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Total Return Swap on Indian Government Bonds (IGB-TRS)

STATEMENT OF DISCLAIMER

The Product Disclosure Statement in relation to this Total Return Swap on Indian Government Bonds (IGB-TRS) (the “Transaction”), includes only indicative terms, conditions and risks (including all indications as to costs, returns and cash flows) associated with the Transaction and although the information set forth below is reflective of the terms, conditions and risks as of a specified date, and is based on current assumptions and market conditions under which JPMorgan believes the Transaction can be carried out, no assurance can be given by JPMorgan that the Transaction could in fact be executed and JPMorgan is not obliged to enter into the Transaction. Information herein is believed to be reliable, but JPMorgan does not warrant its completeness or accuracy. This should also not be taken to indicate that JPMorgan recommends the Transaction. Opinions and estimates constitute JPMorgan’s judgment and are subject to change without notice. Examples shared are for illustrative purposes only and any past performance is not indicative of future results. Counterparty/User is advised to make an independent review and reach its own conclusion and judgment regarding whether the Transaction is appropriate and proper for it. Counterparty/User needs to consult its own advisors regarding the legal, credit, tax, accounting, or any other aspects including suitability implications of the Transaction for its own particular circumstances. This Product Disclosure Statement is not intended as an offer or solicitation for the purchase or sale of any financial instrument. This Product Disclosure Statement has been prepared by JPMorgan Sales and Trading personnel and is not the product of JPMorgan’s Research Department. It is not a research report and is not intended as such. JPMorgan or a company or person connected or associated with it may be an underwriter or distributor of, or a market maker or otherwise hold a long or short position as a principal in, a security or financial instrument (or in options, futures, or other derivative instrument related thereto) connected with the Transaction described in this Product Disclosure Statement. JPMorgan is the marketing name for J.P. Morgan Chase & Co. and its subsidiaries and affiliates worldwide. Client should contact analysts at and execute transactions through a JPMorgan entity in their home jurisdiction unless governing law permits otherwise. This Product Disclosure Statement is provided on a confidential basis and may not be reproduced, redistributed, or transmitted, in whole or in part, without the prior written consent of JPMorgan. Any unauthorized use is strictly prohibited.

1. What are the features of this product?

A Total Return Swap on Indian Government Bonds is an over-the-counter (“OTC”) derivative product (the “Transaction”) in which one party transfers the total economic performance of a reference asset to another party. The economic performance includes the coupon generated by the asset such as interest as well as any change in the market value.

This product allows the user to mitigate the price and/or interest risk on their INR fixed rate asset(s) (including IGB) or mitigate the INR fixed rate liabilities on its balance sheet arising out of movement in interest rates as the price of a bond is a function of interest rates.

Under the Total Return Swap, the parties involved are :

- **Total Return Payer:** This party owns the reference asset and agrees to pay the total return (income plus market value) to the other party.
- **Total Return Receiver:** This party receives the total return from the reference asset and, in exchange, pays a regular fixed or floating interest rate to the total return payer.

Cash-flows/Payments involved:

Total Return Payer Payments: Total Return Payer provides the total return on the reference asset to the receiver. This includes any interest and change in market value.

Total Return Receiver Payments: Total Return Receiver pays a fixed or floating interest rate, to the total return payer. This rate is often based on a floating rate benchmark plus a spread.

Variations:

- **Fixed to Floating Interest Rate Swap:**
 - **Receiver Swap:** Client / User receives Fixed Rate p.a. on Party A Payment Calculation Amount and pays Floating Rate + spread p.a., on Party B Payment Calculation Amount
 - **Payer Swap:** Client / User pays Fixed Rate p.a. on Party B Payment Calculation Amount and receives Floating Rate + spread p.a., on Party A Payment Calculation Amount
- **Floating to Floating Interest Rate Swap (basis Swap):**
 - User receives ‘Floating Rate 1’ + Spread 1 p.a. calculated on Party A Payment Calculation Amount and pays ‘Floating Rate 2’ + Spread 2 p.a., on Party B Payment Calculation Amount

2. Contract terms and conditions (IGB-TRS)

Party A:	JPMorgan Chase Bank, Mumbai branch
Party B:	User
Trade Date:	[]
Effective Date:	[]
Termination Date:	[], (the “ Scheduled Termination Date ”), subject to Party B Unwind Option, Party A Early Termination Option and adjustments in accordance with the Business Day Convention
Final Valuation Date:	[], which is 1 Business Day prior to the Scheduled Termination Date.
Reference Obligations:	The obligations identified as follows: Issuer: Republic of India Coupon: [] Coupon Payment Dates: [] Reference Obligation Maturity Date: [] ISIN: [] Issue Amount: INR []
Reference Assets:	Reference Obligation with a face amount of INR [] Reference Asset Dirty Price: [] Reference Yield: []
Business Day Convention:	Modified Following
Business Days:	Mumbai
Calculation Agent:	Party A
Governing Law:	English
Documentation:	[2002] ISDA Master Agreement dated as of [] and between the JPMorgan Chase Bank, N.A. and the Counterparty (as may be supplemented and/or amended from time to time) (the “ ISDA Master Agreement ”) and the Credit Support Annex (the “ CSA ”) executed between the parties

3. Final Exchange

Final Exchange Date:	Same as the Termination Date, subject to Party B Unwind Option and Party A Early Termination Option and adjustments in accordance with the Business Day Convention.
Party A Final Exchange Amount:	Party A Payment Calculation Amount
Party B Final Exchange Amount:	Market Value of the Reference Assets as of the relevant Valuation Date

4. Interest Exchange

Party B Payments

Party B Payment Calculation Amount: INR [], subject to Party B Unwind Option and Party A Early Termination Option

Party B pays (in INR): Party B Fixed Rate on Party B Payment Calculation Amount ("Party B Payment")

Party B Fixed Rate: []% p.a., which shall be same as the Coupon of the Reference Obligations, without any deduction for any taxes (including but not limited to withholding taxes), levy or charges.

Party B Payment Dates: Semi-Annually on [] and [] of each year commencing on [] up to and including the Termination Date, subject to adjustment in accordance with the Business Day Convention.

Party B Period End Date: Semi-Annually on [] and [] of each year commencing on [] up to and including the Termination Date, subject to NO adjustment.

Party B Calculation Period: Each period commencing from and including one Party B Period End Date to but excluding the next Party B Period End Date, provided that the first Party B Calculation Period shall commence on and include [], and the last Party B Calculation Period shall end on final Party B Period End Date.

Party A Day Count: 30E/360

Party A Payments

Party A Payment Calculation Amount: INR [], subject to Party B Unwind Option and Party A Early Termination Option

Party A pays (in INR): An amount calculated as per Floating Rate Option [+/-] [Spread](#) p.a. ("Party A Payment")

Floating Rate Option: INR-MIBOR-OIS Compound

Spread: [] % per annum

Party A Payment Dates: Semi-Annually on [] and [] of each year commencing on [] up to and including the Termination Date, subject to adjustment in accordance with the Business Day Convention.

Party A Day Count: A/365F

5. Party B Unwind Option

Party B Unwind Option: Notwithstanding any other provision of this term sheet or the ISDA Master Agreement and so long as no Termination Event or Event of Default (as such terms are defined in the ISDA Master Agreement) has occurred and is continuing with respect to Party B, Party B has the right but not the obligation to terminate this Transaction by

providing a written notice (the **"Unwind Notice"**) (which may be by email, fax or other agreed forms of notification) on any Business Day at or before 11 a.m. India Standard Time, stating its intention to early terminate this Transaction, in whole or in part, to Party A

In the event that Party B has exercised the Party B Unwind Option on the Unwind Date,

- (i) Party B shall pay to Party A the pro-rata share of the Market Value of the Reference Assets (as of the relevant Valuation Day) with respect of which Unwind Notice is provided; and
- (ii) Party A will pay to Party B sum of
 - 1) Pro-rate share of the Party A Payment Calculation Amount with respect of which the Unwind Notice is provided (the **"Unwind Amount"**); and
 - 2) any accrued and unpaid Present Value of Party A Payments with respect to the Unwind Amount up to and excluding the Unwind Date.

For the purpose hereof:

"Unwind Date" shall mean the date which falls 1 Business Day after the date on which parties have agreed on the Market Value of the Reference Assets.

"Present Value of Party A Payments" means Party A Payments with respect to the Unwind Amount from and including Unwind Date to but excluding [] discounted off the prevailing INR OIS curve, adjusted for the CSA impact between Party A and Party B, corresponding to the portion of the Transaction that Party B intends to unwind as per the Unwind Notice.

6. Party A Early Termination Option

Party A Early Termination Option:

Party A has the right but not the obligation to terminate this Transaction, in whole or in part, on any Party A Payment Date with at least [5] Business Days prior written notice (the **"Party A Early Termination Notice"**) (which may be by email, fax or other agreed forms of notification).

In the event that Party A has exercised the Party A Early Termination Option, on the Optional Termination Date,

- (i) Party B shall pay to Party A the pro-rata share of the Market Value of the Reference Assets (as of relevant Valuation Day) with respect of which the Party A Early Termination Notice is provided; and

- (ii) Party A will pay to Party B sum of
- 1) Pro-rate share of the Party A Payment Calculation Amount with respect of which the Party A Early Termination Notice is provided (the “**Party A Early Termination Amount**”); and
 - 2) any accrued and unpaid Party A Payments with respect to the Party A Early Termination Amount up to and excluding the Optional Termination Date.

For the purposes hereof:

“**Optional Termination Date**” shall mean the date which falls 1 Business Day after the date on which parties have agreed on the Market Value of the Reference Assets following the exercise of the Party A Early Termination Option.

Final Price:

- (a) On or before [1:00 p.m.] Mumbai time, on a Valuation Day, Party A shall use best endeavours to provide a Cash Quotation to Party B for the portion of the Reference Assets with respect of which the Market Value of the Reference Assets is to be determined, for settlement in 1 Mumbai Days after the Valuation Day.

If such Cash Quotation is accepted by Party B and notice of such acceptance is given to Party A, then such Cash Quotation shall be Final Price of the Reference Assets.

- (b) If Party A does not provide such Cash Quotation (without any deduction for any taxes (including but not limited to withholding taxes), levy or charges) by such time or if Party B does not accept such Cash Quotation, Party B will request from Eligible Dealers, Cash Quotation for the portion of the Reference Assets with respect of which the Market Value of the Reference Assets is to be determined. Party B will notify Party A of all Cash Quotations obtained pursuant to above on or before [] p.m. Mumbai time (the “Cut-Off Time”), including all details that may be required by Party A if it wishes to accept such Cash Quotations (the “Eligible Quotations”). The highest of such Eligible Cash Quotation shall be the Final Price of the Reference Assets, provided that the Eligible Dealer that has provided the highest Eligible Cash Quotation is willing to sell the Reference Assets at such Eligible Cash Quotation to Party A, upon request..
- (c) If no eligible Cash Quotation is obtained from an Eligible Dealer, the Final Price of the Reference Assets shall be determined by

the Calculation Agent in good faith and commercially reasonable manner.

Market Value of the Reference Assets:	On any such date, an amount in INR determined by the Calculation Agent by reference to the Final Price (without any deduction for any taxes (including but not limited to withholding taxes), levy or charges) and calculated as Party B Payment Calculation Amount X Final Price of the Reference Assets.
Cash Quotation:	a firm offer quotation for the Eligible Dealer to sell the Reference Assets to Party A, expressed as a percentage and including accrued but unpaid interest.
Valuation Day:	The Final Valuation Date or the Mumbai Business Day on which Party A receives the Unwind Notice or the Mumbai Business Day prior to Party A Payment Date in respect of which the Party A Early Termination Notice is provided; as applicable.
Eligible Dealer:	Any dealer selected by Party B from a list of leading dealers in the relevant market provided by Party A at or before [] p.m. Mumbai time, on the Valuation Day.

7. What are the benefits of this product for the user/Party B?

The Transaction helps user to mitigate interest rate risk and allows them to convert from fixed to floating rates or vice versa to potentially hedge against interest movement impact on assets/liabilities to suit internal risk management strategy and market opportunities.

Exposure from fixed rate asset can be converted into floating rate asset using a IGB-TRS if user expects rates to go higher in which case the bond yields will go higher, and user could be exposed to a mark-to-market loss on the fixed rate assets.

Exposure from floating rate liabilities can be converted into fixed rate liabilities using a IGB-TRS if user expects rates to go lower in which case the bond yields will go lower, and user could be exposed to a mark-to-market loss on the floating rate liabilities.

8. What are the risks involved?

There are significant risks associated with the transaction above including, but not limited to, interest rate risk, price risk, liquidity risk, and credit risk. Counterparties should consult their own financial, legal, accounting, and tax advisors about the risk associated with this transaction, the appropriate tools to analyze the swap and the suitability of the swap in each investor's particular circumstances. No counterparty should enter into the IGB-TRS unless that counterparty understands and has sufficient financial resources to bear the price, market, liquidity, structure, and other usual risks associated with the Transaction.

Interest Rate Risk:

If interest rates (INR OIS swap rates or yield of the Reference Obligations) move from their current positions, the market value of the transaction may be adversely affected from Party B's perspective.

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Fixing Risk:

If INR-MIBOR-OIS-COMPOUND decreases, the NET payments received by Party B will decrease.

Liquidity Risk:

This transaction is not a readily liquid instrument. There may exist a time when there is a lack of liquidity or low trading volume in the market for the transaction, and this potential illiquidity could significantly decrease the market value of the transaction for Party B.

Credit Risk:

This transaction carries the counterparty credit risk of Party A. The user is relying on the creditworthiness of the market maker. On the Termination Date, the contractual settlement payments (Final Exchange) shall take place between user and the market maker, provided that the market maker is solvent.

Ordinary Course of Business:

In the ordinary course of their business, JPMorgan or any of its affiliates or subsidiaries may effect transactions for their own account or for the account of their customers. In conducting such business neither JPMorgan nor any of its affiliates or subsidiaries is obliged to take into account the circumstances of the parties to the transaction or act in a manner which is favorable to them. Such activity may, or may not affect the value of the transaction, but potential investors should be aware that a conflict may arise.

Potential Conflicts of Interest:

Potential conflicts of interest may exist in the structure and operation of the strategy and the course of the normal business activities of JPMorgan or any of its affiliates or subsidiaries or their respective directors, officers, employees, representatives, delegates or agents of their normal business activities.

9. How does the payoff profile look like?**Payoff of the transaction:**

Payoff of a **Total Return Swap on Indian Government Securities ("IGB-TRS")** transaction is depicted as an example below from Party B's Perspective, where user/ Party B pays fixed rate and receives floating rate assuming neither of Party B Unwind Option or Party A Early Termination Option is exercised.

On Each Party A Payment Date	On Each Party B Payment Date
Party B Receives Amount = Party A Payment Calculation Amount x (Floating Rate Option + Spread) x Party A Day Count ¹	Party B Pays Amount = Party B Payment Calculation Amount x Party B Day Count ¹ x Fixed Rate
On Final Exchange Date	

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Party B Receives Amount = Party A Payment Calculation Amount	Party B Pays Amount = Market Value of Reference Assets as of Valuation Date
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1) Day count fraction corresponding to the respective calculation period for respective Parties.

10. What are the fees and charges the user will have to pay?

Unless stated otherwise in the termsheet or trade confirmation of the Transaction agreed with the user, the price that Party A quotes to its users is inclusive of any charges, costs etc. that Party A needs to bear in order to offer the Transaction to the user.

7. How often are valuation statements available for user/Party B?

Valuation statements in relation to all Transactions executed between parties, which is updated on daily basis, will be made available to Party B on the "Optimize" application present on Party A's online platform, J.P.Morgan Markets ("Optimize Platform"). Party B will be able to view and download such valuation statements from the Optimize Platform for a specific period of time as notified by Party A, from time to time. To the extent Party B wishes to receive any particular valuation statement via email or any other mode of communication, it should reach out to its representative at Party A and make a request in writing to receive such valuation statement via email or any other mode of communication as agreed between the parties. Party A shall consider Party B's request and if reasonable and operationally practicable, it will share the particular valuation statement requested via email or any alternative mode of communication with Party B.

8. How can the user/Party B exit from this Transaction and what are the costs involved?

Similar to any OTC derivative transaction in case Party B wishes to terminate this Transaction, either in part or in full, prior to the scheduled termination date on any business day, Party B can request Party A to provide an early termination quote, which shall take into account the mid mark to market value of this Transaction from Party A's perspective minus applicable costs which include without limitation, unwind cost, hedging cost, cost of funding, and/or other expenses.

Early termination quote will take into account, among other factors, prevailing market rates, liquidity, price factors, Party A's hedging obligations and such other factors deemed relevant by Calculation Agent in its sole and absolute discretion.

Party B shall communicate to Party A whether they would like to proceed with the early termination/unwind and that early termination quote is accepted by Party B.

- a. If the early termination quote is greater than zero, Party B shall pay such amount to Party A.
- b. Else, Party A shall pay to counterparty the absolute value of the early termination quote.

For avoidance of doubt, upon the payment of early termination quote, this Transaction shall terminate and no further amounts payable by either parties.