Non Deliverable Forward

This Product Disclosure Statement is in reference to RBI Circular dated 16.09.2021, Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021.

This document contains standard information about the product which may enable the user to determine if the product will meet its hedging needs and to facilitate comparison with other products.

Features and Illustration

A non-deliverable forward (NDF) is a cash-settled forward contract. The notional amount is never exchanged, hence the name "non-deliverable." Here, on the deal day, the user fixes the future price of a currency pair. Counterparties settle the difference between contracted NDF price and the fixing rate* on maturity. The profit or loss is calculated on the notional amount of the agreement by taking the difference between the agreed- rate and the fixing rate and settled in USD.

*Cash flow exchange = ((NDF rate – fixing rate) * Notional amount) / Fixing rate*

User can fully/partly offset the outstanding NDF at any point by booking a reverse contract matching the maturity. The original contract and reverse contract will be settled on the fixing date

A non-resident user enters into long/short position for a future date. The Mark to Market (MTM) value, in case INR appreciates for a short USD position will be in the money.

This product is allowed for only Non Resident users as per extant regulations.

*The fixing on maturity happens at a RBI reference rate which is published on the FBIL website
https://www.fbil.org.in/#/home

Building Blocks:

The building blocks of this foreign exchange NDF are as below:

a. On shore outright forward rate for that maturity
b. Basis, which can be at a premium or discount to the onshore rate and is a function of demand/supply

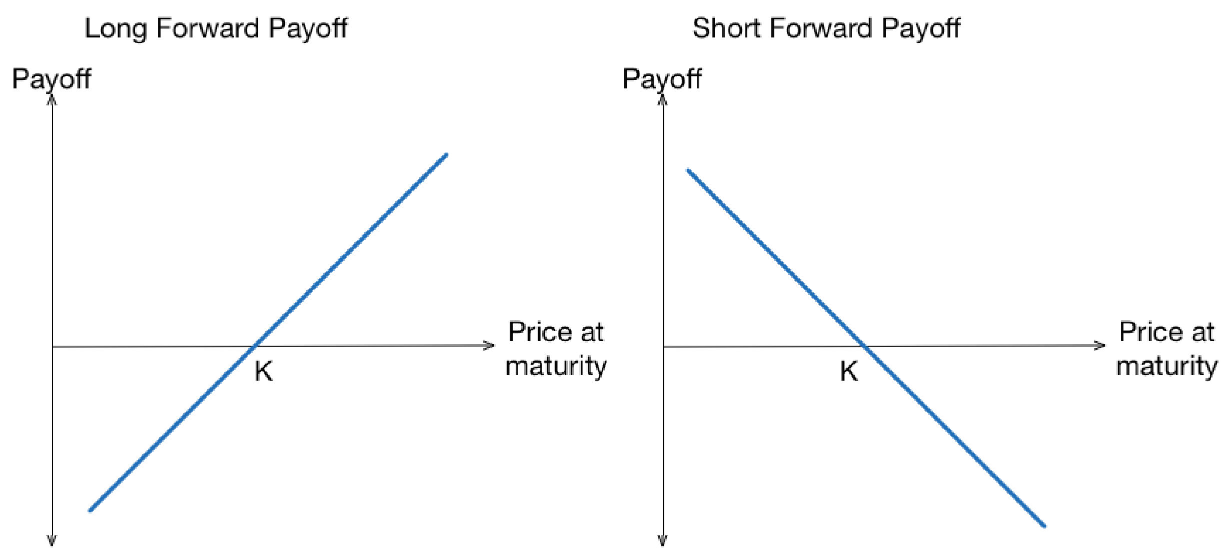
The on shore forward rate is determined by

a. Spot Rate
b. Difference in applicable interest rate of both currencies
c. Time to maturity
d. Currency Basis, which is determined by demand/supply for forward dollars

Costs and fees, including break-up and details

The forward NDF rate is determined from the market depending on the maturity and the price is dependent on Bid/Offer of NDF price along with administrative costs, capital charge and transaction handling charges.

Pay-off profile:



K is the future contracted rate
Long means buying the currency pair and short means selling the currency pair

Impact Analysis

Forward: Sell USD INR			
Amount (in USD): 100,000			
Forward Rate: 78.7			
Spot at Maturity	**Receivable if Unhedged (in INR)**	**Onshore Forward Payoff (in INR)**	**NDF Payoff (in USD)**
74	7,400,000	470,000	6,351.35
75	7,500,000	370,000	4,933.33
76	7,600,000	270,000	3,552.63
77	7,700,000	170,000	2,207.79
78	7,800,000	70,000	897.44
79	7,900,000	(30,000)	(379.75)
80	8,000,000	(130,000)	(1,625.00)
81	8,100,000	(230,000)	(2,839.51)
82	8,200,000	(330,000)	(4,024.39)
83	8,300,000	(430,000)	(5,180.72)
84	8,400,000	(530,000)	(6,309.52)

Forward: Buy USD INR			
Amount (in USD): 100,000			
Forward Rate: 78.7			
Spot at Maturity	**Payable if Unhedged**	**Onshore Forward Payoff (in INR)**	**NDF Payoff (in USD)**
74	7,400,000	(470,000)	(6,351.35)
75	7,500,000	(370,000)	(4,933.33)
76	7,600,000	(270,000)	(3,552.63)
77	7,700,000	(170,000)	(2,207.79)
78	7,800,000	(70,000)	(897.44)
79	7,900,000	30,000	379.75
80	8,000,000	130,000	1,625.00
81	8,100,000	230,000	2,839.51
82	8,200,000	330,000	4,024.39
83	8,300,000	430,000	5,180.72
84	8,400,000	530,000	6,309.52

Benefits

Under this transaction, user with the short/long position sells/buys a forward contract that entitles it to a fixed contracted price to sell/buy USD against INR. If INR appreciates/depreciates, user can counter any adverse market movements.

Risks

(1) User is fixing its short/long position for a future date. Market rates can be better at maturity date (i.e USDINR rate being higher/lower compared to rate at which NDF contract was entered into)
(2) Since NDF contracts cannot be delivered, in case delivery is needed then the USD needs to be bought or sold in the spot market at a rate which could be different from the RBI fixing rate where the NDF is settled
(3) Bid-offer spreads in case of reversal of existing contract

Terms and Conditions

The terms and conditions applicable for booking/termination will be guided by sanction letter/ NDF confirmation /Forward contract declaration/ISDA

Risk Disclosure Statements:

Various risks in the transaction have been set out while describing the transaction, providing scenarios, impact or sensitivity analysis. All statements, whether mentioned as risks or not but are likely to adversely impact the user in its own assessment shall be considered as risk disclosed to it. The risks have been disclosed basis the Bank's understanding of the markets and scenarios as they exist as on date. The user confirms the suitability of the Transaction for itself given the nature of its business/trades. The risks set out hereunder are in addition to those disclosed in the product disclosure statement.

1) Description of the Transaction

A NDF contract is a customized Over The Counter (OTC) contract between two parties to buy or sell an asset at a specified price on a future date. The non-standardized nature of NDF contract along with simplicity and linear payoff makes it a widely used instrument.

2) Purpose & Rationale of the Transaction

User is exposed to risk of INR appreciation/depreciation against FCY resulting in lower/higher INR receivable/payable. The receivable/payable side forward acts as an offset against FCYINR spot rate going lower/higher during the life of the contract till maturity

3) Scenario Analysis

All analysis is from user's perspective.

1. The scenarios are not exhaustive and the values of these market parameters may be higher or lower than the range of values given below
2. In case the user wishes to know the payoff for any specific scenario, the user can contact the Bank for the same
3. The standalone hedge may result in unlimited liability

P&L Scenario from User perspective

Maturity Date	10-Mar-23
Forward Contract Type	USD sell
Amount (in USD)	100,000
Contracted Rate	78.7
Spot on maturity	**P&L in USD**
74	6,351
75	4,933
76	3,553
77	2,208
78	897
79	(380)
80	(1,625)

4) <u>Sensitivity Analysis:-</u>

The key parameters that affects the valuation of this hedge are-

a. On shore outright forward rate for that maturity
b. Basis, which can be at a premium or discount to the onshore rate and is a function of demand/supply

The on shore forward rate is determined by

a. Spot Rate
b. Difference in applicable interest rate of both currenciesc. Time to maturity
d. Currency Basis, which is determined by demand/supply for forward dollars

Variable	**Movement**	**Impact on Unwind of sell (export) forward**	**Impact on Unwind of buy (import) forward**
Spot	Increases	Negative	Positive
	Decreases	Positive	Negative
Forward Premium (function of interest rate differential)	Increases	Negative	Positive
	Decreases	Positive	Negative

Please note that:

1. This is generally, but not necessarily the direction of valuation change.
2. These changes cannot be extrapolated for large shifts

3. This sensitivity analysis is only for important but limited market variables and assumes other variables are constant

5) **Other Disclosures:**

a) This Product Disclosure Statement and Risk Disclosure Statement will be applicable to all the transactions done with the bank on this product and the user is advised to refer to these before dealing in each such transaction
b) The user has to assess and be satisfied on the Transactions' suitability, inherent risks, merits and any tax, legal and accounting implications, which it may have before entering into a transaction
c) The user should have the necessary knowledge and skill to understand the nature, pricing and risks of the Transaction
d) The user should execute transactions in accordance with its internal risk management policy;
e) Kotak Mahindra bank is not acting as a fiduciary for or an adviser to the user