

Worst-of Range Accrual Note

What is a Worst-of Range Accrual Note?

A Worst-of Range Accrual Note ("WRA") is a structured product which pays out fixed coupon(s) during a guaranteed period and conditional coupon(s) thereafter. Conditional coupon(s) is/are daily accrued subject to the satisfaction of coupon accrual condition. The WRA payoff is typically linked to the worst performer in a basket of stocks, ETFs, or equity indices.

Key Features

- The minimum tenor period is normally 2 months. The maximum tenor period is negotiable with issuer.
- A fixed coupon amount will be paid on each of the coupon payment date during the guaranteed period. Guaranteed period is usually set for the first month, however it is also possible to be set for multiple months (the "Guaranteed Period").
- After the Guaranteed Period, the conditional coupon amount(s) is/are accrued on a daily basis when the closing price of the worst-performing underlying asset is at or above its respective coupon accrual barrier. If it is below the barrier, it will not be subject to any conditional coupon for that day.
- A KO barrier is usually incorporated into WRA and it is set as a percentage of the initial fixing level of underlying assets. The KO event is deemed to occur when the closing price of worst-performing underlying asset is at or above the KO barrier on the relevant KO observation date. WRA will be terminated early upon the KO event with 100% notional amount being returned to the investor plus any due coupon. If the KO event does not occur, WRA will still be valid until its next early redemption or maturity.
- If the closing price of the worst-performing underlying asset is below the strike price on the final observation date, the investor will receive physical delivery of such 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.

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Sample Product Terms			
Notional Amount	\$1,000,000		
Tenor	6 months		
Currency	USD		
Guaranteed Period	First Month (from issue date till the first observation date)		
Coupon (%)	12% p.a., monthly payable		
Underlying Assets	Stock A and Stock B		
Initial Fixings	Stock A: \$88 Stock B: \$105		
KO Barriers (100% of initial fixing level)	Stock A: \$88 Stock B: \$105		
KO Observation Periods	KO Frequency: Monthly		
	Period	Observation Date	No of Trading Days ("N")
	1	27 May	22
	2	29 June	22
	3	27 July	22
	4	27 August	22
	5	28 September	22
	6	29 October	22
Strike Prices = Coupon Accrual Barriers (80% of initial fixing level)	Stock A: \$70.4 Stock B: \$84		

Scenario 1: Scheduled Redemption (A KO event never occurs during the product cycle)

Coupon Payment:

For the Guaranteed Period, coupon is fixed regardless of the underlying asset's price movement during the period. The amount is calculated as below:

$$\begin{aligned}
 \text{Fixed Coupon Payment} &= \text{Coupon (\% p.a.)} / \text{coupon frequency} \times \text{notional amount} \\
 &= 12\% / 12 \times \text{USD } 1,000,000 \\
 &= \text{USD } 10,000
 \end{aligned}$$

After the Guaranteed Period, the coupon becomes conditional and is calculated as below.

$$\text{Conditional Coupon} = \text{Coupon (\% p.a.)} / \text{coupon frequency} \times (n/N) \times \text{notional amount}$$

Where

n – Number of trading days during the relevant KO Observation Period that the closing price of the worst-performing underlying asset is at or above its coupon accrual barrier.

N – Total number of trading days in the relevant KO Observation Period

Redemption Amount

1. If the closing price of the worst-performing underlying asset \geq strike price:
The investor receives 100% of the notional amount.
2. If the closing price of the worst-performing underlying asset $<$ strike price:
The investor receives the worst-performing underlying asset at the strike price.

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For Physical Delivery Settlement

Assuming the worst-performing underlying asset is Stock A and the closing price of the underlying asset is \$68.

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

= 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 2: Early Redemption

A KO event occurs in the second KO Observation Period.

Coupon Payment:

Assuming the closing price of the worst-performing underlying asset traded above the coupon accrual barrier for 10 days and 15 days in the first and second KO observation period respectively, the investor shall receive coupon amounts calculated as follows:

Observation Period	n	N	Occurrence of KO Event on Observation Date	Guaranteed Period?	Periodic coupon payment on respective coupon payment dates
1	10	22	No	Yes	Fixed Coupon Payment = Coupon (%) p.a. / coupon frequency x notional amount = 12% / 12 x USD 1,000,000 = USD 10,000
2	15	22	Yes	No	Conditional Coupon Payment = Coupon (%) p.a. / coupon frequency x (n/N) x notional amount = 12% / 12 x (15/22) x USD 1,000,000 = USD 6,818.18

Early Redemption Amount:

WRA is early terminated on the 2nd observation date, and the investor receives full notional amount of USD 1,000,000.

Scenario 3: 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 worst-performing underlying asset drops to zero.

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Disclosure of Risk Factors

WRA 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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