Investment Product Guide- Equity Options

I have read the Investment Product Guide of the above product,

and I acknowledge that I understand its features and risks.

Signature: ______________

Print Name: ______________

Date: _______________

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Overview

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Derivatives, such as options, are commonly used in Structured Products.

What is an Option?

- A contract that provides the buyer the right, but not the obligation, to buy or sell a pre-defined amount and at a pre-determined price of a specific security within a predetermined time period.
- Conversely, the seller is obliged to buy or sell a pre-defined amount and at a pre-determined price of a specific security within a predetermined time period.

Types of Options Commonly Used in Structured Products

- Asian – With averaging. Options whose payoffs depend on the average value over a period of time.
- Quanto – Option currency different to underlying currency. Payout is in different currency to the underlying option.
- Cliquet – Payoff depends on periodic reset feature.
- Knock-in, Knock-out – Option's existence depends on certain level being reached.
- Callable – Investment can be called by Issuer.
- Auto-Callable – Investment must be called by Issuer if certain condition being met.
- Spread – Payoff linked to relative performance of one underlying versus another.

Equity Options

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Covered-Call Option

Product Features:

- Covered-Call option is a short term income generation strategy, usually 1-month to 3-months.
- By selling the Covered-Call option, investors receive upfront premium in exchange for a commitment to SELL the underlying stock at maturity at a pre-determined price.
- Investors will be obliged to SELL the shares at maturity, only if the underlying stock closes <u>ABOVE</u> the pre-determined price.
- Covered-Call option is NOT a downside protection strategy.

Suitability:

- Suitable for investors who have a neutral to slightly Bearish view on the underlying shares and believe that selling the underlying stock at the pre-determined strike price provides a good exit opportunity.

Worst-case scenario:

- When the share trades above the pre-determined strike price, investors are obliged to sell the underlying share at the strike price and will incur a loss which may be substantial.

Risk Factors:

- Product is NOT principal protected.
- Investors are unable to sell the underlying stock during the tenor of the option.
- Investors are subject to the credit risk of the Bank.
- Liquidity risk as the Bank is not obliged to make secondary market
- If unwind before maturity, the unwind price is subject to a number of parameters including but not limited to the movement of stock market volatility and level of the underlying stock.

Risk Level → 5 (1 to 5, with 5 being the highest).

Equity Options

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Naked-Call Option

Product Features:

- Naked-Call option is a short term income generation strategy, usually 1-month to 3-months.
- By selling the Naked-Call option, investors receive upfront premium in exchange for a commitment to SELL the underlying stock at maturity at a pre-determined price.
- Investors will be obliged to SELL the shares at maturity, only if the underlying stock closes <u>ABOVE</u> the pre-determined price.
- Naked-Call option is NOT a downside protection strategy.
- OTC Naked-Call Option: Principal trade basis and cash settlement only
- Listed Naked-call Option: Agent trade basis and settlement through physical delivery of Shares.
  - If client cannot be reached, the bank has the right to buy-back the securities on the client's behalf at the client's cost, in order to fulfill the physical delivery requirements.
  - From investment risk perspective, client should buy-back securities before assignments of option or cover the short position by buying back the Call Option, this way client can have control over the cost or pricing of the securities rather than wait till assignment of options to buy-back
  - For some American style option, the Buyer of the option may decide to exercise any time before expiry, thus, the Seller of the option must fulfill the physical delivery

Naked-Call Option

Suitability:
- Suitable for investors who have a neutral to slightly Bearish view on the underlying shares.

Worst-case scenario:
- When the share trades above the pre-determined strike price, investors are obliged to
  - sell the underlying share at the strike price (for listed naked call option)
  - pay the difference between the final fixing price and the pre-determined strike price (for OTC naked call option)

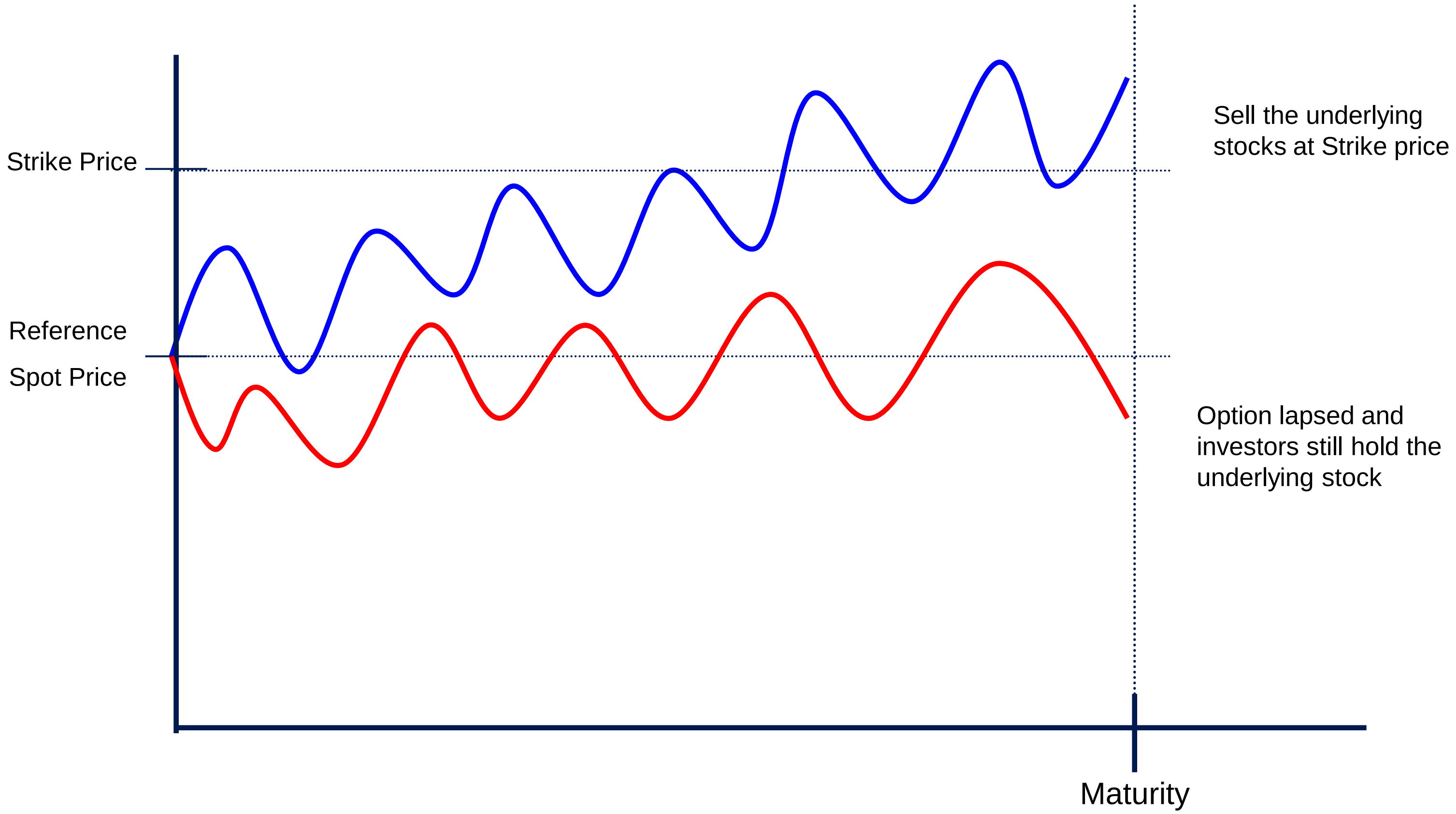
  and will incur a loss which may be substantial.

Risk Factors:
- Product is NOT principal protected.
- Investors are subject to the credit risk of the Bank if trading in an OTC Option.
- Investors will need to maintain a relevant margin with the Bank during the life of the option. The amount of margin may be adjusted upward to reflect any mark−to−market loss.
- Liquidity risk as the Bank is not obliged to make secondary market for OTC Option
- If unwind before maturity, the unwind price is subject to a number of parameters including but not limited to the movement of stock market volatility and level of the underlying stock.

Risk Level → 5 (1 to 5, with 5 being the highest).

Equity Options

Covered / Naked-Call Option



Equity Options

Covered / Naked-Call Option

Strike Price

If Final Price > Strike Price

Investors will receive the Strike Price for every share

Reference Spot Price

If Final Price =< Strike Price

Investors will be returned the “pledged” shares & option lapsed

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