Capital Guarantee Investment Program (zero risk for investments) with HIGH leverage and POI

Capital Billion

Features

- Wide selection of investment products used as collaterals including bond, mutual funds, structured products and equities
- Offer leverage of up to 5.6 times of your initial funds with us e.g. every $100m x 5.6 = $560m
- Provide additional capital of up to 85% of your initial investment holdings with us
- Additional capital can be used for the reinvestment of bond, mutual funds and structured products
- Enable you to enjoy interest differentials by profiting from high-interest investments using money obtained from low-interest loans (as low as 1.38% p.a.) e.g. bonds income 7% - borrowed bank`s loan 1.38% = 5.6%
- Offer hassle free repayment that you will only need to repay the monthly calculated interest every 3 months
- Let you enjoy same-day loan disbursal. Upon successful account opening, your loan application will normally be processed and disbursed within the same business day

Benefits

Your Investment Potential

Illustration 1: If you are holding CASH

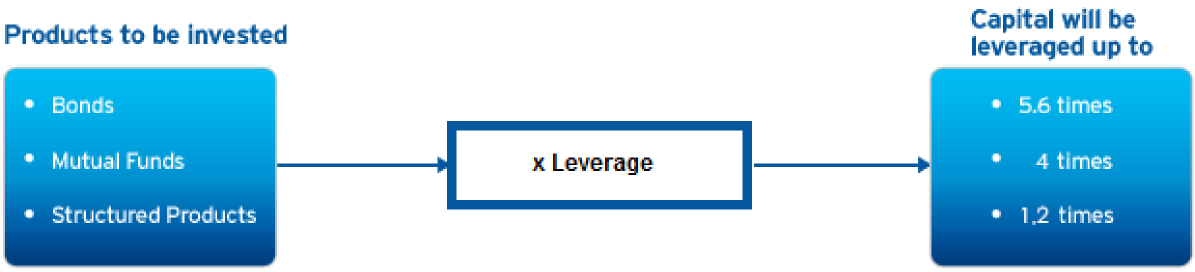
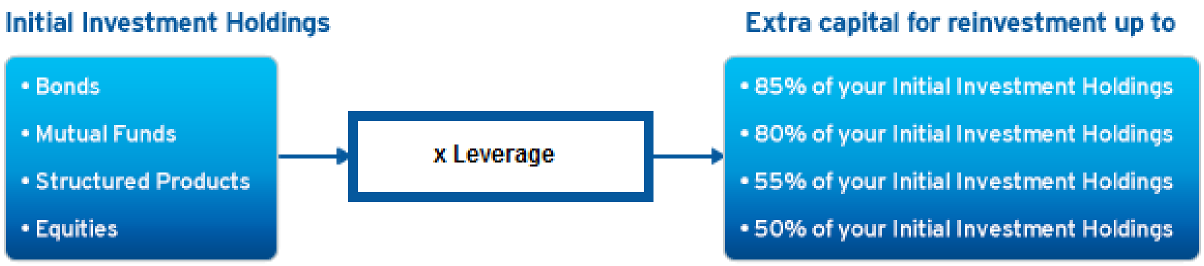


Illustration 2: If you are having Investment Holdings



Example 1

If customer is holding CASH

Ms. Wong has available cash of US$100,000.

She wants to invest US$330,000 in a 10-year US Corporation Bond.

With "Leverage", she enjoys the leveraged investment and receives an additional capital of US$230,000 for the corporate bond investment.

Return Comparison

	Before	After
Initial Investment Capital	US$100,000	US$100,000
Additional Investment Capital obtained from "Leverage"	Not applicable	US$230,000

Annual Interest Return from the 10-year US Corporate Bond (Assume the coupon rate is 3.0% p.a.)	US$ 3,000 (US$ 100,000 x 3.0%)	US$ 9,900 (US$ 330,000 x 3.0%)
Interest Cost from "Leverage" (Assume the interest rate is 2.43% p.a. for a 12-month tenure)	Not applicable	US$ 5,589 (US$ 230,000 x 2.43%)
Net Return	US$ 3,000	US$ 4,311
Return on Investment (p.a.) (Based on Initial Investment Capital)	3.0%	4.31%

Notes:

The tenure of "Leverage" and the investment period of individual investment products may be different.

Assume the loan interest rates of "Leverage" (i.e. 2.43% p.a.) and the bond prices remain the same throughout the entire investment period illustrated above. Actual loan interest rates are subject to prevailing market interest rates.

Figures shown in the examples are referenced to September 26, 2017. The Hypothetical rates of return and loan interest rates stated are for illustrative purposes only and are not indicative of actual and / or future performance and borrowing costs.

Investments should be subject to investor's own investment objectives and risk profiles.

Example 2

If customer is holding Investment Holdings

Mr. Lee has US$200,000 investment holdings at bank.

He plans to invest in an Enhanced Growth Mutual Fund Portfolio.

With "Leverage", Mr. Lee obtains an additional capital of US$105,000 by pledging his existing initial investment holdings for the extra Enhanced Growth Mutual Investment Portfolio investment.

Return Comparison

	Before	**After**
Initial Investment Holdings 1. Bond 2. Mutual Funds 3. Equities	US$200,000 US$100,000 US$50,000 US$50,000	US$200,000 US$100,000 US$50,000 US$50,000
Annual Return / Loss		
1. Bond (Assume the coupon rate is 3.0% p.a.)	US$ 3,000 (US$ 100,000 x 3.0%)	US$ 3,000 (US$ 100,000 x 3.0%)
2. Mutual Funds	US$5,000 (US$ 50,000 x 10.0%)	US$5,000 (US$ 50,000 x 10.0%)
3. Equities (Assume 10% gain in mutual funds and equities)	US$5,000 (US$ 50,000 x 10.0%)	US$5,000 (US$ 50,000 x 10.0%)
Additional Investment Capital obtained from "Leverage"	Not applicable	Additional Investment Capital : US$ 105,000 1. Bond : US$ 60,000 (US$ 100,000 X 60%)

		2. Mutual Funds : US$ 25,000 (US$ 50,000 X 50%) 3. Equities : US$ 20,000 (US$ 50,000 X 40%)	
Annual Return / Loss from Additional Investment	Not applicable	Investment Capital US$ 100,000 is used for the purchase of Enhanced Growth Fund Portfolio	
		(Assume the expected rate of return is 8.47% p.a.) US$8,470 (US$100,000 x 8.47%)	(Assume the expected rate of return is -20% p.a.) - US$20,000 (US$100,000 x -20%)
Interest Cost from "Leverage" (Assume the interest rate is 2.43% p.a. for a 12-month tenure)	Not applicable	US$2,430 (US$100,000 x 2.43%)	US$2,430 (US$100,000 x 2.43%)
Net Return / Loss	US$ 13,000	US$19,040	-US$9,430
Return / Loss on Investment (p.a.) (Based on Initial Investment Capital)	6.50%	9.52%	-4.72%

Notes:

The tenure of "Leverage" and the investment period of individual investment products may be different.

Assume the loan interest rates of "Leverage" (i.e. 2.43% p.a.) and the bond prices remain the same throughout the entire investment period illustrated above. Actual loan interest rates are subject to prevailing market interest rates.

Figures shown in the examples are referenced to September 26, 2017. The Hypothetical rates of return and loan interest rates stated are for illustrative purposes only and are not indicative of actual and / or future performance and borrowing costs.

Investments should be subject to investor's own investment objectives and risk profiles.

Additional information

Your leveraged position is evaluated by using the formula of Margin Erosion ("ME") by mark-to-market basis, and you are required to restore ME to below "0" or such lowest possible percentages whenever there is a Pre Margin Call, Margin Call or Force Sell status.

$$\text{Margin Erosion ("ME")} = \frac{\text{Initial equity position* - (total market value of eligible investments and eligible deposits - loan outstanding)}}{\text{Initial equity position*}}$$

*Initial equity position is calculated as loan outstanding divided by weighted loan-to-value ratio, then minus the loan outstanding.

ME	Actions
Pre Margin Call 0%< ME <25%	Any settlement proceeds will be used as repayment of any outstanding loan
Margin Call * 25% =/< ME <50%	Top up the margin, within 7 calendar days by Deposit of additional eligible investments and/ or eligible deposits ^, and/ or Repay by any settlement proceeds Force liquidation may apply if a margin call is not complied within the period
Force Sell # ME >/=50%	Force liquidation all or part of the investments and/ or deposits without prior notice

*The margin call levels are also subject to change by the Bank without prior notice and the Bank has no obligation to notify customer of the aforesaid event, therefore it is customer's duty to monitor the same.

^The list of the eligible investments and eligible deposits designated by the Bank and their respective loan-to-value ratio may be amended by the Bank from time to time without prior notice.

#In the event that the market deteriorates rapidly beyond the margin call level and reaches the forced sell level, the bank reserves the right to close out all or part of the outstanding positions without notice and without any margin calls. The forced sell levels are also subject to change by the Bank without prior notice.

Note: 1.Depending on individual investment products (e.g. mutual fund, bonds, structured products and eligible deposits) being purchased. 5.6 times is an example of pledging US Corporate Bond.

2. Depending on individual collateral used.

3. Additional investment(s) will be subject to investors' own investment objectives and risk profile.

4. Loan interest rates will be subject to prevailing market interest rates and may be subject to change from time to time.

5. 1.38% p.a. interest rate is referenced to "Leverage" USD term loan as of April 29, 2015. Interest rate(s) is/are for reference only and is/are not guaranteed. The actual interest rate(s) will be dependent on loan currency and loan drawdown date and may be subject to change from time to time.

6. Customers are requested to submit their loan application before 3:00p.m. Same-day loan disbursal will normally be subject to the cut off time of the respective investment product(s).

Product Detail (Example)

15 Oct 2017

Bond/CD

BANK OF CHINA LTD (HONG KONG BRANCH) - BCHBFC17306

Bond/CD Code :	BCHBFC17306	Bond/CD Name :	BOC 4.00 31AUG18 RMB CMU
Issuer :	BANK OF CHINA LTD (HONG KONG BRANCH)	Guarantor :	--
Category :	Certificates of Deposit	Country of Incorporation :	CHINA
Issue Date :	31 Aug 2017	Maturity Date :	31 Aug 2018
Currency :	CNY	Remaining Tenor (Approx.) :	0Y 11M

Coupon Type :	FIXED	Status :	Senior
Coupon Payment Frequency :	At Maturity	Credit Rating (Moody's / S&P) :	-- | --
Coupon Rate :	4.000%	Product Risk Level :	2
Previous Coupon Date :	--		
Next Coupon Date :	31 Aug 2018	Minimum Purchase Amount :	100,000
		Incremental Amount :	100,000

Callable/ Extendable :	N

Your project financing via Private Placement Program with zero risk on your investments.

Step by step procedure:

1. You or your client open an account with our banks
2. The funds will be blocked by investments in fixed income instruments (bonds, mtn,cd), zero risk for your investments.
3. our bank provide leverage on the funds invested up to 5 times e.g. your investments $100m x 5 = $500 credit line
4. we create a bonds portfolio strategy
5. the bank provide credit line for trading
6. this credit line we place for high profitable trading in ppp

the benefits:

- your funds always will be blocked in bonds, we trade only interest from bonds, hence zero risk
- it looks like this 100% your funds + bonds x 5 leverage = capital $500m x bonds coupon interest 7% up to 9% = $35m-$45m
- these funds $35-$45m we only trade, hence all 100% funds you will get back after period of blocking funds.
- what you can get in return, let`s assume we have credit line from bank $35 and profit for 90 days x 200% = $70m - minus our fee 20% management fee (-$14m) = $56m is your net profit
- or 56% on your investments, possible reach for a period of 90 days.

NOTE:

Bonds are credit notes issued by governments, corporations or other issuers to bondholders. As a bondholder, you are extending credit to these issuers and they are obligated to repay the redemption value of the bond upon maturity, as well as a rate of interest during the life of the bond. There are many types of bonds from different issuers that vary in their terms. Some examples include the fixed rate bond, floating rate bond, zero coupon bond and convertible bond as well as Certificates of Deposit (CDs).

Benefits to block funds in bonds:

- Regular income
  Bonds deliver stable and predictable coupons as streams of income. Bonds also offer predictable repayment of principal at maturity.
- Yield Enhancement
  Bond yields are usually higher than time deposit rates with similar maturity.
- Capital Gain Potential
  You can also benefit from capital appreciation if bond prices move up.
- Risk Diversification Tool
  Bonds exhibit low correlation to other asset classes, hence the inclusion of bonds can bring relative stability to a portfolio.

BANK offers you a full range of investment grade or equivalent bonds including RMB dimsum bonds, Government Bonds and Corporate Bonds with wide ranges of major currencies selections and tenors ranging from 1 to 30 years.

Bonds be categorised by:

- **types of issuers** - corporate bonds, supranational bonds and government/quasi-government bonds
- **coupon** - fixed rate bonds, floating rate bonds and zero-coupon bonds
- **credit quality** - investment grade bonds
- **currency** - HKD, USD, AUD, CAD, CNY, EUR, GBP, NZD and SGD

Do I have to hold bonds until maturity?

BANK will repurchase the bonds purchased through us based on the prevailing market price under normal circumstances thus you may not hold the bonds until maturity. Customer's selling price may differ from the original buying price due to changes in market condition. You could lose part or all of your investment if you choose to sell the bonds prior to maturity.

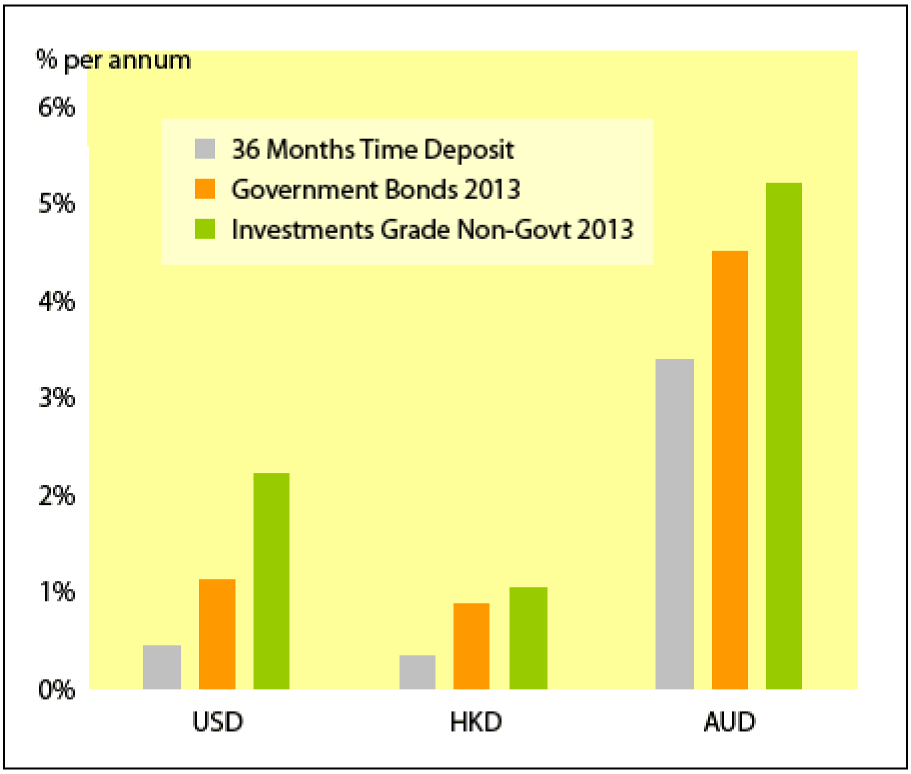
How can I collect my interest payments?

All bonds purchased through BANK are under our custody and nominee service. So just sit back and we'll ensure all interest earned is credited to your settlement account once the payment is received from the relevant custodian on or after the coupon payment date.

Benefits of Investing in Bonds

Yield Enhancement

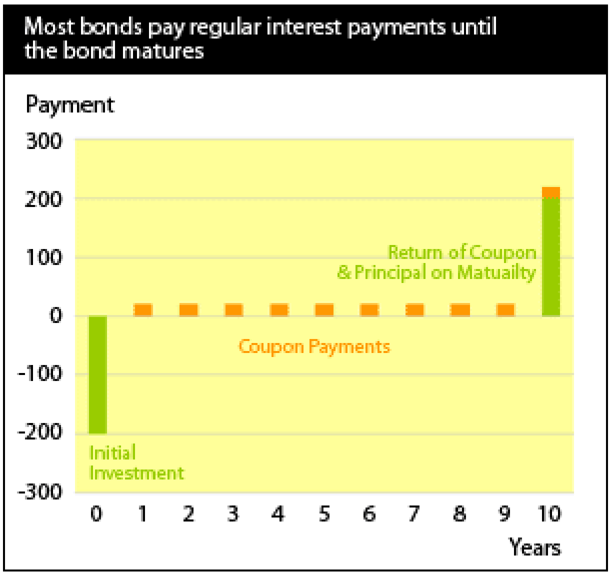
- Investing in Bonds may improve your return than sitting on cash.



(Date: as of May 2010)

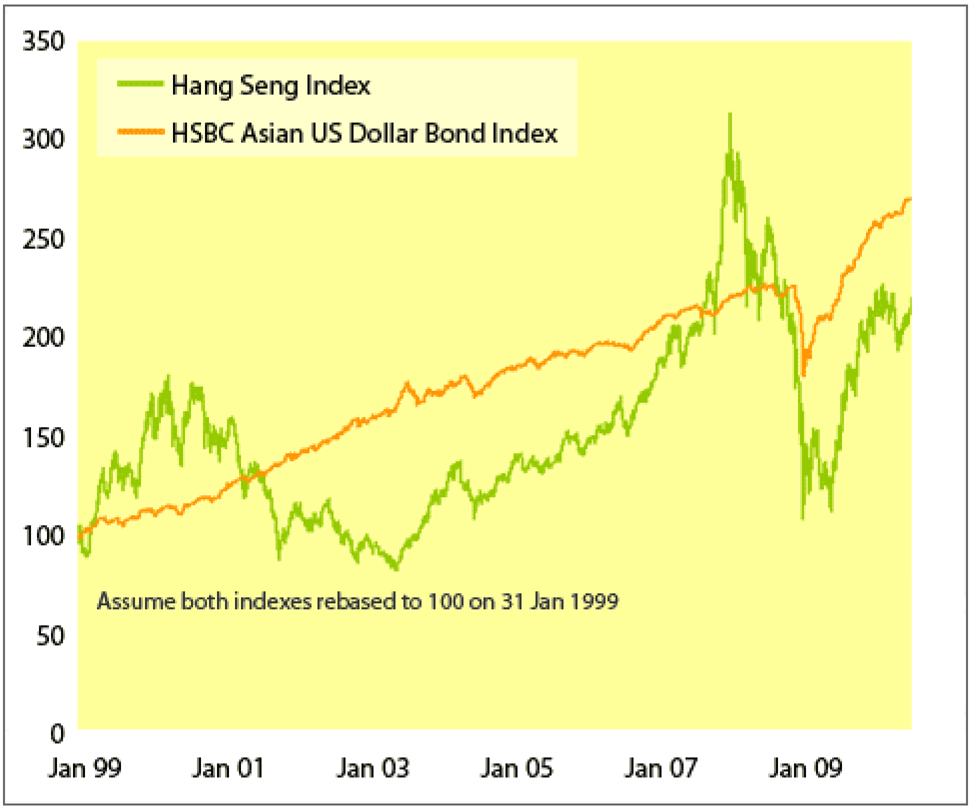
Regular Income Source

- Bonds deliver stable and predictable coupons as streams of income. Bonds also offer predictable repayment of principal at maturity.



Risk Diversification Tool

- Bonds exhibit low correlation to other asset classes, hence the inclusion of bonds can bring relative stability to a portfolio.
- Bonds often demonstrate comparable performance against equities over time, however with a lower volatility! The following chart shows 10 year performance of bonds (Represented by BANK Asian US Dollar Bond Index) and equities (Represented by Hang Seng Index).



Equity: Represented by Hang Seng Index
Bond: Represented by BANK Asian US Dollar Bond Index which consists of non-Japan Asian bond portfolio with US dollar-denominated, fixed-rate, straight bonds

Capital Gain Potential

- The market price of a bond is affected by market interest rates, and perceived creditworthiness of the issuer.
- Potential for capital gain from price appreciation occurs when market interest rates fall or when perceived creditworthiness of the bond's issuer strengthens.

Credit Worthiness	Bond Price
Stronger	▲
Weaker	▼

Interest Rates	Bond Price
Higher	▼
Lower	▲

Demand & Supply	Bond Price
Strong demand / Weak Supply	▲
Weak demand / Strong Supply	▼

Different ways to look at bonds

By issuer - government and corporate bonds

- Categories of bonds are mainly classified based on the nature of issuers - common categories known to HK investors include:
  - Government Bonds - e.g. US Treasury Bills / Notes / Bonds, HK Exchange Fund Bills / Notes
  - Corporate Bonds, e.g. bonds / notes issued by financial institutions or companies
- Companies and governments issue bonds to fund their day-to-day operations or to finance specific projects

By credit rating - investment grade and non-investment grade bonds

- A bond's credit rating indicates its credit quality and is based on the issuer's financial ability to make regular interest payments and repay the loan in full at maturity. Credit rating agencies help to evaluate the creditworthiness of bonds. Two major independent credit rating services are Moody's and Standard & Poor's.

	Moody's	Standard & Poor's	What the Ratings Means
Investment Grade	Aaa	AAA	Highest quality
	Aa1,Aa2,Aa3	AA+,AA,AA-	High quality
	A1,A2,A3	A+,A,A-	Upper-medium quality
	Baa1,Baa2,Baa3	BBB+,BBB,BBB-	Medium quality
Non-Investment Grade	Ba	BB	Speculative
	B,Caa	B,CCC,CC	Highly speculative
	Ca,C	D	Default

- Moody's applies a numerical indicator 1, 2, and 3 in each generic rating. For examples, A1 is better than A2. Standard & Poor's use a plus or minus indicator. For example, A+ is better than A, and A is better than A-.
- Ratings affect a bond's yield. The lower the rating, the higher will be the yield as investors will need extra incentive to compensate for higher risk.
- Investment grade bonds are of relatively high quality with a minimum S&P rating of BBB- or a minimum Moody's rating of Baa3.
- Non-investment grade bonds, on the other hand, are of lower quality, and carry a higher risk of default. S&P rates these BB+ and below, while Moody's rates them Ba1 and below.

By coupon type - fixed rate / floating rate / zero coupon bonds

Fixed rate bond

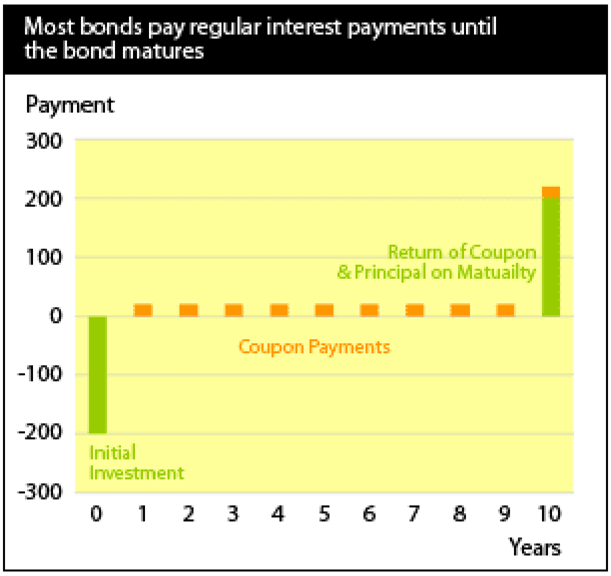
- A bond that pays a fixed rate of interest over its life.

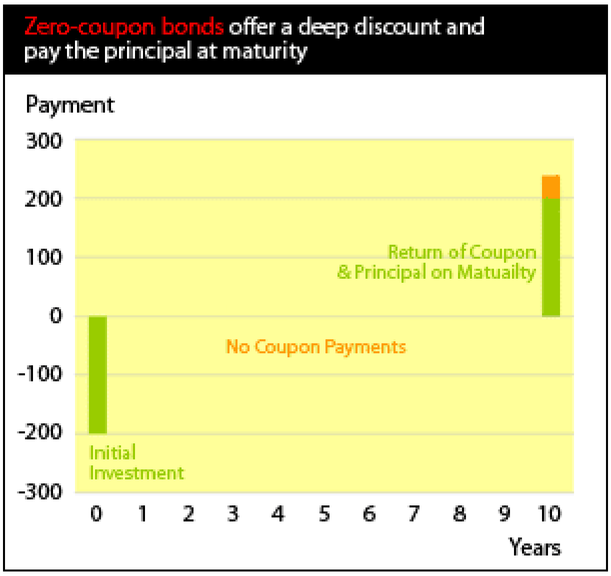
Floating rate bonds/ notes (FRNs)

- FRNs are bonds that have a variable coupon, adjusted according to the market interest rates and therefore reflect changes in a market interest rate, like the USD LIBOR, RMB SHIBOR, AUD BBSW, etc.
- The variable coupon is reset regularly (e.g. every3 months), determined by the market interest rate plus a "spread". The spread is fixed when the bonds are issued.
- The variable coupon rate adjustment means that FRNs have relatively stable bond prices due to limited interest rate risk. FRNs provide capital preservation and higher income as interest rate rises.

Zero coupon bonds

- Zero coupon bonds do not pay out any interest prior to maturity. These bonds are sold at a deep discount because all of the value occurs at maturity when the principal is returned to the investor.
- The main benefit of zero coupon bonds is for saving for an objective on a specific date. The drawback of zero-coupon bonds is that they are more volatile than bonds that make regular interest payments. But interest rate movements do not matter if bonds are held to maturity.





Hybrid Securities

- Also known as "Hybrids". Companies issue "Hybrids" to diversify their funding sources, and better manage the capital costs since "Hybrids" is a cheaper form of capital than equity.
- It is important to note that "Hybrids" are structured differently that some behave more like fixed interest securities and others behave more like the underlying shares.

Perpetual Securities

- Some "Hybrids" are in form of Perpetual Securities which do not have a maturity date. They are likely to include a call date where the issuer has the option to repay the principal. Some Perpetual Securities may also include an option for the issuer to exchange the perpetual securities to Preference Shares.
- It is important to note whether the Preference Shares that are being exchanged into are cumulative or non-cumulative. Cumulative Preference Shares have a provision which allows dividends not paid in a particular year or period to be accumulated and carried forward to a later date whereas non-cumulative Preference Shares do not. Preference shares dividends must be paid before a dividend can be paid on the ordinary shares. In other words, if there is dividend declared for ordinary shares, both the cumulative and non-cumulative preference shares dividends will be paid as well.

- Unlike a share, Perpetual Securities have a "known" cash flow, and unlike a plain vanilla bond, there is a chance that they may be exchanged into shares. Therefore, from a risk perspective, they are more risky than debt, yet not as risky as equity-a risk profile sitting in between debt and ordinary equity.

Key Features

Coupon Rate

- Interest rate per annum that will be paid by the issuer.
- For Fixed Rate Bond, coupon rate is determined on the issue date.
- For Floating Rate Bond, the coupon is reset regularly (e.g. every 3 months), determined by the market interest rate plus a "spread". The spread is fixed when the bonds are issued.

Maturity date

- Date when face value of the bond will be repaid by the issuer. Face value is typically 100%.

Remaining Tenor

- Remaining time to maturity.
- The longer the bond's maturity, the more it is affected by changing interest rate.

Credit rating

- A bond's credit rating indicates its credit quality and is based on the issuer's financial ability to make regular interest payments and repay the loan in full at maturity.
- The higher the rating, the lesser the risk, the lower the yield of the bond

Capital Tier

- Represents the seniority of claims in the case of a default event.

Senior / Subordinated Debt

- Senior Debt refers to debt obligations that have higher claim priority to Subordinated Debt and Equity on the issuer's assets in the event of liquidation. Senior Debt commonly includes funds borrowed from banks or other financial institutions and creditors. Specific deposits not covered by Government / Industry Deposit Protection Schemes are also generally included in the Senior Debt rankings.
- Subordinated Debt refers to debt obligations that places the investor in a lien position behind or subordinated to a company's senior creditors. Securities issued as subordinated debt will pay interest and principal but only after all interest that is due and payable has been paid on to all senior debt and creditors in the case of bankruptcy or liquidation.
- To compensate for the higher risks taken by Subordinated Debt investors compared to Senior Debt investors, the former often are traded at higher yields than the latter. Yet for investors, it is necessary to recognise that while the returns are higher the risks are also higher.

Secured / Unsecured Debt

- Secured Debt is debt obligation backed by specific assets or revenues of the borrower. In the event of default, secured lenders can force the sale of such assets to meet their claims.

- Unsecured Debt is debt obligation with no collateral by any assets of the borrower in the case of bankruptcy or liquidation. Senior debts in the market are mainly Unsecured Debts.
- You can see that the concept of "secured" in bonds is different from "safe" in common terms.

Offer (or Ask) Price

- The price at which customer pays for buying a bond in the secondary market
- Bond prices are expressed in % terms

Yield

- The rate of return of the bond.
- Yield to Maturity (YTM) is the most commonly used term to describe the yield of a bond, which assumes the bond is held to maturity and all received coupon can be reinvested at YTM.
- YTM is inversely related to bond price

Offer Yield / YTM	Offer Price
▲	▼
▼	▲

Bond Maturity Types

Bullet bonds

- Bonds with repayment of the principal on a fixed maturity date.

Callable bonds

- Bonds with a call date where issuer has the option to repay the principal earlier than the final maturity.

Perpetual bonds

- Bonds with no maturity date. The issuer will not specify a maturity date where it repays the principal like bullet or callable bonds. Rather, a perpetual bond pays the investor a fixed coupon indefinitely. Most perpetual bonds are callable, where the issuer has the option to repay the principal on a pre-specified date when it was issued.

Risk Factors

Interest Rate Risks

- Refers to the potential loss in the bond value as a result of a rise in term interest rate. However, there is no impact if planning to hold bond to maturity.
- Causes of term interest rate increase can be central bank policy hike to manage inflation, increase in issuance size in a particular tenor and reduced demand in that tenor.
- The longer the maturity of a bond, the higher the interest rate risk.
- Bond investors can consider mitigating interest rate risk by investing in floating rate bonds/ notes.

Credit Risk

- Refers to the potential loss in the bond value as a result of either a downgrade of the issuer's credit rating or the market's perception of the issuer's credit worthiness and its ability to meet its financial obligations. However, there is no impact if planning to hold a bond to maturity.
- Bond investors can consider mitigating credit risk by investing in bonds of higher risk rating.

Default Risk

- Refers to the potential total loss in the bond value as a result of the issuer going bankrupt.
- Bond investors can consider mitigating credit risk by investing in bonds of higher risk rating.

Liquidity Risk

- Refers to investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value.
- Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Bonds are generally the most liquid during the period right after issuance when the typical bond has the highest trading volume.
- It is often reflected in wider spread between the bid and offer price of the bond.