to BNP. For the purpose of determining the 'Floating Amount' on early unwind, the Early Unwind Bond Final Clean Price is determined as per the waterfall mechanism in the termsheet. The relevant forward rate is computed using Funding Rate [INR OIS plus Spread]. Spread is pre-agreed in the Termsheet at the time of trade initiation. The Discounting Rate used is INR OIS.

BOND FORWARD ON GOVT SECURITIES

FEATURES

- A Bond Forward is a contractual agreement wherein the buyer agrees to buy the underlying bond on the Settlement Date at a pre agreed price
- The transaction is physically settled and there is no upfront payment by the buyer

OBJECTIVE

Bond Forwards may be employed to hedge the interest rate risk on forecasted transactions :

- Reinvestment of maturity proceeds of existing fixed income investments
- Investment of interest income receivables
- Expected policy premium income receivables on the insurance contracts which are already underwritten in Life, Pension & Annuity business (For Life insurers) and General Insurance business (for General insurers)

PROS & CONS

BENEFITS

- Hedge interest rate risk on reinvestment risk
- Manage portfolio duration

RISKS

- Client is subject to the risk of downside performance in IGBs. The client's purchase price is locked and may be significantly higher than the prevailing market price of the underlying bond on the Settlement Date of the Bond Forward
- Client is be exposed to Mark to Market fluctuations due to movement in INR interest rates (OIS) and IGB prices

PAYOFF

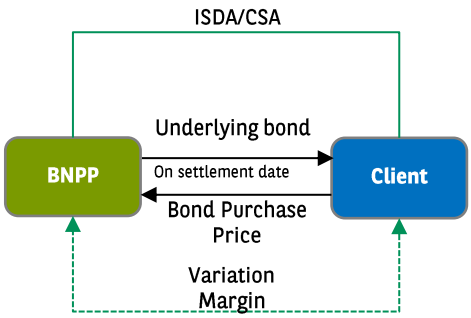

ILLUSTRATION	
Settlement Date	3y
Bond	IGB 6.90% 2065 [Spot yield (for reference only)= 7.00%]
Notional Amount	INR 100,000,000
Forward price details	Forward yield: 7.50% Bond Purchase Price (forward dirty price): 94.5750
BNPP Delivers	IGB 6.90 2065 (underlying bond) with Face Value or INR 100,000,000
BNPP Receives	Bond Purchase Price * Notional Amount / 100 = INR 94,575,000

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