Snowball Coupon Note

What is a Snowball Coupon Note?

A Snowball Coupon Note ("SCN") is a structured product which makes a one-off conditional coupon payment to the investor upon an automatic early redemption event or at maturity. The SCN payoff is linked to the performance of a stock, ETF, equity index, commodity or an alternative asset (such as cryptocurrency).

Key Features

- The minimum tenor period is normally 2 months. The maximum tenor is negotiable with issuer.
- Snowball coupon is periodically accrued on the basis of previous coupon level by a specific rate and is paid out contingent on the occurrence of a Knock-out ("KO") event.
- A KO barrier is set as a percentage of the initial fixing level of underlying asset. The KO event is deemed to occur when the closing price of underlying asset is at or above the KO barrier on the relevant KO observation date. SCN will be terminated upon the KO event with 100% notional amount being returned to the investor plus a conditional coupon. If the KO event does not occur, SCN will not pay any coupon to the investor.
- If the closing price of underlying asset is above the strike price but below the KO price on the final observation date, the investor will receive 100% of notional amount only.
- If the closing price of underlying asset is below the strike price, the investor will take physical delivery of underlying asset at the strike price where physical settlement is applicable to that underlying asset.

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
Coupon (%)	12% p.a. payable upon KO
Underlying asset	Stock A
Initial fixing	$88
KO barrier (100% of initial fixing level)	$88
KO observation frequency	Monthly after the issue date
Strike price (80% of initial fixing level)	$70.4

Scenario 1: Early Redemption

If KO event occurs on the second KO observation date:

Coupon Payment:
The investor would not have received any coupon in the first month.

The investor shall receive a coupon amount calculated as follows in the second month:
Coupon amount = Coupon (%) x (number of months lapsed from the issue date / total number of months in a calendar year) x notional amount
= 12% x (2 / 12) x $1,000,000 = $20,000

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Early Redemption Amount:
SCN is early terminated, and the investor receives full notional amount of USD 1,000,000.

**Scenario 2: Scheduled Redemption
and Closing Price of the Underlying Asset ≥ KO Barrier (At Final Valuation Date):**

Coupon Payment:
The investor would not have received any coupon except the maturity date.

The investor shall receive a coupon amount calculated as follows on the final valuation date:
Coupon amount = Coupon (%) x (number of months lapsed from the issue date / total number of months in a calendar year) x notional amount
= 12% x (6 / 12) x $1,000,000 = $60,000

Scheduled Redemption Payment:
The investor receives full notional amount of USD 1,000,000.

**Scenario 3: Scheduled Redemption
and KO Barrier > Closing Price of the Underlying Asset ≥ Strike Price (At Final Valuation Date):**

The investor receives full notional amount of USD1,000,000 ONLY but no coupon.

**Scenario 4: Scheduled Redemption
and Closing Price of the Underlying Asset < Strike Price (At Final Valuation Date):**

For Physical Delivery Settlement
Number of shares to be delivered:
= Notional amount / strike price
= $1,000,000 / $70.4
= 14,204.54 shares (fractional share of 0.54 will be settled by cash based on the closing price)

For Cash Settlement
Assuming the closing price of the underlying asset is $68, the cash amount to be received:
= notional amount x (closing price / strike price)
= $1,000,000 x ($68 / $70.4)
= $965,909.09 (a realized capital loss would be ~$34,090.91 against the notional amount)

Scenario 5: 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

SCN 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

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