CERTIFICATE OF DEPOSIT (CD) TRADING SERVICES

APPLICABLE TO COMMERCIAL BANKING CUSTOMERS

Important Risk Warning:

- This is an investment product. The investment decision is yours and you should carefully consider whether an investment is suitable for you in view of your own investment objectives, investment experience, tenor, financial situation, risk tolerance abilities, tax implications and other needs, etc. You should read the relevant product offering documents and terms and conditions (including the full text of the risk factors therein) in detail before making any investment decisions. Before you decide to proceed with a subscription, you should ensure that you understand the nature and risks of this product, and that you have sufficient net worth to be able to assume the risks and bear the potential losses of trading in this product.
- CDs are NOT equivalent to a time deposit. They are not protected deposits and are not protected by the Deposit Protection Scheme in Hong Kong.
- If the product is not principal protected, in the worst case scenario, you could sustain an entire loss of your investment.
- Investors who purchase CDs are exposed to credit risk of the Issuer and the Guarantor (if any) of the CDs. There is no assurance of protection against a default by the issuer/guarantor in respect of the repayment obligations. In the worst case scenario, any failure by the issuer and the guarantor (if any) to perform obligations when due may result in the loss of all of your investment.
- Investors should exercise caution in relation to the authorization status of the CDs, i.e. whether the CDs have been authorized by the Securities and Futures Commission in Hong Kong ("SFC"). (SFC authorization is not a recommendation or endorsement of a CD nor does it guarantee the commercial merits of a CD or its performance. It does not mean the CD is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.)
- The contents of this document have not been reviewed by any regulatory authority in Hong Kong and investors should exercise caution in relation to the offer.
- Additional risks are disclosed in the section of "Risk Factors" below. Please refer to it for details of investing in CDs.
- If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

1. What are Certificate of Deposits (CDs)?

- CDs are a type of debt instrument similar to bonds. They are usually issued by financial institutions such as banks.
- As a CD holder, you are extending credit to these issuers and they are obligated to repay the face value of the CD upon maturity, as well as the relevant interest during the life of the CD.

2. Why should I invest in CDs?

- In general, CDs offer comparatively steady returns and predictable income stream to investors
- CDs are typically less volatile than other assets with higher capital appreciation prospects (such as equities)
- Inclusion of CDs can diversify risk and offer relative stability to a portfolio.

3. What factors affect CD prices?

- CD prices in the secondary market can vary due to a number of factors, and the yield of the CD will change accordingly. Generally speaking, prices of CDs correlate with the CDs yield, which in turn is directly related to the credit risks of the CD issuers.
- CDs Yield – CDs prices generally move in the opposite direction to changes in the yield. For example, when the CD yield is up, the CD price falls and when the CD yield is down, the CDs price increases.
- Credit risk – CD Yield correlates with the credit risks of CD issuers. Credit risk is usually measured by credit ratings assigned by international rating companies such as Moody's and Standard & Poor's. Issuers with higher credit risk may pay a higher yield to attract investors.
- However, credit rating is a lagging indicator of credit risk. If the market perception of the financial strength or credit worthiness of a CD issuer /guarantor (if any) downgrades, the prices of such CD may fall significantly before the international rating companies downgrade the issuer/guarantor's credit ratings.

Additional Risks are disclosed in the section of "Risk Factors" below. Please refer to them for details.

4. The CD trading service offered by Hang Seng Bank Limited [Note 1]

- CDs - The CDs offered by us are listed on the daily "Retail Bond and Certificate of Deposit List" and may be issued by Hang Seng Bank Limited or third parties.
- Hang Seng Bank Limited is NOT an independent intermediary because:
  - i) we may receive trading profits, rebates, discounts, commissions, incentives, fees, and/or other monetary benefits from third parties (which may include product issuers) in relation to our distribution of the CDs. For details, please refer to our disclosure on monetary benefits which will be provided to you prior to or at the point of you entering into any transaction in CDs with us; and
  - ii) we may receive non-monetary benefits from third parties, or have close links or other relationships (legal, economic or otherwise) with issuers of products that we distribute to you.
- (Not applicable to CDs issued by Hang Seng Bank) The Bank receives non-monetary benefits from other parties including but not limited to providing market seminar, data or analysis services related to relevant products, customers' sales support and staff's sales support.
- (Only applicable to CDs traded under agency capacity)
  - The CDs price includes the transaction fee/commission charged by the Bank in its capacity as an agent and is compiled based on the single quote sourced from the Bank's affiliate, The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), which has taken into account the price levels of relevant CDs provided by issuers (including indicative yield-to-maturity), bank execution and warehousing costs and other market factors. The Limit Price [Note 2] is provided solely for indicative purpose and may not reflect the final order execution price.
  - The Bank will not retain any benefits from price improvements. Should your order be executed at a better price than the Limit Price above, the Bank will transfer all benefits obtained from such price improvements to you based on the final order execution price.
  - In the event of any suspension or failure of the straight-through process of price quotation provided by HSBC, the Bank may (but is not obliged to), as a contingency measure, manually request HSBC to provide the single quote as described above. Under this manual process, the Bank will not invite multiple counterparties to provide quotes for order execution purpose and HSBC will act as the exclusive trading counterparty in respect of your order. The Bank will proceed to execute your order based on such single quote sourced from HSBC provided the aggregate of such quote and the transaction fee/commission charged by the Bank is at or below your Limit Price above.
  - The Bank shall determine, in its sole and absolute discretion, acting in good faith and in a commercially reasonable manner, whether or not at any time a settlement disruption event has occurred. The Bank, acting in the capacity of an agent, is not under any obligation to procure to deliver the CDs to your account or compensate you in respect of the principal amount of the relevant CDs upon your requests for redemption or accrued coupon payment in relation to such relevant products.
  - In respect of an eligible dispute (as defined in the Terms of Reference for the Financial Dispute Resolution Centre in relation to the Financial Dispute Resolution Scheme) arising between the Bank and me/us out of the selling process of any CDs and/or order execution by the Bank as agent, the Bank will enter into a financial dispute resolution scheme process with me/us in accordance with the applicable rules. However, any dispute over the contractual terms of the CDs should ultimately be resolved with the relevant issuer/counterparty.
- Investors who are interested in investing in CDs through our Bank must hold a Securities Account with our Bank and trading of CDs can be made through your relationship manager.
- If you need to sell [Note 3] the CDs purchased through us, such CDs will be sold based on the prevailing market price [Note 4] under normal market circumstances.
- All CDs purchased through Hang Seng Bank Limited are under our custody and our nominee service ensures that all interest earned is credited to your settlement account with us.
- You may enquire the latest mark-to-market price of your investment through your relationship manager. Latest mark-to-market value of your CD investment will also be provided in the monthly statement of your Account for your reference.

1. *Please note that the CD trading service described in this factsheet are related to over-the-counter transactions only, which means that they are not related to transactions traded in any stock exchange.* ***Hang Seng Bank Limited may act as the principal or agent in the trading of the over-the-counter CD transactions. You should refer to the relevant order form for confirmation of our capacity. The CDs offered by Hang Seng Bank Limited are issued by various issuers, including Hang Seng Bank Limited itself, Hang Seng Bank Limited's affiliated companies HSBC or members of the HSBC Group. The current remuneration system that the Bank adopts for sales staff is a measurement of the staff's overall performance and not just based on sales amount.***
2. *Limit Price is only applicable to agency trade. In case of agency trade, this includes the commission charged by the Bank in its capacity as the agent calculated based on the nominal value. Should the order be executed at a better price than the Limit Price above, the Bank will transfer all benefits obtained from such price improvements to customers based on the final order execution price.*
3. *There is a minimum selling amount and minimum holding amount requirement for each CD.*
4. *The market price may differ from the original purchase price due to changes in market conditions. The market price may be less than the original purchase price.*

5. How much should I consider investing in CDs?

- Investors should generally avoid excessive investment in any single type of investment including any proposed investment in CDs, so as to avoid over-exposing the investment portfolio to the risks peculiar to a particular type of investment.
- Investors should assess the risk of an investment relative to your total financial assets portfolio and ensure that there is no undue concentration risk. Investors should also be confident that you have sufficient money set aside for emergencies and any money the investors invest in CDs should not be thought of as money investors can access quickly or easily.

6. What should be noted when considering to invest in CDs offering in primary market?

- For new issue offering in primary market, the execution of subscription order is subject to the final confirmation of issuer and market conditions. There is no guarantee that the order will be executed successfully. Investor should ensure there is cleared fund available in the settlement account at the time when the subscription order is placed for settlement. The amount of the purchase consideration will be instantly held in escrow in settlement account and if the order is accepted, the monies will be debited on the settlement date. On the other hand, if the purchase order is rejected, the monies held in settlement account will be instantly released (without interest) and no monies will be debited.

7. Risk Factors

There are investment risks involved in buying the CDs. Before investing in CDs, you should consider whether these products are suitable for you in light of your own financial circumstances and investment objectives. You should read the offering documents relating to the CDs and understand all the terms of the CDs and the risks involved before investing in the CDs. If you are in any doubt, seek independent professional advice.

(i) Key Risks of investing in CDs

- **Investment Risk** - The price of CDs may go up and down and may be volatile. The CDs may even become worthless. Buying and selling CDs may not necessarily result in any profit and may sometimes result in loss.
- **Credit Risk** - CDs are subject to the risk of the issuer defaulting on its obligations. It is the issuer's obligation to pay coupon/interest and pay principal of CDs to investors. If the issuer and the guarantor (if any) default, investors may not be able to receive the coupon/interest and principal of the CDs. Investors must make their own assessment of the ability of the issuer and the guarantor (if any) to meet their obligations under the CDs. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer and the guarantor (if any). In addition, investors will bear the credit risk of the issuer and the guarantor (if any) and have no recourse to Hang Seng Bank Limited because Hang Seng Bank Limited is not the issuer nor the guarantor. If Hang Seng Bank is the issuer (applicable to CDs issued by Hang Seng Bank), investors will bear the credit risk of Hang Seng Bank.
- **Liquidity Risk** – The secondary market for the CDs may not provide significant liquidity or may trade at prices based on the prevailing market conditions and may not be in line with the expectations of investors. If you wish to sell CDs, they will be sold based on the prevailing market price under normal market circumstances, but the selling price may differ from the original buying price due to changes in market conditions. There may be no active secondary market in respect of the CDs. Investors may not be able to sell the CDs before maturity or may only be able to do so at a significant loss.
- **Interest Rate Risk** –CDs are more susceptible to fluctuations in interest rates and generally prices of /CDs will fall when interest rates rise.
- **Market Risk** - Indicative CD prices are available and CD prices do fluctuate when market changes. Factors affecting market price of CDs include, and are not limited to, fluctuations in interest rates, credit rating of the CD or its issuer/guarantor, the financial condition of the issuer/guarantor, and liquidity of the CD. The fluctuation in yield generally has a greater effect on prices of longer tenor CDs. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling CDs.
- **Exchange Rate Risk** - There may be exchange rate risks if you choose to convert payments made on the CDs to investors' home currency.
- **Tax Issue** - Investors should carefully consider the tax consequences of investing in the CD and consult investors' tax advisor about investors' own tax situation.
- **Hold to maturity** – The CDs are mainly for medium to long term investment, not for short term speculation. Investors should be prepared to invest their funds in the CDs for the full investment tenor. Investors could lose part or all of their investment if they choose to sell the CDs prior to maturity.
- **Maturity Risk** – The longer the maturity, the greater the risk that unforeseen events (e.g. default) may erode the CD's value. Some CDs may even have extendable maturity dates and investors would not have a definite schedule of principal repayment
- **Inflation Risk** – Inflation diminishes the future purchasing power of coupon payments and the principal when received, which are both nominal in nature. Inflation is therefore a key concern for those who need to rely on the regular income from CDs.
- **External Risk** – External factors can also affect an issuer's ability to repay and thus the credit risk of its CDs. For instance, the credit risk of a company with a strong balance sheet may still be affected if the country in which it resides imposes

exchange controls or goes to war. Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment. Another risk is nationalisation: the uncertainty as to whether the coupons and principal will be paid on schedule and/or that the risk on the ranking of the CDs would be compromised following nationalisation. While these various events are not of the company's own making, they may still make it impossible for the company to make coupon and/or redemption payments.

- **Reinvestment Risk** – Reinvestment risk is the risk that future cash flows (e.g. coupon payments) on a CDs investors have purchased will not be reinvested at the interest rates that prevailed when investors originally bought the CDs. It is more likely that reinvestment risk will be an issue when interest rates are declining as this affects the yield to maturity of a CDs. This is because a CD's yield to maturity is calculated on the assumption that all future coupon payments will be reinvested at the interest rate prevailing when the CD was first purchased. Investors face re-investment risk when the Issuer exercises its right to redeem the CDs before it matures. Investors may not be able to enjoy the same rates of return when they re-invest their funds in other investments.

- **Not deposits** – CDs are are an investment product and are not equivalent to a time deposit and are unsecured and are not guaranteed (if there is no guarantor). CDs are not principal-protected. Investment in CDs involve risks not associated with regular bank deposits and should not be regarded as a substitute for regular savings or time deposit. CDs are NOT protected under the Hong Kong Deposit Protection Scheme. Do NOT invest in CDs unless you fully understand and are willing to assume the risks associated with them.

- **Early Redemption Risk –** If the Issuer is allowed to early redeem, including but not limited to make whole redemption, the CDs prior to maturity under the provisions may be stated in the relevant offering document, which is subject to certain trigger events, including but not limited to force majeure, regulatory changes, rating changes, changes in the accounting treatment or taxation regime. Investors may lose up to all their initial investment in notes at worst case if any such circumstances were to happen.

- **Conflicts of interest** - You should note that actual or potential conflicts of interest may arise from the different roles that we play in connection with the CDs. Our economic interests in each role may be adverse to your interests in the CDs, and certain judgments and determinations made by us (including as calculation agent pursuant to the terms of the CDs) may influence the amount receivable by the CD holders upon redemption of the CDs.

- **Limited Secondary Market –** There can be no assurance as to how any CD will trade in the secondary market or whether such market will be liquid or illiquid. If the CD is not traded on any stock exchange, pricing information for such CD may be more difficult to obtain, and the liquidity and market prices of such CD may be adversely affected. A CD holder could lose part or all of his or her investment if the CD holder chooses to sell his or her CD prior to the maturity date. Even if an investor is able to sell his or her CD before the maturity date, the investor may not be able to enjoy the same rate of return if he or she re-invests in other investments. An investor should be prepared to invest his or her funds in the CD for the full investment tenor.

(ii) Key risks of investing in CDs denominated in Renminbi ("RMB")

- **RMB currency risk and other specific risks for CDs denominated in RMB –** Investing in RMB denominated CD involves RMB currency risk. Besides general exchange rate risks, RMB is subject to foreign exchange control by the PRC government, which may adversely affect the performance and return of the CDs. Apart from the RMB currency risk, risk disclosure and other risks involved in RMB-denominated CD stated in the offering documents may also adversely affect the return on the CD.

- **RMB Conversion Limitation Risk** - RMB investments are subject to exchange rate fluctuations which may provide both opportunities and risks. The fluctuation in the exchange rate of RMB may result in losses in the event that the customer converts RMB into HKD or other foreign currencies. RMB is currently not fully freely convertible. Individual customers can be offered CNH rate to conduct conversion of RMB through bank accounts and may occasionally not be able to do so fully or immediately, for which it is subject to the RMB position of the banks and their commercial decisions at that moment. Customers should consider and understand the possible impact on their liquidity of RMB funds in advance.

(iii) Issuer early redemption risk – some debt securities have provisions which the issuers may early redeem the debt securities prior to maturity

- **Some CDs are callable** – investors face re-investment risk when the issuer exercises its right to redeem the CD before it matures. Investors may not be able to enjoy the same rates of return when they re-invest their funds in other investments.

- A callable CDs may be redeemed earlier with declining interest rates, leading to the return of principal sooner than investor's expectation. In that case, investors will likely be unable to realize the expected gain and investors may just reinvest the principal to another fixed income security at the lower interest rate (also called "reinvestment risk"). Also, in any case that CDs are called at or near to par value, investors who paid a premium for the CDs will risk a loss of the initial purchase price as well. Moreover, if the CDs are not called before maturity, investors will hold the CDs for a longer period until the issuer determines to call the CDs on next call dates (if applicable) and probably until maturity if the CDs are not called by the issuer.

8. I am ready to invest, anything else I should know before investing?

- Investment involves risks. Investors should only invest in CDs if they have carefully thought about whether they can afford to lose some or all of the money invested.
- The investment objective of fixed rate CDs is to provide potential cash income and offer repayment of principal at maturity. There is potential capital gains for CD investment, subject to market conditions, CD prices and other factors.
- In addition to Callable CD, some CD could be early called in certain circumstances. For example, an issuer may call the CD before maturity, at a predetermined price and date. Before investing in CD, investors should read the related offering documents and terms sheet (if any). Investor should aware of the reinvestment risk after called. Investors may not be able to enjoy the same rates of return when they re-invest their funds in other investments.
- Investors should consider their investment in CDs in the light of their investment objective, personal circumstances, financial position and particular needs. Investors should receive, read and understand all of the following documents:
  - Certificate of Deposit Trading Services Factsheet
  - Prospectus/ Offering Circular / Termsheets of the CDs (where applicable)
- Investors should take note that Hang Seng Bank Limited will act as the principal or agent in the trading of the over-the-counter CD transactions. You should refer to the relevant order form for confirmation of our capacity. The CDs offered by Hang Seng Bank Limited are issued by various issuers, including Hang Seng Bank Limited's affiliated companies HSBC or members of the HSBC Group. The Bank has implemented ongoing execution controls over the trading of CDs at over-the-counter market and would ensure fair pricing and treatment of customer's order.
- Investors should take note that the issuer and its respective subsidiaries, affiliates and their directors or officers or shareholders ("**AP**s"), i) may deal in and generally engage in any kind of commercial or investment banking or other business with various financial institutions including Hang Seng Bank Limited, and ii) may be the APs of Hang Seng Bank Limited or any of its subsidiaries or affiliates or have such other interests in the business of Hang Seng Bank or its subsidiaries or affiliates. The issuer and Hang Seng Bank Limited and their respective subsidiaries, affiliates and their APs may act with respect to such business in the same manner as each of them would if these CDs had not been issued, regardless of whether any such action might have an adverse effect on the CDs or the Investors or otherwise.
- In addition, Hang Seng Bank Limited may be in possession of information in relation to the issuer, and its respective subsidiaries or affiliates and their APs which may or may not be material in the context of the issue of the CDs and that may or may not be publicly available or known to the Investors. Such relationship or information (whether or not confidential) may not be disclosed by Hang Seng Bank Limited to the Investors.
- Investors should also note that potential and actual conflicts of interest may arise from the different roles played by Hang Seng Bank Limited and its subsidiaries, affiliates and their APs in connection with the CDs and their economic interests in each role may be adverse to the Investors' interests in the CDs.
- We may offer CDs issued by issuers incorporated in the United States. Investors wishing to invest in such CDs will be required to confirm that they are not located within the United States and are not a U.S. Person and will not transfer the Ds to a U.S. Person, before Hang Seng Bank Limited agree to sell such CDs to the investors.
- Any payment made by Hang Seng Bank Limited (as investors' custodian of the CDs) to investors is subject to the final payment of the issuer/guarantor of the CDs. Hang Seng Bank Limited reserves the right to reverse any payment made to investors in case any payment made is subsequently reversed/cancelled by our custodian or the issuer/guarantor of the CDs.
- As a direct participant in European Economic Area (EEA) Central Securities Depositories (CSD), we are required, under the European Union (EU) Central Securities Depositories Regulations (CSDR), to (i) offer our customers whose securities are held through the EEA CSD the choice between an Omnibus Client Segregated Account (OSA) and an Individual Client Segregated Account (ISA), and (ii) publicly disclose the level of protection and the costs associated with the different levels of segregation that the accounts provide. Please refer the relevant section at www.hangseng.com for relevant details.
- If the investors are in any doubt, independent professional advice should be sought.

Note:

- This Certificate of Deposit Trading Services Factsheet is issued by Hang Seng Bank Limited. It is based on information obtained from sources believed to be reliable, but we make no representation and accept no responsibility as to its accuracy or completeness and shall not be held liable for damages arising out of any person's reliance upon this information. This information is neither an offer to sell, nor an offer to purchase any investment. It is not intended to provide and should not be relied upon as any tax, legal or accounting advice, investment recommendations or a credit or other evaluation of the CDs. You are advised to consult your tax, legal, accounting or other advisors.
- In case of any inconsistencies or conflicts between the English version and versions of other languages, the English version shall prevail.
- Hang Seng Bank Limited (CE Number: AAH297), of 83 Des Voeux Road Central, Hong Kong, is a bank licensed under the Banking Ordinance and is registered under the Securities and Futures Ordinance to conduct various types of regulated activities. For enquiry, please contact your relationship manager.
- You may contact our staff at any of our branches if you have any feedback or complaint in relation to our services or call our hotline at 2998 9898. We will respond to you within a reasonable period of time normally not exceeding 30 days in general circumstances. You may contact the Hong Kong Monetary Authority at 55th Floor Two International Finance Centre, 8 Finance Street, Central, Hong Kong if you are not satisfied with our handling of your complaint. For monetary dispute, you have the right to refer the matter to the Financial Dispute Resolution Centre at Unit 3701-4, 37/F, Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong.

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