

## **BOND / CERTIFICATE OF DEPOSIT TRADING SERVICES**

### **APPLICABLE TO NON-PERSONAL CUSTOMERS**

#### **Important Risk Warning:**

- This is an investment product. The investment decision is yours but you should not invest in a bond/ Certificate of Deposit (CD) unless the intermediary who sells it to you has explained to you that the bond/CD is suitable for you having regard to your financial situation, investment experience and investment objectives. Your intermediary is under a duty to assure that you understand the nature and risks of this product, and that you have sufficient net worth to be able to assume the risks and bear the potential losses of trading in this product.
- Bonds are not deposits and should not be treated as substitutes for conventional time deposits.
- CDs are NOT equivalent to a time deposit. They are not protected deposits and are not protected by the Deposit Protection Scheme in Hong Kong.
- If the product is not principal protected, in the worst case scenario, you could sustain an entire loss of your investment.
- Investors who purchase bonds/CDs are exposed to credit risk of the Issuer and the Guarantor (if any) of the bonds/CDs. There is no assurance of protection against a default by the issuer/guarantor in respect of the repayment obligations. In the worst case scenario, any failure by the issuer and the guarantor (if any) to perform obligations when due may result in the loss of all of your investment.
- The authorization status of the bonds/CDs, i.e. whether the bonds/CDs have been authorized by the Securities and Futures Commission in Hong Kong ("SFC"). (SFC authorization is not a recommendation or endorsement of a bond/ CD nor does it guarantee the commercial merits of a bond/CD or its performance. It does not mean the bond/CD is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.)
- Investors should exercise caution in relation to bonds that are considered as Complex Products having regard to the factors set out in paragraph 6.1 of the Securities and Futures Commission's ("SFC") "Guidelines on Online Distribution and Advisory Platforms" and the list of examples published on the SFC's website. Please refer to the section under "Key Risks Related to Bonds with Special Features" for details of investing in complex bonds.
- The contents of this document have not been reviewed by any regulatory authority in Hong Kong and investors should exercise caution in relation to the offer.
- The potential capital gain may be capped or limited for bond investment, subject to market conditions, bond prices and other factors.
- Bonds are offered only to professional investors (as defined in Section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) ( "Professional Investors" ).
- Additional risks are disclosed in the section of "Risk Factors" below. Please refer to it for details of investing in bonds/CDs.
- If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

#### **1. What are bonds?**

- Bonds are debt instruments issued by corporations, governments or other issuers to bondholders.
- As a bondholder, you are extending credit to these issuers and they are obligated to repay the face value of the bond upon maturity, as well as the relevant interest during the life of the bond.
- There are various types of bonds including the fixed rate bond, floating rate bond, zero coupon bond and callable/extendable bond.

#### **2. What are Certificate of Deposits (CDs)?**

- CDs are a type of debt instrument similar to bonds. They are usually issued by financial institutions such as banks.
- As a CD holder, you are extending credit to these issuers and they are obligated to repay the face value of the CD upon maturity, as well as the relevant interest during the life of the CD.

### 3. Why should I invest in bonds/ CDs?

- In general, bonds/CDs offer comparatively steady returns and predictable income stream to investors
- Bonds and CDs are typically less volatile than other assets with higher capital appreciation prospects (such as equities)
- Inclusion of bonds and/or CDs can diversify risk and offer relative stability to a portfolio.

### 4. What factors affect bond prices?

- Bond prices in the secondary market can vary due to a number of factors, and the yield of the bond will change accordingly. Generally speaking, prices of bonds correlate with the bond yield, which in turn is directly related to the credit risks of the bond issuers.
- Bond Yield – Bond prices generally move in the opposite direction to changes in the yield. For example, when the bond yield is up, the bond price falls and when the bond yield is down, the bond price increases.
- Credit risk – Bond Yield correlates with the credit risks of bond issuers. Credit risk is usually measured by credit ratings assigned by international rating companies such as Moody's and Standard & Poor's. Issuers with higher credit risk may pay a higher yield to attract investors.
- However, credit rating is a lagging indicator of credit risk. If the market perception of the financial strength or credit worthiness of a bond/CD issuer /guarantor (if any) downgrades, the prices of such bond/CD may fall significantly before the international rating companies downgrade the issuer/guarantor's credit ratings.

**Additional Risks are disclosed in the section of "Risk Factors" below. Please refer to them for details.**

### 5. The bond and CD trading service offered by Hang Seng Bank Limited<sup>1</sup>

- At Hang Seng Bank, we currently offer bonds issued by corporations, governments including PRC and HKSAR, local quasi-government bodies and supranationals around the world denominated in major currencies. There is also a wide selection of tenors or terms from which to choose.
- In providing our bond and CD trading services to customers, Hang Seng Bank Limited is NOT an independent intermediary because:
  - i) we may receive fees, commissions, or other monetary benefits from third parties (which may include product issuers) in relation to our distribution of the bonds/CDs. For details, please refer to our disclosure on monetary benefits which will be provided to you prior to or at the point of you entering into any transaction in bonds/CDs with us; and
  - ii) we may receive non-monetary benefits from third parties, or have close links or other relationships (legal, economic or otherwise) with issuers of products that we distribute to you.
- Investors who are interested in investing in bonds/CDs through our Bank must hold a Securities Account with our Bank and trading of bonds/CDs can be made through your relationship manager.
- If you need to sell<sup>2</sup> the bonds/CDs purchased through us, Hang Seng Bank will repurchase them based on the prevailing market price<sup>3</sup> under normal market circumstances.
- All bonds/CDs purchased through Hang Seng Bank Limited are under our custody and our nominee service ensures that all interest earned is credited to your settlement account with us.
- You may enquire the latest mark-to-market price of your investment through your relationship manager. Latest mark-to-market value of your bond /CD investment will also be provided in the monthly statement of your Account for your reference.
- Whilst Hang Seng Bank Limited seeks to provide consistently competitive pricing for the product/ the transaction by obtaining multiple quotes from different counterparties, there may be situations that multiple quotes cannot be obtained. Besides, if a client has designated a specific counterparty for the transaction, the Bank will follow the client's instruction to obtain a quoted price from the designated counterparty. Under the above scenarios, the Bank makes no representation that the quote is the best price available in the market at the time.

*1. Please note that the bond/CD trading service described in this factsheet are related to over-the-counter transactions only which means that they are not related to transactions traded in any stock exchange. Hang Seng Bank Limited may act as the principal or agent in the trading of the over-the-counter bond/CD transactions. The bonds/CDs offered by Hang Seng Bank Limited are issued by various issuers, including Hang Seng Bank Limited itself, Hang Seng Bank Limited's affiliated companies HSBC or members of the HSBC Group. The current remuneration system that the Bank adopts for sales staff is a measurement of the staff's overall performance and not just based on sales amount.*

*2. There is a minimum selling amount and minimum holding amount requirement for each bond/CD.*

*3. The market price may differ from the original purchase price due to changes in market conditions. The market price may be less than the original purchase price.*

## 6. How much should I consider investing in Bonds/CDs?

- Investors should generally avoid excessive investment in any single type of investment including any proposed investment in bonds, so as to avoid over-exposing the investment portfolio to the risks peculiar to a particular type of investment.
- Investors should assess the risk of an investment relative to your total financial assets portfolio and ensure that there is no undue concentration risk. Investors should also be confident that you have sufficient money set aside for emergencies and any money the investors invest in bonds should not be thought of as money investors can access quickly or easily.

## 7. Risk Factors

There are investment risks involved in buying the bonds/CDs. Before investing in bonds/CDs, you should consider whether these products are suitable for you in light of your own financial circumstances and investment objectives. You should read the offering documents relating to the bonds/CDs and understand all the terms of the bonds/CDs and the risks involved before investing in the bonds/CDs. If you are in any doubt, seek independent professional advice.

### (i) Key Risks Of Investing In Bonds/CDs

- **Credit Risk** - Bonds/CDs are subject to the risk of the issuer defaulting on its obligations. It is the issuer's obligation to pay coupon/interest and pay principal of bonds/CDs to investors. If the issuer and the guarantor (if any) default, investors may not be able to receive the coupon/interest and principal of the bond/CDs. Investors must make their own assessment of the ability of the issuer and the guarantor (if any) to meet their obligations under the bonds/CDs. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer and the guarantor (if any). In addition, investors will bear the credit risk of the issuer and the guarantor (if any) and have no recourse to Hang Seng Bank Limited because Hang Seng Bank Limited is not the issuer nor the guarantor.
- **Liquidity Risk** – The secondary market for the bonds/CDs may not provide significant liquidity or may trade at prices based on the prevailing market conditions and may not be in line with the expectations of investors. If you wish to sell bonds/CDs, Hang Seng Bank Limited may repurchase it based on the prevailing market price under normal market circumstances, but the selling price may differ from the original buying price due to changes in market conditions.
- **Market Risk** - Indicative bond/CD prices are available and bond/CD prices do fluctuate when market changes. Factors affecting market price of bonds/CDs include, and are not limited to, fluctuations in interest rates, credit rating of the bond/CD or its issuer/guarantor, the financial condition of the issuer/guarantor, and liquidity of the bond/CD. The fluctuation in yield generally has a greater effect on prices of longer tenor bonds/CDs. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling bonds/CDs.
- **Interest Rate Risk** – Bonds/CDs are more susceptible to fluctuations in interest rates and generally prices of bonds/CDs will fall when interest rates rise.
- **Exchange Rate Risk** - There may be exchange rate risks if you choose to convert payments made on the bonds/CDs to investors' home currency.
- **Tax Issue** - Investors should carefully consider the tax consequences of investing in the bond/CD and consult investors' tax advisor about investors' own tax situation.
- **Hold to maturity** – The bonds/CDs are mainly for medium to long term investment, not for short term speculation. Investors should be prepared to invest their funds in the bonds/CDs for the full investment tenor. Investors could lose part or all of their investment if they choose to sell the bonds/CDs prior to maturity.
- **Not deposits** – Bonds/CDs are not equivalent to a time deposit. They are NOT protected under the Hong Kong Deposit Protection Scheme. Do NOT invest in bonds/CDs unless you fully understand and are willing to assume the risks associated with them.
- **Maturity Risk** – The longer the maturity, the greater the risk that unforeseen events (e.g. default) may erode the bond's value. Some bonds may even have extendable maturity dates and investors would not have a definite schedule of principal repayment
- **Inflation Risk** – Inflation diminishes the future purchasing power of coupon payments and the principal when received, which are both nominal in nature. Inflation is therefore a key concern for those who need to rely on the regular income from bonds.
- **Emerging Markets Risk** – Investments in emerging markets may be extremely volatile and subject to sudden fluctuations of varying magnitude due to a wide range of direct and indirect influences. Such characteristics can lead to considerable losses being incurred by those exposed to such markets.
- **External Risk** – External factors can also affect an issuer's ability to repay and thus the credit risk of its bonds. For instance, the credit risk of a company with a strong balance sheet may still be affected if the country in which it resides imposes exchange controls or goes to war. Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment. Another risk is nationalisation: the uncertainty as to whether the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bonds would be compromised

following nationalisation. While these various events are not of the company's own making, they may still make it impossible for the company to make coupon and/or redemption payments.

- **Reinvestment Risk** – Noteholders face re-investment risk when the Issuer exercises its right to redeem the Note before it matures. Noteholders may not be able to enjoy the same rates of return when they re-invest their funds in other investments.

## (ii) Key Risks Of Investing In below investment grade (High-Yield) Bonds and/or Unrated bonds

In addition to the key risks of investing in bonds listed above, investments in below investment grade (high yield) bonds and / or unrated bonds are subject to risks such as:

- **Higher Credit Risk** - since such bonds are typically rated below investment grade and/or are unrated, they are often subject to a higher risk of issuer default.
- **Vulnerability to economic cycles** - during economic downturns such bonds typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.
- **Higher Default Risk** – Investing in below investment grade (high yield) bonds and/or unrated bonds may be subject to a higher default risk of the issuer than investing in investment grade bonds. An issuer of high yield debt securities may be highly leveraged and the issuer's ability to meet its debt obligations may be adversely affected by the issuer's business and financial conditions or unavailability of additional financing. If the issuer defaults, or the below investment grade bonds or other underlying assets cannot be realized, investors may suffer substantial losses by investing in the high yield or unrated bonds.
- **Higher Liquidity Risk** – The markets in which below investment grade (high yield) bonds and / or unrated bonds are traded are generally more limited than those in which investment grade bonds are traded. It may be more difficult to obtain market quotations or to resell Bonds with limited liquidity.
- **Downgrade Risk** – Downgrades in the credit rating of below investment grade (high yield) bonds and / or unrated bonds by rating agencies are generally followed by declines in the market value of these bonds. In some circumstances, high yield and / or unrated bonds being placed on "credit watch" by rating agencies may be subject to volatility and speculation of further credit downgrades.
- **Speculative Risk** – Below investment grade (high yield) bonds and / or unrated bonds generally have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. There is greater risk of non-payment of interest and loss of principal. Many issuers of these bonds experienced substantial difficulties in fulfilling their debt obligations and may lead to default and restructurings. The issuers of these bonds generally have to pay a higher rate of interest than investment grade bonds.

## (iii) Key Risks Related To Bonds With Special/Other Features

In addition to the key risks of investing in bonds and key risk of investing in below investment grade (high-yield) bonds and/or unrated bonds listed above, some bonds may contain special features and risks that warrant special attention. These include bonds:

- That are perpetual in nature and interest pay-out depends on the viability of the issuer in the very long term;
- That have subordinated ranking and in case of liquidation of the issuer, investors can only get back the principal after other senior creditors are paid;
- That are callable and investors face reinvestment risk when the issuer exercises its right to redeem the bond before it matures. Investors may not be able to enjoy the same rates of return when they re-invest their funds in other investments;
- That have variable interest payment terms and investors would face uncertainty over the amount of the interest payments to be received;
- That have deferral of interest payment terms and investors would face uncertainty over the time of the interest payments to be received;
- That have extendable maturity dates and investors would not have a definite schedule of principal repayment;
- That are convertible or exchangeable in nature and investors are subject to both equity and bond investment risk, the principal may be written-off fully or partially or converted to common stock;
- That have contingent write down or loss absorption feature and the principal of bond may be written-off fully or partially or converted to common stock on the occurrence of a trigger event. Under the circumstances that the contingent write down or conversion happened, investors may suffer substantial loss of their investments. The issuing bank has the right to write off or convert the principal of the bond to stock when the ratio of Common Equity Tier 1 capital drops to a predefined trigger level or the judiciary or regulatory authority defined that the banks needs assistance or is unable to operate. These are complex products, as the circumstances in which these bonds may be required to bear loss are difficult to predict and ex ante assessments of the quantum of loss will also be highly uncertain;

- That are floating rate bond, coupon rate of the bond will be adjusted every coupon payment period according to the applicable interest rate (e.g. LIBOR/HIBOR plus a spread to formulate the coupon rate for the upcoming coupon payment date, hence coupon payment amount may vary;
- That have multiple credit support providers/guarantors/subsidiaries guarantees in which some multiple credit support providers/guarantors/subsidiaries guarantees have no material operations, or involve complex structures may subordinate the bondholders' rights to those of the multiple credit support providers/guarantors/subsidiaries guarantees;
- That are Senior Bank's Capital with loss absorption feature of which the issuing bank has the right to write off the senior bank's capital when the judiciary or regulatory authority defined that the bank needs assistance or is unable to operate;
- That have keepwell deeds which keepwell deeds are not guarantees and are subject to much greater legal and regulatory uncertainty compared to guarantees.

## 8. Important Notes of Listed Bonds

- Investors should note that regardless whether the bonds they subscribed are being listed on the Stock Exchange in Hong Kong or another stock exchange or not, the listing status of the bonds should NOT be denoted as commercial merit, level of product risk rating or credit quality. Further, the listing status of the bonds does NOT represent any endorsement by the listing or relevant regulatory body that such investment product is suitable for them. Investors should read the disclaimer statement and risk disclosures in the relevant listing documents and offering documents carefully before they decide to subscribe the product.
- **【For bonds listed under Chapter 37 of the Main Board Listing Rules ( "Chapter 37 Bonds" )** It is stated in the prescribed disclaimer and responsibility statement in the listing document that, amongst others, The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of the listing document, and the issuer accepts full responsibility for the accuracy of the information contained in the listing document. Moreover, the listing status of Chapter 37 Bonds should not be taken as an endorsement of the commercial merit, credit quality or quality of disclosure in the listing documents of Chapter 37 Bonds. Please read the prescribed disclaimer statement in the listing documents for details.

## 9. I am ready to invest, anything else I should know before investing?

- Investment involves risks. Investors should only invest in bonds/CDs if they have carefully thought about whether they can afford to lose some or all of the money invested.
- The investment return expected of fixed rate bonds/CDs is to provide potential cash income and offer repayment of principal at maturity. The potential capital gain may be capped or limited for bond investment, subject to market conditions, bond prices and other factors.
- In addition to Callable bonds, some bonds could be early called in certain circumstances. For example, an issuer may call the bond before maturity, at a predetermined price and date. Before investing in bonds, investors should read the related offering documents and terms sheet (if any). Investor should aware of the reinvestment risk after called.
- Investors should satisfy themselves that investment in bonds/CDs is suitable for them in the light of their investment objective, personal circumstances and financial position. Investors should obtain, read and understand all of the following documents:
  - Bond/Certificate of Deposit Trading Services Factsheet
  - Prospectus/ Offering Circular / Termsheets (where applicable) of the bonds / CDs
- Investors should take note that Hang Seng Bank Limited will act as the principal or agent in the trading of the over-the-counter bond/CD transactions. The bonds/CDs offered by Hang Seng Bank Limited are issued by various issuers, including Hang Seng Bank Limited's affiliated companies HSBC or members of the HSBC Group.
- The Bank has execution controls over the trading of Bonds/CDs at over-the-counter market and would ensure fair pricing and treatment of customer's order.
- Investors should take note that the issuer and its respective subsidiaries, affiliates and their directors or officers or shareholders ("APs"), i) may deal in and generally engage in any kind of commercial or investment banking or other business with various financial institutions including Hang Seng Bank Limited, and ii) may be the APs of Hang Seng Bank Limited or any of its subsidiaries or affiliates or have such other interests in the business of Hang Seng Bank or its subsidiaries or affiliates. The issuer and Hang Seng Bank Limited and their respective subsidiaries, affiliates and their APs may act with respect to such business in the same manner as each of them would if these bonds had not been issued, regardless of whether any such action might have an adverse effect on the bonds or the Investors or otherwise.
- In addition, Hang Seng Bank Limited may be in possession of information in relation to the issuer, and its respective subsidiaries or affiliates and their APs which may or may not be material in the context of the issue of the bonds and that may or may not be publicly available or known to the Investors. Such relationship or information (whether or not confidential) may not be disclosed by Hang Seng Bank Limited to the Investors.
- Investors should also note that potential and actual conflicts of interest may arise from the different roles played by Hang Seng Bank Limited and its subsidiaries, affiliates and their APs in connection with the bonds and their economic interests in each role may be adverse to the Investors' interests in the bonds.

- We may offer bonds/CDs issued by issuers incorporated in the United States. Investors wishing to invest in such bonds/CDs will be required to confirm that they are not located within the United States and are not a U.S. Person, and will not transfer the bonds/CDs to a U.S. Person, before we agree to sell such bonds/CDs to the investors.
- As a direct participant in European Economic Area (EEA) Central Securities Depositories (CSD), we are required, under the European Union (EU) Central Securities Depositories Regulation (CSDR), to (i) offer our customers whose securities are held through the EEA CSD the choice between an Omnibus Client Segregated Account (OSA) and an Individual Client Segregated Account (ISA), and (ii) publicly disclose the level of protection and the costs associated with the different levels of segregation that the accounts provide. Please refer the relevant section at [www.hangseng.com](http://www.hangseng.com) for relevant details.
- If the investors are in any doubt, independent professional advice should be sought.

**Note:**

- This Bond/ Certificate of Deposit Trading Services Factsheet is issued by Hang Seng Bank Limited. It is based on information obtained from sources believed to be reliable, but we make no representation and accept no responsibility as to its accuracy or completeness and shall not be held liable for damages arising out of any person's reliance upon this information. This information is neither an offer to sell, nor an offer to purchase any investment. It is not intended to provide and should not be relied upon as any tax, legal or accounting advice, investment recommendations or a credit or other evaluation of the bonds. You are advised to consult your tax, legal, accounting or other advisors.
- Hang Seng Bank Limited (CE Number: AAH297), of 83 Des Voeux Road Central, Hong Kong, is a bank licensed under the Banking Ordinance and is registered under the Securities and Futures Ordinance to conduct various types of regulated activities. For enquiry, please contact your relationship manager.
- You may contact our staff at any of our branches if you have any feedback or complaint in relation to our services or call our hotline at 2998 9898. We will respond to you within a reasonable period of time normally not exceeding 30 days in general circumstances. You may contact the Hong Kong Monetary Authority at 55th Floor Two International Finance Centre, 8 Finance Street, Central, Hong Kong if you are not satisfied with our handling of your complaint. For monetary dispute, you have the right to refer the matter to the Financial Dispute Resolution Centre at Unit 3701-4, 37/F, Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong.

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