HBL Prestige

Key Fact Statement (KFS) - Bonds

This document is designed to highlight the key risks for Bonds.

What are Bonds?

A bond is a debt obligation with a fixed coupon, at times also with a variable rate of interest and generally with a fixed maturity and redemption date.

Product Features

- The issuer of the bond (borrower) receives money from the investor (lender) at mutually agreed terms and conditions and usually agrees to meet the following obligations:
- Repayment of capital upon maturity
- Interest payments (coupons) at scheduled intervals
- The actual and perceived creditworthiness of the issuer may affect the issuer's ability to fulfil obligations (including repayment of capital)
- Examples of a Bond issuers include:
- Governments
- Banks
- Corporations
- Non-Bank Financial Institutions, etc.

Type of Bonds

There are many types of bonds, the following are some common categories of simple or vanilla bonds:

Fixed Rate Bonds	Floating Rate Bonds	Zero Coupon Bonds
Bonds that pay investors a predetermined and fixed interest amount on a periodic basis up to maturity date.	Bonds that pay investors a variable interest amount on a periodic basis up to maturity date.	Rather than paying investors a regular interest during the life of the Bonds, they are sold at a discount and pay the bondholder the principal amount at maturity.

Special Legal Warning: This investment is not a bank deposit and is not an obligation of nor is guaranteed by the Bank or its affiliates.

Investors Profile

Characteristics of investor for whom the investment is appropriate for:

- Seeking income
- Seeking repayment of principal if held at maturity (subject to issuer credit risk)
- Willing to accept credit / default risk

Investors View

- Bonds ***May*** be appropriate for you if you expect
  - Guaranteed return
  - Regular interest payments
- Bonds ***May Not*** be appropriate for you if
  - You are not willing to accept the credit / default risk of the issuer

How does it work?

Purchase Price

The purchase price of the bond will be subject to prevailing market offer prices at the time of the transaction depending on several factors such as the credit rating of the issuer, credit spread of the issuer, market interest rates, the pricing offered by the issuer of the bond, tenor of the bond and the prices of other comparable securities in the market, amongst others.

Interest Payments

Investors will be paid interest payments or coupon amounts periodically (e.g., quarterly, semi-annually) as stated in the issuer's terms and until the earlier of (i) the date of maturity; or (ii) if applicable, the date on which an early termination event occurs.

Bond Redemptions

Bond redemptions are possible only by way of (i) sale on the secondary market, (ii) if the bond is early redeemed or (iii) if an early termination event occurs, in which case the investor may receive only a fraction of initial investment amount. Otherwise, investors will have to hold the bond to maturity wherein generally, the bond will be redeemed at its par value.

Worst Case Scenario

Note: As this investment is ***NOT A BANK DEPOSIT*** and is not protected under any government scheme, the investor may not receive expected interest or coupon payments (if applicable) and may lose some or all initial investment amount if the issuer defaults on the bond or becomes insolvent.

Fees and Charges

All bond transactions will be subject to a trading fee.

Using Financing Against Bonds

Bond	Investment Financing		Leverage Financing	
	Without[3]	With[4]	Without[5]	With[6]
Coupon	5%	5%	5%	5%
Total Borrowing Cost	**Nil**	2%	**Nil**	2%
Approved LTV	**Nil**	60%	**Nil**	60%
Initial Investment [A]	100,000	100,000	100,000	100,000
Credit Facility	**Nil**	60,000	**Nil**	150,000
Total Investment	100,000	160,000	100,000	250,000
End of 12 Months				
Income after 1 Year	5,000	8,000	5,000	12,500
Interest on Loan	**Nil**	1,200	**Nil**	3,000
Indicative Net Return ($) [B]	5,000	6,800	5,000	9,500
Indicative Net Return (%) [B] / [A]	**5%**	**6.8%**	**5%**	**9.5%**

Financing Against Bonds Examples

a. Bond Investment ***Without*** Investment Financing.
- Assuming an initial investment of $100,000 in a Bond that pays a 5% coupon p.a.
- At the end of 12 months, the investor's net return would be $5,000

b. Bond Investment ***With*** Investment Financing.
- Assuming the invested Bond has a Loan-to-Value (LTV) of 60%, a credit facility of $60,000 can be secured against the pledged Bond investment (at an interest rate of 2% p.a. for illustrative purposes
- Although the end use of the additional $60,000 is not defined, let's assume the facility reinvested within the same Bond
- At the end of 12 months, the investor's indicative net return would be $6,800

c. Bond Investment ***Without*** Leverage Financing
- Assuming an initial investment of $100,000 in a Bond that pays a 5% coupon p.a.
- At the end of 12 months, the investor's indicative net return would be $5,000

d. Bond Investment ***With*** Leverage Financing
- Assuming the Bond investment can be leveraged with an additional 1.5x, at an interest rate of 2% p.a., a leverage financing facility of $150,000 will then be used to reinvest in the same Bond
- Assuming an initial investment of $100,000 in a Bond that pays a 5% coupon p.a
- At the end of 12 months, the investor's indicative net return would be $9,500

Leverage Risk: The use of a credit facility to fund the purchase of a bond may significantly alter the risk profile of the investment on an aggregate leveraged basis. The general effect of borrowing is to magnify gains and losses of the underlying investment in the bond. Where the cost of that borrowing is greater than the return generated by the bond, the investor may suffer a net loss in value on an aggregate basis even if the bond has generated a positive return.

Key Risks

The risk profile of any product you invest in may change over its tenor. The risks listed below are representative of the key risks, although you should note that this document and the Product Documentation cannot disclose all possible risks relating to any such product.

Market Risk

The value of a bond may fall due to numerous factors, including, but not limited to, changes in the market price. The value of a bond may increase or decrease during its term.

Investment Risk / Default Risk

Bonds carry the risk of default; if the issuer defaults or goes into liquidation, investors may lose some or all their invested capital.

Credit Risk

An investment in bonds will expose investors to the credit risk of the Issuer, and payments (including any repayment of capital) and/or deliveries under the security are reliant on the ability of the issuer to fulfill their obligations in respect of the security. The actual and perceived creditworthiness of the bond issuer may affect the market value of the bond over its term. The investor should consider the creditworthiness of the issuer before deciding to invest. If the issuer fails to meet its obligations, investors may get back less than is due to them or nothing at all

Foreign Exchange Risk

An investor may be exposed to foreign exchange risk if they invest in a security denominated in a currency other than their home currency.

Issuer Early Termination/Redemption/Call Risk

An investor may be exposed to foreign exchange risk if they invest in a security denominated in a currency other than their home currency.

Reinvestment Risk

Where the bond is terminated for whatever reason, including being called and redeemed at the option of the issuer, you may not be able to reinvest the amounts received at the same rate or for the same return at that point in time.

Legal/Regulatory Risk

Future changes in the laws or regulations governing bonds may affect the value, the level of yield or return and other commercial considerations relating to a bond

Potential Risk of Complex Bonds

Other types of bonds include perpetual bonds, convertible bonds or contingent convertible bonds. The features and risks of such bonds are not covered by this document.

Interest Rate Risk

A general rise or fall in interest-rates is inversely proportional to the value of bonds: If interest rates rise, bond prices fall and vice versa. The longer the tenor of a bond, the more sensitive it will be to interest rate changes.

Settlement Risk

Certain settlement disruption events may occur which could restrict the bond issuer's ability to deliver cash and the date of delivery of cash could be delayed accordingly.