Fixed Income Products offered by DBS Bank (Hong Kong) Limited, Private Banking & Treasures Private Client

IMPORTANT NOTE

- This document serves to explain the key product features and product risks about the products referred to and are for your reference only. This document does not constitute any offer, invitation or recommendation to enter into any transaction.
- DBS Bank (Hong Kong) Limited/ 星展銀行(香港)有限公司 (the "Bank") is acting as principal in respect of this proposed transaction or any other transaction unless otherwise specifically agreed in writing, and accepts no liability whatsoever with respect to the use of this document or its contents. The Bank does not make any representation or warranty as to the accuracy, completeness or correctness of the information contained in this document.
- This document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. This document is published for information only and is not to be taken in substitution for the exercise of judgement by the reader, who should obtain separate legal, financial or other professional advice. Before entering into any transaction or making a commitment to purchase any product mentioned in this document, the reader should take steps to ensure that the reader understands the transaction, the nature of all of the risks associated with the investment and has made an independent assessment of the transaction in the light of the reader's own objectives, particular needs and circumstances. In particular, the reader may wish to seek advice from a financial adviser or make such independent investigations as the reader considers necessary or appropriate for such purposes.
- Some products are only offered to clients who is professional investor, as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and the rules made under the SFO and have derivative knowledge.
- You should consider if the product matches your risk appetite, concentration level, investment horizon and investment objectives before investing.
- This document does **NOT** and should **NOT** be considered as replacing any product offering documentation of any product mentioned herein. Before making any investment decision, it is important that you first read and fully understand all the product offering documentation, in particular the product features and risk disclosures of the product. If you are in doubt, you should seek independent professional advice.
- Investment involves risks. Losses may be incurred as well as profits made as a result of buying and selling investment products.
- By signing and returning the Product Booklets Acknowledgement Sheet, you acknowledge and confirm to the Bank that you have received and understood this document. Please refer to the Product Booklets Acknowledgement Sheet for details.
- The products may not be authorized by any regulatory authorities in Singapore or Hong Kong or elsewhere.

Products coverage

- Bond *(both Primary Issue and Secondary Market Trading)*
- Certificate of Deposit

Get to know Bond Investment

Product Nature

- A bond or a note is a debt security under which the issuer (also called the debtor or borrower) owes the holders (also called the lenders) a debt and, depending on the terms of the bond, is required to pay the holders interest (also called the coupon) and/or to repay the principal (or the amount borrowed) at a later date, termed the maturity.

Classification of Bond

By Issuer

- **Corporate Bond –** Issued by companies or their subsidiaries
- **Government Bond –** Issued by governments
- **Supranational Bond –** Issued by an entity that does not have one particular national

By Coupon Rates

- **Fixed Rate Bond –** A bond that pays a fixed rate of interest, which will remain unchanged over the life of the bond.
- **Floating Rate Bond** – A bond with coupon payments reset periodically, linking to the level of a market reference yield such as HIBOR or LIBOR.
- **Zero-coupon Bond –** A bond that pays no coupon interest. It is sold at a discount from par value. Investor may earn income as the bond price moves towards par over time.

Advantages of Bond Investment

- **Stable Return** – Generally speaking, high quality fixed rate bonds may provide more stable return than common stocks.
- **Portfolio Diversification** – Including bonds in an investment portfolio may help to diversify investment risks.
- **Potential Capital Gain** – Potential bonds price appreciation under certain environments such as decreasing interest rate environment.

Types of Bond

1) Straight Bond & Certificate of Deposit

Product Features

- Bond with no special features and derivatives embedded is known as Straight Bond or Plain Vanilla Bond.
- Certificate of Deposit (CD) is issued by bank and similar to Straight Bond. However the holder is not a debtor of the issuer but a depositor. Different from normal deposit, the CD holder is restricted on withdrawing their investment from the issuer before maturity. He/ She can sell the CD on secondary market but the liquidity is very low. The common tenor of CD is 1 year.

Generic Risk of Investing in Bond and CD

- **Product risk –** Investment involves risks. Losses may be incurred as well as profits made as a result of buying and selling investment products.
- **Credit/Issuer risk –** Bonds/debentures are subject to the risk of the issuer defaulting on its obligations. Credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer. Debt instruments which are not supported by any collateral are fully exposed to the credit risk of the relevant counterparties.
- **Liquidity risk –** Some bonds/debentures may not have active secondary markets and it would be difficult or impossible for investors to sell the Bonds/debentures before its maturity. Significant losses of principal may incur in liquidating the underlying investments.
- **Interest rate risk –** Bonds/debentures are more susceptible to fluctuations in interest rates and generally prices of bonds/debentures will fall when interest rates rise.
- **Counterparty risk -** Investors bear the counterparty risk. Where the counterparty defaults in its obligation, significant losses of principal may incur.
  Debt instruments which are not supported by any collateral are fully exposed to the credit risk of the relevant counterparties.
- **Trading with leveraged -** Leveraging heightens the investment risk by magnifying prospective losses. The cost of borrowing may increase due to interest rate movements.
- **Worst case scenario -** If the issuer and guarantor, if any, goes into default, investor may lose all amount invested.

The risks listed above are also applied to all types of bond that are mentioned below.

2) Unrated and High-Yield Bonds

Product Features

- High-Yield Bond are those rated BB+ and below by Standard & Poor's (S&P) and Ba1 and below by Moody's and BB+ and below by Fitch. These credit-rating agencies assess the credit risk of the issuer of the bonds, and assign them a credit rating based on information available at the time.
- These bonds may not be suitable for all investors and are only recommended to those with an appropriate risk appetite as they carry significant risks. Investors are exposed to the issuer's credit risk and market risk amongst other risks.

Risk of Investing in High Yield Bond

In addition to the generic risks stated in section (1), there are additional risks of investing in Unrated and High-Yield

Bonds.

- **Unrated securities -** Unrated bonds have not been assessed by rating agencies. Therefore it may be difficult for investors to assess risk associated with these bonds.

  Some unrated bonds expose investors to elevated levels of risk, while other types of unrated bonds are among the safest investments on the market.

- **Higher credit risk -** High-yield bonds/debentures are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default.
- **Higher vulnerability to economic cycles -** High-yield bonds/debentures typically fall more in value than investment grade bonds/debentures during economic downturns as (i) investors become more risk averse and (ii) default risk rises.

3) Perpetual Bond

Product Features

- Bond with no maturity date and pay a steady interest forever, similar to stock dividends.
- Perpetual Bonds are not treated as debt but equities to the issuer under accounting rules of some countries.
- When market interest rate/ investor require return change, prices of Perpetual Bonds fluctuate much more than other bonds with same credit rating.

Risk of Investing in Perpetual Bond

In addition to the generic risks stated in section (1), there are additional risks of investing in Perpetual Bonds.

- **No maturity date –** Perpetual Bonds/debentures are perpetual in nature and do not have a maturity date. Interest pay-out depends on the viability of the issuer in the very long term.

4) Convertible/ Exchangeable Bond

Product Features

- **Convertible Bond** - Bond that can be converted into a predetermined amount of the company's equity at certain times during its life, usually at the discretion of the bondholder. Convertible Bond consists of a straight bond and an embedded option to exchange the bond for company’s equity.
- **Exchangeable Bond** – It is similar to convertible bond but giving the right the bondholder to exchange the bond for equity of another company, usually is the issuer’s subsidiary or company owned by the issuer.
- Price structure of convertible and exchangeable bond is constituted by value of the straight bond plus value of the option embedded. The bondholder acts like holding a straight bond and an option with long position. Having this feature, when stock price of the company goes up, the value of convertible bond will follow. On the other hand, when the value of convertible bond drops, it will only fall to the value of straight bond floor.

Risk of Investing in Convertible/ Exchangeable Bond

In addition to the generic risks stated in section (1), there are additional risks of investing in Convertible/ Exchangeable Bonds.

- **Equity investment risk –** Invest in convertible or exchangeable bonds are subject to both equity and bond investment risk.

5) Callable Bond

Product Features

- Callable Bond allows the issuer to redeem the bond at a predetermined price on or after specific date before maturity. Exercising the call on call date is at issuer's discretion but not obligated to do so.
- Price structure of Callable Bond is constituted by value of a straight bond minus value of the option embedded. The bondholder is actually holding a straight bond and an option with short position.

Risk of Investing in Callable Bond

In addition to the generic risks stated in section (1), there are additional risks of investing in Callable Bonds.

- **Reinvestment risk –** Bonds/debentures with a callable feature increase an investor's reinvestment risk when the issuer exercises its right to redeem the bond before it matures.

6) Distressed Bonds

Product Features

- The bond issuer may not able to meet their financial obligations and near or even in default. The bond price may be highly volatile. Some investor who purchases Distressed Bonds is speculating the issuer will finally able to fulfill its obligations and not going into default.
- There is no official definition for "Distressed Bonds", however we would classify a bond trading at a credit spread of at least 1,000 basis points above the benchmark reference yield as "distressed".

Risk of Investing in Distressed Bond

In addition to the generic risks stated in section (1), there are additional risks of investing in Distressed Bonds.

- **Higher default risk –** The issuer of Distressed Bond may go into / already in default. Holding a "Distressed Bond", the holder is facing much higher default risk than holding other bonds that not in "Distressed".
- **Higher liquidity risk –** As the bond is at high default risk, liquidity of Distressed Bonds may be much lower than bonds not in distress. Investor may suffer considerable loss in order to liquidate the holdings.

7) Subordinated Bonds

Product Features

- It is a debt that ranks below other bonds with regard to claims on assets or earnings. In the case of default, holders with subordinated bonds would not get paid out until the senior bondholders are paid in full.

Risk of Investing in Subordinated Bond

In addition to the generic risks stated in section (1), there are additional risks of investing in Subordinated Bonds.

- **Lower priority of claims –** Bonds/debentures issued as subordinated debts have a lower priority of claims in the event of liquidation of the issuer. Investors can only get back the principal after other senior creditors are paid.

8) Contingent Capital Securities, Bail-in Bonds

Product Features

- Contingent Capital Securities (CCS) are a form of bank capital securities that may be converted into shares (also known as Contingent Convertibles or CoCos) or written down upon the occurrence of certain triggering events. These securities are designed to absorb losses for the issuer without resulting in an event of default.
- CCS can absorb losses either by converting into common equity or by suffering a principal write down. The trigger can be either mechanical (i.e. defined numerically in terms of a specific capital ratio) or discretionary (i.e. subject to supervisory judgment).
- Trigger events that result in conversions or write-downs include reaching a predefined threshold of common equity capital and/or receiving state assistance without which the bank would become a non-viable financial institution. The decision of whether or not a bank is non-viable rests with the relevant regulatory authorities, at their own discretion. Therefore, banks that continue to maintain high capital ratios, but are unable to access the funding markets without government guarantees could also be deemed to be nonviable financial institutions.

Risk of Investing in Contingent Capital Securities, Bail-in Bonds

In addition to the generic risks stated in section (1), there are additional risks of investing in Contingent Capital Securities or Bail-in bonds.

- **Subordination -** CCS are generally issued as subordinated debt i.e. Tier 1 or Tier 2 instruments. CCS are deeply subordinated instruments due to their loss absorbing capabilities. In times of market stress, CCS would be required to absorb losses before senior, unsubordinated creditors. CCS may also be written down while the bank is still a going concern i.e. before the equity capital of a bank is fully written off**.**
- **Full/partial write-down upon trigger events -** Bonds/debentures with a contingent write down or loss absorption feature may be written-down fully or partially or converted to common stock on the occurrence of a trigger event. In such situations, the original value of the bond will be written down or converted into shares that are trading at large discounts.
- **Exposed to both equity and bond risks -** Investors face both equity and bond investment risk if the bonds/debentures are converted to common stock on the occurrence of a trigger event.

9) Bonds with Special Features

Product Features

- **Variable/deferral of interest payment –** The issuer has right, according to contractual terms of bond issuance, to change coupon payment date or defer coupon payment.
- **Extendable Bond** – An Extendable Bond gives its holder the right to “extend” its initial maturity at a specific date(s). An investor purchases an Extendible Bond to have the ability to take advantage of potentially falling interest rates without assuming the risk of a long-term bond.

Risk of Investing in Bonds with Special Features

In addition to the generic risks stated in section (1), there are additional risks of investing in bonds with special features.

- **Variable/deferral of interest payment –** Bonds/debentures with variable and/or deferral of interest payment terms have a higher uncertainty over the amount and time of the interest payments to be received.
- **Extendable maturity dates** – Bonds/debentures with extendable maturity dates do not have a definite schedule of principal repayment.

10) RMB Bonds

Product Features

- As internationalization and the steady appreciation of RMB in the last few years, demand on RMB Bonds is also increasing. The yearly issuance of RMB bond by Ministry of Finance of PRC since 2009 helps to strengthen HK's role of RMB off-shore center. It also helps to construct an entire reference yield curve for RMB bond issued in HK.
- Dim Sum Bonds are bonds issued in Hong Kong but denominated in RMB. In contrast to synthetic RMB Bond, which denominated in RMB but settled in USD, the Dim Sum bondholders receive coupon as well as principal at maturity in RMB.

RMB Products related risk

Currency risk:

- Fluctuations in the exchange rate may adversely affect the investment return when the investors convert the proceeds to the original currency.
- RMB may not be freely convertible and is subject to Mainland China's exchange controls and restrictions.
- Products will be subject to multiple currency conversion costs involved in making investments and liquidating investments or meeting other settling or operating expenses if the products are not denominated, or if the underlying investments are not denominated, in RMB.
- When calculating the payoff/ value of the RMB products, the offshore RMB (the "CNH") will be used. The CNH rate may be at a premium or discount to the exchange rate for onshore RMB (the "CNY") and there may be significant bid and offer spreads. While CNH and CNY represent the same currency, they are traded in different and separate markets which operate independently. As such, CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY.

For RMB products that have long product tenors:

- Significant losses of principal may incur if investors redeem their investments before the maturity date or during the lock-up period (where applicable).

For RMB products that do not have access to invest directly in Mainland China:

- The return and performance of this product may be adversely affected due to the limited choice of available underlying investments denominated in RMB outside Mainland China.

Investment alternatives that you may consider

Products	**Money Market Instruments**	**Bonds Funds**	**Bond-Linked Investments**
Product Description	Short dated debt instruments generally issued by governments, supranationals, financial institutions or corporations. They may include Treasury Bills, Certificates of Deposits and Commercial Papers.	A fund is a pool of money put together by individual investors. The fund is managed by a fund manager. Subject to the fund's objectives, the fund manager invests this capital in a range of bonds from various markets.	Bond-linked investments are structured products which are linked to underlying bond(s), for example, Credit Linked Notes and Total Return Swaps.
Payoff	Receive the principal amount of the money market instruments upon maturity.	When investors invest in a bond fund, they receive units or shares of the fund. A unit/share represents a part of the fund's net asset value (NAV). The NAV-per-unit of a fund is the quotient of (i) the balance of the total assets minus total liabilities of the fund divided by (ii) the number of units / shares issued.	Similar payoff stream as if investors had invested in the underlying bond(s) as investors receive regular income. However terms of the Bond-Linked Investments may differ from investing in bond(s) directly, depending on the product structure.
Product Liquidity	Depend on market availability which maybe very limited and even not exist in an extreme circumstance.	Periodicity of the NAV calculation and dealing frequency may differ for each bond fund.	Secondary market for Bond-Linked Investments may be limited or non-existent.
Worst Case Scenario	Total loss of the principal amount.	The value of the underlying investment of the bond fund may become zero, clients may lose all of their investment capital.	Total loss of the principal amount.

The content of this Product Booklet (including the product nature, description and risks) may not be applicable to all or any of the investment alternatives herein. So please obtain the Product Booklet(s) for the investment alternative(s) that you are interested in from your Relationship Manager and transact over that/those investment alternative(s) ***only after*** you have carefully read and fully understood the Product Booklet(s) for that/those investment alternative(s).