Investor Education

Bonus Enhanced Note

What is a Bonus Enhanced Note?

A Bonus Enhanced Note (“BEN”) is a participation-type structured product which aims to offer investors an opportunity to receive the higher of a Bonus Coupon or the positive performance of the worst-performing underlying asset (“Worst Performer”) in the underlying basket.

Key Features

- The tenor period is at least 1 month or above (negotiable with issuer).
- The note is normally issued at par. There is no coupon payment during the life of the transaction.
- Investors will receive 100% of notional amount plus the higher of the bonus coupon or the positive performance achieved by the Worst Performer if the price of Worst Performer closes at or above the strike price on the final valuation date.
- If the price of Worst Performer closes below the strike price on the final valuation date, investors will receive physical delivery of the Worst Performer at the strike price where physical settlement is applicable to the Worst Performer. No Bonus Coupon will be paid in this situation.

Payoff Illustration

Investor should note that the below example is prepared for illustrative purposes only and do not constitute an offer or solicitation of any investment.

Sample Product Terms	
Notional amount	$1,000,000
Tenor	6 months
Currency	USD
Bonus coupon	20% flat
Underlying assets	Stock A; Stock B
Initial fixings	$100; $200
Strike prices (80% of initial fixing level)	$80; $160

Scenario 1: Positive Performance of the Worst Performer > Bonus Coupon (At Final Valuation Date):

Performance of the Underlying assets

	Final Fixings	Performance
Stock A	$125	($125 / $100 = 125%)
Stock B	$260	($260 / $200 = 130%)

For Cash Settlement

The investor shall receive in cash the notional amount plus the upside return of the Worst Performer on the maturity date:

Notional amount x {100% + Max[Bonus Coupon, (Worst Performer Final Fixing / Initial Fixing) -100%)]}
= $1,000,000 x {100% + Max[20%, (125% - 100%)]}
= $1,250,000

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Scenario 2: Bonus Coupon > Performance of the Worst Performer and Closing Price of the Worst Performer >= Strike Price (At Final Valuation Date):

Performance of the Underlying assets

	Final Fixings	Performance
Stock A	$105	($105 / $100 = 105%)
Stock B	$180	($180 / $200 = 90%)

For Cash Settlement

The investor shall receive in cash the Notional Amount plus the Bonus Coupon on the maturity date:

Notional amount x {100% + Max[Bonus Coupon, (Worst Performer Final Fixing / Initial Fixing) -100%)]}
= $1,000,000 x {100% + Max[20%, (90% - 100%)]}
= $1,200,000

Scenario 3: Closing Price of the Worst Performer < Strike Price (At Final Valuation Date):

Performance of the Underlying assets

	Final Fixings	Performance
Stock A	$85	($85 / $100 = 85%)
Stock B	$140	($140 / $200 = 70%)

For Physical Delivery Settlement

Given the Worst Performer is Stock B, the number shares of Stock B to be delivered:
= Notional amount / strike price
= $1,000,000 / $160
= 6,250 shares

For Cash Settlement

Given the Worst Performer Stock B is closed at $140, the cash amount to be received:
= Notional amount x (final fixing / strike price)
= $1,000,000 x ($140 / $160)
= $875,000 (a realized capital loss would be $125,000 against the notional amount)

Scenario 4: Worst Case Scenario

Under the worst-case scenario, the investor may lose all of his/her initial invested amount in the event of the issuer’s default, or the value of the underlying asset(s) drops to zero.

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Disclosure of Risk Factors

BEN may involve some or all of the following risks:

- Issuer's credit risk
- Market risk
- Interest rate risk
- Foreign exchange risk
- Reinvestment risk
- Liquidity risk
- Limited secondary market