Generic Product Description | Hong Kong & Singapore Edition | 4th Edition

Optimization

Reverse Convertible Notes (RCN)

Enhanced return in a range bound market

Reverse Convertible Notes ("RCNs or Notes") can provide enhanced return in a range bound market. The relatively high coupon compensates for the risk of being exposed to the downside of the underlying.

Main benefits at a glance
- Receive coupon provided that the trade has not been early terminated
- Attractive investment in flat or slightly rising markets
- Alternative to direct investment
- Also available with additional features such as Bonus Coupon or conditional downside protection (Kick-in RCNs)

Main risks at a glance
- Principal at risk - may lose entire principal
- Credit risk of the Issuer
- Liquidity risk
- Re-investment risk for Callable RCNs

Investment Structure

The RCN is a structured product which combines a bond and the sale of a put option on the underlying instrument ("underlying"). It belongs to the "Optimization" category which offers enhanced return when the underlying is moving sideways. The product provides unconditional coupon, with redemption linked to the performance of the underlying.

The underlying can be an index, equity, commodity, fund or some other asset class. RCNs with equity underlyings are also known as Fixed Coupon Equity Linked Notes.

1. Standard RCN

Standard RCNs are also simply called "RCNs". They pay unconditional coupons either periodically or at maturity. At maturity, there will be 2 possible scenarios:

A. **If the underlying closes at or above the strike level** (set at or below the underlying's initial level on the RCN's trade day), investors will get back 100% of the Note's denomination. In this case, the investor's overall return will be the total coupon received.

B. **If the underlying closes below the strike level,** investors will get back an amount equals to:

$$\text{Denomination x } \frac{\text{Underlying's closing level at maturity}}{\text{Strike level}}$$

Certain RCNs provide physical delivery of the underlying at strike in lieu of cash settlement under such scenario, with the quantity of underlying delivered being:

$$\frac{\text{Denomination}}{\text{Strike level}}$$

In this case, investors may suffer a capital loss.

Given the unconditional coupon and the fact that the strike is set at or below the initial level, the loss will not be greater than a direct investment in the underlying (provided the Issuer does not default).

This is a structured product which involves derivatives. Do not invest in this product unless you fully understand and are willing to assume the associated risks. If you are in any doubt about the risks involved in the product, you may clarify with the intermediary or seek independent professional advice.

The examples, charts and calculations in this document are for illustrative purposes only and do not convey any information regarding actual circumstances or profits. They have not taken into account dividend payments or securities trading costs (brokerage fees, stamp duties, etc.)

Example 1: Standard RCN

Assumptions

Tenor	3 months
Currency	USD
Issue Price	100% of denomination
Coupon	**16% p.a.** (4% paid at maturity)
Underlying	Index A
Strike Level	100% of Index A's initial level
Settlement at Maturity	Cash

Scenario Analysis at Maturity

Index A (as % of initial level)	Coupon + Redemption Value (as % of denomination)
100% or above	(4%+100%) = 104%
96%	(4%+96%) = 100%
90%	(4%+90%) = 94%
80%	(4%+80%) = 84%
70%	(4%+70%) = 74%
60%	(4%+60%) = 64%

2. Standard RCN with Bonus Coupon

Standard RCN with Bonus Coupon is a variation of Standard RCN with an additional feature of Bonus Coupon which is determined by comparing the Bonus Strike against the price of the underlying at maturity. At maturity there will be 3 possible scenarios:

A**. If the underlying closes at or above the Bonus strike level**, investors will get back 100% of the Note's denomination. In this case, the investor's overall return will be the Bonus Coupon received.

B**. If the underlying closes at or above the strike level, but below the Bonus Strike level**, investors will get back 100% of the Note's denomination. In this case, the investor's overall return will be the Coupon received.

C**. If the underlying closes below the strike level,** investors will get back an amount equals to:

$$\text{Denomination} \times \frac{\text{Underlying's closing level at maturity}}{\text{Strike level}}$$

Certain RCNs provide physical delivery of the underlying at strike in lieu of cash settlement under scenario C, with the quantity of underlying delivered being:

$$\frac{\text{Denomination}}{\text{Strike level}}$$

In this case, investors may suffer a capital loss.

Example 2: Standard RCN with Bonus Coupon

Assumptions

Tenor	3 months
Currency	USD
Issue Price	100% of denomination
Coupon	**16% p.a.** (4% paid at maturity)
Bonus Coupon	**24% p.a.** (6% paid at maturity)
Underlying	Index A
Strike Level	90% of Index A's initial level
Bonus Strike Level	105% of Index A's initial level
Settlement at Maturity	Cash

Scenario Analysis at Maturity

Index A (as % of initial level)	Coupon + Redemption Value (as % of denomination)
105% or above	(6%+100%) = 106%
102%	(4%+100%) = 104%
100% or above	(4%+100%) = 104%
96%	(4%+100%) = 104%
90%	(4%+100%) = 104%
88%	(4%+97.8%) = 101.8%
70%	(4%+77.8%) = 81.8%
60%	(4%+66.7%) = 70.7%

3. Worst-of RCN (also known as "Laggard RCN") A Worst-of RCN differs from a Standard RCN in that the former is linked to the worst performer of a basket of underlyings (the "Laggard") to seek greater yield enhancement. The coupon is unconditionally paid, and at maturity there will be 2 possible scenarios:

A. **If the Laggard underlying closes at or above its strike level,** investors will get back 100% of the Note's denomination.

B. **If the Laggard underlying closes below its strike level,** investors will get back an amount equals to:

$$\text{Denomination x } \frac{\text{Laggard's closing level at maturity}}{\text{Laggard's strike level}}$$

Certain Worst-of RCNs provide physical delivery of the Laggard underlying at strike in lieu of cash settlement under such scenario, with the quantity of the Laggard delivered being:

$$\frac{\text{Denomination}}{\text{Laggard's strike level}}$$

In this case, investors may suffer a capital loss.

Example 3: Worst-of RCN

Assumptions

Tenor	1 year
Currency	USD
Issue Price	100% of denomination
Coupon	**20% p.a.** (10% paid semi-annually)
Underlying	Stock A and B
Strike Level	90% of Stock A and B's initial level respectively
Settlement at Maturity	If the Laggard closes ≥ Laggard's Strike Level ➔Cash Settlement; Otherwise: ➔ Physical delivery of Laggard at Strike Level

Scenario Analysis at Maturity

Stock A (as % of initial level)	Stock B	Laggard	Total Coupon + Redemption Value (as % of denomination)
110%	130%	A	(20%+100%) = 120%
100%	90%	B	(20%+100%) = 120%
90%	70%	B	(20%+77.8%*) = 97.8%
80%	90%	A	(20%+88.9%*) =108.9%
70%	60%	B	(20%+66.7%*) = 86.7%
60%	50%	B	(20%+55.6%*) = 75.6%

* Physical delivery of the Laggard stock at Strike (90% of initial level)

4. Kick-in RCN

The Kick-in (KI) RCN differs from a Standard RCN in that the former offers conditional downside protection at maturity. Besides the strike level, a KI RCN has a Kick-in Barrier (“KI Barrier”), set at a buffer below the underlying’s initial level. A Kick-in Event (“KI Event”) (or Barrier Event) will occur if the underlying has ever dropped to or below the KI Barrier during the Note’s tenor. If no KI Event has occurred, the KI RCN will provide conditional protection at maturity, otherwise it will behave in the same way as a Standard RCN. The coupon rate for a KI RCN would be lower than a comparable Standard RCN, as the conditional protection comes at a cost.

The coupon is unconditionally paid, and at maturity there will be 2 possible scenarios:

A. **If No KI Event has occurred, or if the underlying closes at or above its strike level at maturity,** investors will get back 100% of the Note’s denomination.

B. **If KI Event has occurred and the underlying closes below the strike level at maturity,** investors will get back an amount equals to:

$$\text{Denomination x } \frac{\text{Underlying's closing level at maturity}}{\text{Strike level}}$$

or physical delivery of the underlying at Strike. In this case, investors may suffer a capital loss.

Example 4: Kick-in RCN

Assumptions

Tenor	2 months
Currency	USD
Issue Price	100% of denomination
Coupon	**12% p.a.** (2% paid at maturity)
Underlying	Index B
Strike Level	100% of Index B’s initial level
KI Barrier	70% of Index B’s initial level
Barrier Observation	Daily close
Settlement at Maturity	Cash

Scenario Analysis at Maturity

<table>
<tr><th rowspan="2">Index B (as % of initial level)</th><th colspan="2">Total Coupon + Redemption Value (as % of denomination)</th></tr>
<tr><th>If NO KI Event has occurred</th><th>If KI Event HAS occurred</th></tr>
<tr><td>100% or above</td><td rowspan="5">(2%+100%) = 102%</td><td>(2%+100%) = 102%</td></tr>
<tr><td>98%</td><td>(2%+98%) = 100%</td></tr>
<tr><td>90%</td><td>(2%+90%) = 92%</td></tr>
<tr><td>80%</td><td>(2%+80%) = 82%</td></tr>
<tr><td>70.1%</td><td>(2%+70.1%) = 72.1%</td></tr>
<tr><td>70%</td><td>N/A</td><td>(2%+70%) = 72%</td></tr>
<tr><td>60%</td><td>N/A</td><td>(2%+60%) = 62%</td></tr>
</table>

5. Worst-of Kick-in RCN

A Worst-of KI RCN differs from a KI RCN in that the former is linked to the Laggard of a basket of underlyings. Under a Worst-of KI RCN, a KI Barrier is defined for each underlying. A KI Event will occur if any underlying has ever dropped to or below its KI Barrier during the Note's tenor. The coupon is unconditionally paid, and at maturity there will be 2 possible scenarios:

A. **If No KI Event has occurred, or if the Laggard closes at or above its Strike Level at maturity**, investors will get back 100% of the Note's denomination.

B. **If KI Event has occurred and the Laggard closes below its strike level at maturity**, investors will get back an amount equals to:

$$\text{Denomination x } \frac{\text{Laggard's closing level at maturity}}{\text{Laggard's strike level}}$$

or physical delivery of the Laggard underlying at strike. In this case, investors may suffer a capital loss.

Example 5: Worst-of Kick-in RCN

Assumptions

Tenor	2 years
Currency	USD
Issue Price	100% of denomination
Coupon	**13% p.a.** paid annually
Underlying	Index C & D
Strike Level	90% of Index C & D's initial level respectively
KI Barrier	70% of Index C & D's initial level respectively
Barrier Observation	Daily close
Settlement at Maturity	Cash

Scenario Analysis at Maturity

Laggard Index (as % of initial level)	Total Coupon + Redemption Value (as % of denomination): If NO KI Event has occurred	Total Coupon + Redemption Value (as % of denomination): If KI Event HAS occurred
90% or above	(26%+100%) = 126%	(26%+100%) = 126%
80%		(26%+88.9%) = 114.9%
70.1%		(26%+77.9%) =103.9%
70%	N/A	(26%+77.8%) = 103.8%
60%	N/A	(26%+66.7%) = 92.7%
50%	N/A	(26%+55.6%) = 81.6%
40%	N/A	(26%+44.4%) =70.4%

6. Autocallable (Callable) RCNs

The various aforesaid RCNs can be structured with an autocall feature to offer potential early redemption.

For such Autocallable RCNs, an autocall (callable) level is defined for each underlying, together with certain periodic callable days (or "early redemption days"). The autocall level is typically set between 80–110% of the underlying's initial level, while the callable days usually coincide with the coupon payment cycle.

If on any callable day, each underlying closes at or above its autocall level, the Note will be "autocalled" and early redeemed at par (together with the coupon for the relevant coupon period). In this case, investors will not receive any further coupon from the RCNs for the subsequent coupon periods, and will face re-investment risk, i.e. the risk of being unable to reinvest the redemption proceeds in another investment with a comparable payoff. If early redemption has not occurred, Autocallable RCNs will continue in the same way as the corresponding (non-callable) RCNs.

A variation to an Autocallable RCN is one that is callable at the Issuer's discretion on periodic callable dates. Upon being called by the Issuer on a callable day, the Note will be early redeemed at par (together with the coupon for the relevant coupon period).

Example 6a: Autocallable Worst-of RCN

Assumptions

Tenor	6 months
Currency	USD
Issue Price	100% of denomination
Coupon	**20% p.a.** (5% paid quarterly)
Underlyings	Stocks A & B
Strike Level	90% of Stock A & B's initial level respectively
Callable Level	105% of Stock A & B's initial level respectively
Callable Day	Quarterly
Settlement at Maturity (if not autocalled)	If Laggard closes ≥ Laggard's strike level: ➔ Cash Settlement of 100%; Otherwise: ➔ Physical delivery of Laggard at Strike

Scenario Analysis at Maturity (if not autocalled)

Laggard Stock (as % of initial level)	Total Coupon + Redemption Value (as % of denomination)
100% or above	(10% + 100%) = 110%
90%	(10% + 100%) = 110%
89.9%*	(10% + 89.9%/90%) = 109.88%
80%*	(10% + 80%/90%) = 98.88%
70%*	(10% + 70%/90%) = 87.77%
0%*	(10% + 0%/90%) = 10%

* Physical delivery of the Laggard stock at Strike (90% of initial price)

Example 6b: Autocallable Worst-of Kick-in RCN

Assumptions

Tenor	6 months
Currency	USD
Issue Price	100% of denomination
Coupon	**20% p.a.** (5% paid quarterly)
Underlyings	Stocks C & D
Strike Level	100% of Stock C & D's initial level respectively
Callable Level	105% of Stock C & D's initial level respectively
Callable Day	Quarterly
KI Barrier	75% of Stock C & D's initial level respectively
Barrier Observation	Daily close
Settlement at Maturity (if not autocalled)	If no KI Event has occurred or Laggard closes ≥ Laggard's strike level: ➔ Cash Settlement; Otherwise: ➔ Physical delivery of Laggard at Strike

Scenario Analysis at Maturity (if not autocalled)

	Total Coupon + Redemption Value (as % of denomination)	
Laggard Stock (as % of initial level)	If NO KI Event has occurred	If KI Event HAS occurred
100% or above	(10%+100%) = 110%	(10%+100%) = 110%
90%		(10%+90%*) = 100%
80%		(10%+80%*) = 90%
75.1%		(10%+75.1%*) = 85.1%
70%	N/A	(10%+70%*) = 80%
60%	N/A	(10%+60%*) = 70%
50%	N/A	(10%+50%*) = 60%

* Physical delivery of the Laggard stock at Strike (100% of initial price)

Flexibility in Structuring a RCN

RCNs can be structured with high flexibility. For example, instead of a fixed coupon rate, they can be structured with floating coupons, e.g. based on a spread over the USD Compounded SOFR (Secured Overnight Financing Rate) observed periodically.

It is therefore important to read carefully the individual term sheet to ascertain the specific features.

	Coupon	Redemption linked to	Conditional protection at maturity	Version with potential early redemption
1. Standard RCN	Unconditional	Single Underlying, or Underlying 1 minus Underlying 2	No	Autocallable RCN
2. Worst-of RCN	Unconditional	Laggard underlying	No	Autocallable Worst-of RCN
3. Kick-in RCN	Unconditional	Single underlying	Yes, provided the underlying never ≤ KI Barrier during the Tenor	Autocallable Kick-in RCN
4. Worst-of Kick-in RCN	Unconditional	Laggard underlying	Yes, provided all underlyings never ≤ KI Barrier during the Tenor	Autocallable Worst-of Kick-in RCN

Autocallable (Callable) RCNs with Bullet Coupon

In the variation of an Autocallable (Callable) RCN with Bullet Coupon, the coupon is paid at the end of the first period instead of periodic fixed coupon, and the investors will not receive any further coupons if the Note is not autocalled after the first period. If the Autocallable RCN with Bullet Coupon is not autocalled, at maturity, it has the same payoff as the typical Autocallable RCN.

Yield Comparison between Autocallable RCN and Autocallable RCN with Bullet Coupon

	Autocallable RCN	Autocallable RCN with Bullet Coupon
Note is early-autocalled	Lower annualized yield	Higher annualized yield
Note is not autocalled	Higher annualized yield	Lower annualized yield

7. Autocallable Worst of RCN with Observation on Sub Basket

The Autocallable Worst of RCN with Observation on Sub Basket differs from a Standard Autocallable Worst of RCN in that the total number of Underlyings in the basket is typically larger and that the Note return depends on the performance of a sub basket of Underlyings.

Instead of having payoff linked to a single worst performing Underlying, this payoff depends on the performance of a pre-set number of worst performing Underlyings in the sub basket. For example a Note payoff could be linked to the average performance of a sub basket of 5 worst performing stocks out of a full basket of 20 stocks.

If on any callable day, the average performance of the sub basket closes at or above its autocall level, the Note will be "autocalled" and early redeemed at par (together with the coupon for the relevant coupon period). If early redemption has not occurred, the Note will continue in the same way as the corresponding (non-callable) RCNs.

At maturity there will be 2 possible scenarios:

A. If the average performance of the sub basket closes at or above its strike level, investors will get back 100% of the Note's denomination.

B. If the average performance of the sub basket closes below its strike level, investors will get back an amount equals to:

$$\text{Denomination} \times \frac{\text{Average performance of the sub basket at maturity}}{\text{Sub basket strike level}}$$

or physical delivery of all the underlyings in the sub basket (equally weighted) at strike level. In this case, investors may suffer a capital loss.

Example 7: Autocallable Worst of RCN with Observation on Sub Basket

Assumptions

Tenor	12 months
Currency	USD
Issuer Price	100% of denomination
Coupon	12% p.a. (1% paid monthly)
Underlyings	Stocks A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T
Sub Basket	The basket composed of the 5 worst performing stocks within all the 20 Underlying stocks on each Observation Date
Strike Level	80%
Callable Level	100%
Observation Frequency	Monthly
Settlement at Maturity (if not autocalled)	If the Average Performance of the Sub Basket ≥ Strike Level ➔ Cash Settlement at 100%; Otherwise: ➔ Physical delivery of the 5 stocks in the Sub Basket (equally weighted) at Strike Level

Scenario Analysis at Maturity (if not autocalled)

Sub Basket Performance (As % of initial Level)	Coupon + Redemption Value (as % of denomination)
100% or above	(1%+100%) = 101%
90%	(1%+100%) = 101%
80%	(1%+100%) = 101%
79.9%	(1%+79.9%/80%)* = 100.9%
70%	(1%+70%/80%)* = 88.5%
60%	(1%+60%/80%)* = 76%
50%	(1%+50%/80%)* = 63.5%
40%	(1%+40%/80%)* = 51%
30%	(1%+30%/80%)* = 38.5%

* Physical delivery of the 5 stocks in the Sub Basket (equally weighted) at Strike (80% of initial level)

Investor Suitability

Market View	You expect the underlyings to be range bound during the Note's Tenor and will not fall below their respective strike levels at maturity. Investors in KI RCNs believe the underlyings will not fall to or below their respective KI Barriers during the Note's Tenor, and seek conditional downside protection based on such belief. You are willing to take on some risk in exchange for the opportunity to earn enhanced returns. You expect a stable credit quality of the Issuer and do not expect it to default.
Investment Horizon	You have an investment horizon that is commensurate with the Tenor of the specific Note in which you are investing. Investors in Autocallable RCNs should be willing to accept early redemption of the Notes.
Risk Tolerance	You are an experienced investor familiar with both derivative products and the markets of the underlyings. You are willing to be exposed to the full downside risk of the (Laggard) underlying. You are prepared to lose some or your entire initial investment amount. You require pre-determined, regular coupon income, but can accept loss of invested capital. Only for Professional Investors in Hong Kong or Accredited Investors in Singapore

Risks

Product Specific Risks	The Note is subject to capital risk and may be redeemed by delivery of assets which may be worth substantially less than your initial investment, or even zero. For KI RCNs, conditional protection applies only if no KI Event has occurred and the Notes are held to maturity. The Note's upside potential is limited to the coupon payment. Investors are not entitled to any dividend or other income in respect of the underlyings. Thus the product is likely to underperform the underlyings if the underlyings rally.
Credit Risk	Valuation: Should the credit rating of the Issuer deteriorate over the life of the investment, the product's value may be affected. Default: You are fully exposed to the credit default risk of the Issuer. You may lose all your investment and any return you may have otherwise earned if the Issuer defaults.
Liquidity	The Issuer intends, but is not obliged, to provide a daily off-exchange secondary market under normal market conditions. By selling in the secondary market, you may receive less than the capital invested.
Market Risk	Before maturity, the value of the product will be influenced not only by the level of the underlyings, but also by other factors such as interest rates, volatilities, time to maturity and correlation (if applicable). Therefore, the product may trade considerably below 100% during its lifetime even if the underlyings have remained above the strike level/KI Barrier. You should be prepared to hold the product for the entire investment period.

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