Investment Financing Product Factsheet

Key Facts:

Product Name: Investment Financing

Product Nature

- Investment Financing offers the option to use Investment Loans that may be provided by us to you to invest in a wide range of eligible investment products.
- As this product involves leverage, it bears a high level of risk.
- The eligible investment products subscribed/purchased will be assigned to us as security for the Investment Loan.

Margin Ratio and Eligible Investment Products

- The Margin Ratio is the pre-defined loan ratio assigned to each eligible investment product. It is different for each eligible investment products.
- A wide selection of investment products are eligible for Investment Financing.
- At the time of the opening of your Investment Financing Account and related Investment Financing Settlement Account the Bank will provide you with the latest list of eligible investment products and their Margin ratios for your information.
- The Bank determines at its absolute discretion what investment products constitute eligible investment products from time to time and can modify the list of eligible investment products from time to time at its absolute discretion without prior notice.

Investment Loan

- An Investment Loan is a revolving loan provided by the Bank to you to purchase eligible investment products.
- The Investment Loan amount depends on the credit limit generated by the eligible investment products subscribed/purchased and the available cash in your Investment Financing Settlement Account in the relevant currency.
- If the investment product subscribed/purchased has a margin ratio of X, the credit limit would be the market value of this particular product multiplied by X. And the Investment Loan amount will be equal to the aggregation of the credit limit generated by all the eligible investment products subscribed minus all available cash balance of your Investment Financing Settlement Account in the relevant currency (subject to the ceiling limit).

Important Risk Warning
•Unit Trusts are investment products and some may involve derivatives. The investment decision is yours but you should not invest in the Unit Trusts unless the intermediary who sells it to you has explained to you that the product is suitable for you having regard to your financial situation, investment experience and investment objectives.
•Unit Trusts are NOT equivalent to time deposits.
•In the worst case scenario with Investment Financing, it could expose you to significant losses; you may incur losses in excess of your own initial funds and your investments, and you may be required to repay the Investment Loans in full.

Disclaimers:
This factsheet provides you with certain information about the key features of the Investment Financing services described below (the "Investment Financing") provided by The Hongkong and Shanghai Banking Corporation Limited (the "Bank") and forms part of the product information documents. However, this factsheet is not binding. It is intended for general reference only, does not form part of the Bank's Terms and Conditions for Investment Financing or any agreement with the Bank and is not a comprehensive summary thereof. You should not use Investment Financing based on this factsheet alone. You should read this factsheet in conjunction with the Terms and Conditions for Investment Financing (including the risk disclosure statement in Appendix 1 thereto) and other documents referred to therein.

Please refer to the Terms and Conditions for Investment Financing and other documents referred to therein for the exact terms and conditions of the Investment Financing.
Any terms used in this factsheet have the same meaning as defined in the Terms and Conditions for Investment Financing.

All terms of the Investment Financing, including the Margin Ratios, Portfolio Margin Ratio, ceiling limits, thresholds relating to Margin Calls and Forced Liquidation, and eligible investment products, are subject to the Bank's ongoing review and may change from time to time.

Remarks:
"We" / "us" are defined as The Hongkong and Shanghai Banking Corporation Limited.

Your liabilities to the Bank in relation to the Investment Financing will be secured by:

i. all cash and investment products deposited with us in connection with the Investment Financing; and

ii. all your other assets held with us

Ceiling Limit

- The ceiling limit is the Maximum Principal Amount of the Investment Loans in the relevant currency that can be granted by the Bank to you and is permitted to be outstanding in relation to the relevant Investment Financing Account.
- The Maximum Principal Amount is the lower of:
  - the aggregate amount of the market values of each specific eligible investment product held in the Investment Financing Account in a particular currency multiplied by its applicable Margin ratio; and
  - the ceiling limit for Investment Loans in the relevant currency.

Product Currency

- HKD and USD
- The currency of an Investment Loan should be the same as the currency of the underlying eligible investment product to be purchased using that Investment Loan.

Account Structure

- Two accounts should be opened for Investment Financing in a particular currency:
  - an **Investment Financing Account**: the account for holding your investments; and
  - an **Investment Financing Settlement Account**: the related cash account for (i) crediting your own cash and Investment Loans and (ii) other cash operations in connection with the Investment Financing.

  For example, if you want to purchase eligible investment products in HKD using an Investment Loan, you will need to open a HKD Investment Financing Account and a HKD Investment Financing Settlement Account.

Investment Channel

- HSBC Premier Branch and HSBC Branch

Minimum Investment and Available Operations

Investment minimum and available operations depend on the specific eligible investment product as described below:

Investment product	Minimum investment	Available operations with the investment product
Unit Trusts	Lump sum amount of own cash with minimum investment from US$1,000 / HK$10,000	Subscription and redemption (switching is not allowed)

Annualised Interest Rate

Please refer to the Investment Financing Key Facts Statement for details.

Other Fees and Charges

Other fees and charges for subscribing/purchasing the eligible investment products are set out in the relevant subscription documents that will be provided to you before entering into an Investment Financing transaction and are subject to the corresponding pricing policy of those eligible investment products defined for HSBC Premier Elite or Premier customers.

Portfolio Margin Ratio (PMR)

The Total Investment Loan Amount in a certain currency ÷ the Maximum Principal Amount for that currency.

Margin Call

A Margin Call is a notification that may be dispatched by the Bank to you if:

- the PMR is 105% or more; or
- the Total Investment Loan Amount in any currency exceeds the applicable Maximum Principal Amount.

You must satisfy the Margin Call within 5 business days. You can satisfy a Margin Call by settling the excess amount or depositing additional cash in your Investment Financing Settlement Account to be applied towards repayment of the Investment Loans.

Force Liquidation

Forced Liquidation is the Bank's right to force liquidate (redeem) your investment holdings with a subsequent notice to you if:

- the PMR reaches or exceeds 110%; or
- you do not satisfy a Margin Call within 5 business days; or
- we consider, in good faith, that the market conditions are likely to expose you to unacceptable risk or heavy losses, including unstable, unfavorable and abnormal market conditions which the PMR may not be timely reflected ("Adverse Market Conditions").

Margin Call and Forced Liquidation Notification

Type of notification you would normally receive and actions required from you or taken by the Bank:

105% <= PMR < 110% | Margin Call

- A SMS message and a phone call to alert you about the Margin Call.
- You must satisfy the Margin Call within 5 business days.
- You can satisfy a Margin Call by settling the excess amount or depositing additional cash in your Investment Financing Settlement Account to be applied towards repayment of the Investment Loans.
- The Bank would not normally (but still may) give a Margin Call if the PMR has reached the Forced Liquidation level.

Please note that the Bank may still force liquidate your investment holdings if a Margin Call has been dispatched by the Bank but for some reason has not been received by you. You should regularly check your compliance with the margin requirements under the Terms and Conditions for Investment Financing and whether you have received any Margin Call.

PMR >= 110%;
or
Margin Call not satisfied within the required timeline;
or
Under Adverse Market Conditions | Forced Liquidation

- A SMS message sent *after* the Forced Liquidation.
- Investment holdings may be force liquidated by the Bank.

Statements

You will receive transaction statements after (among other things) an Investment Loan is granted to you and monthly statements summarizing operations on your Investment Financing Accounts and Investment Financing Settlement Accounts and the value of your portfolio.

Eligibility Requirements

Elements	Details
Age	18-64
Eligible Customers	Premier Elite or Premier Customers
Risk Tolerance	You must have speculative risk tolerance or adventurous risk tolerance and the result of your Risk Profile Questionnaire must be level 5 or level 4
Investment Financing Knowledge & Experience	You must have Investment Financing knowledge or experience
Enrollment in eAlerts Service	You must have a valid mobile phone number and enrol in eAlerts Service to receive margin call and force sale notification

Illustration Analysis

How does HSBC's Investment Financing work?

Below are some examples showing certain possible scenarios when using Investment Financing.
These examples are for illustration only, are not exhaustive and do not represent all possible real-life scenarios and associated risks.

In particular, the examples illustrating the calculation of the Investment Loan amount and maximum subscription/purchase amount do not cover all the factors that may be taken into account by the Bank for this purpose (for example, subscription fees and charges are excluded in the calculation) and the Bank has absolute discretion to refuse granting an Investment Loan or reduce its amount.

Each example below is stand-alone and assumes no other Investment Loans have been made and the Maximum Principal Amount requirement detailed above in this factsheet is complied with.

1. Determining the Investment Loan amount

1.1 Own cash and Margin Ratio are taken into account when determining the Investment Loan amount and the maximum subscription amount.

Unit Trusts Financing Settlement Account with cash holdings	
Existing cash balance:	HK$10,000
Purchase an eligible unit trust fund with a Margin Ratio of 60%*	
Maximum amount of eligible investment products to be subscribed for:	HK$25,000 (HK$10,000 ÷ (1-60%))
Credit limit generated from this transaction:	HK$15,000 (HK$25,000 x 60%)
Possible Investment Loan amount**:	HK$15,000

1.2 Own cash, existing investment holdings and Margin Ratio are taken into account when determining the Investment Loan amount and the maximum subscription amount.

Unit Trusts Financing and Settlement Accounts with Cash and Investment Holdings	
Market value of investment holding:	HK$50,000
Margin Ratio of the investment holding:	50%
Credit limit generated by the investment holding:	HK$25,000 (HK$50,000 x 50%)
Existing cash balance:	HK$10,000
Purchase an eligible unit trust fund with a Margin Ratio of 60%*	
Maximum amount of the eligible investment products to be subscribed for:	HK$87,500 ((HK$10,000 + HK$25,000) ÷ (1-60%))
Credit limit generated from this transaction:	HK$52,500 (HK$87,500 x 60%)
Possible Investment Loan amount**:	HK$77,500 (HK$87,500 – HK$10,000)

1.3 Existing investment holdings and Margin Ratio are taken into account when determining the Investment Loan amount and the maximum subscription amount.

Unit Trusts Financing Account with Investment Holdings	
Market value of investment holding:	HK$50,000
Margin Ratio of the investment holding:	50%
Credit limit generated by the investment holding:	HK$25,000 (HK$50,000 x 50%)
Existing cash balance:	-HK$10,000 (loan amount of HK$10,000)

*Purchase the eligible unit trust fund with a Margin Ratio of 60%**	
Maximum investment amount of the eligible investment products to be subscribed:	HK$37,500 ((HK$25,000- HK$10,000) ÷ (1-60%))
Credit limit generated from this transaction:	HK$22,500 (HK$37,500 x 60%)
Possible Investment Loan amount**:	HK$47,500 (HK$37,500 + HK$10,000)

*In this example the Margin Ratio is only used for the purposes of the Maximum Principal Amount calculation.

**Calculation of interest charges which depends on the length of loan, is excluded in the above illustration

2. How to calculate the Portfolio Margin Ratio for investment holdings of different margin ratios?

Example (for illustration only	Margin Ratio:	Market Value of the Investment Holdings (HK$)	Lending Limit (HK$)
Asset A	60%	$10,000	$6,000
Asset B	50%	$10,000	$5,000
Asset C	40%	$10,000	$4,000
Total		$30,000	$15,000

Assuming that the current loan amount taken is $15,000 in the Investment Financing Account and the ceiling limit has not been exceeded, the Portfolio Margin Ratio would be calculated as below:

Portfolio Margin Ratio (PMR) = Total Investment Loan Amount ÷ Maximum Principal Amount (being in this case the aggregate amount of the market values of each specific eligible investment product held in the HKD Investment Financing Account multiplied by their applicable Margin Ratios)

= $15,000 ÷ [($10,000 x 60%) + ($10,000 x 50%) + ($10,000 x 40%)]

= 100%

3. Comparing Investment Financing and own cash-only transactions.

Below are the two examples assuming that:

- you purchase a unit trust with a Margin Ratio of 60% and the current **Best Lending Rate is 5.00%;** and
- own cash and Margin Ratio are taken into account when determining the Investment Loan amount and the maximum subscription amount.

3.1. What is the benefit of using Investment Financing over regular investment in favorable market conditions?

	HSBC's Investment Financing	Own cash investment
Your available own cash	HK$10,000	HK$10,000
Current unit price of the eligible unit trust fund	HK$1.00	HK$1.00
Total value of the eligible unit trust fund you can purchase	HK$25,000 (10,000 ÷ (1-60%))	HK$10,000
Number of units purchased	25,000	10,000
Possible Investment Loan amount	HK$15,000 (HK$25,000 - HK$10,000)	0
Portfolio Margin Ratio (PMR)	100% ((HK$25,000 - HK$10,000) ÷ (HK$25,000 x 60%))	N/A
Assume that the market value of the unit trust fund increases by 20%		
Latest unit price of the eligible unit trust fund	HK$1.20	HK$1.20
Total value of your purchased unit trust fund	HK$30,000 (25,000 x HK$1.2)	HK$12,000 (10,000 x HK$1.2)
Profit after redemption	HK$5,000 (HK$30,000 - HK$25,000)	HK$2,000 (HK$12,000 - HK$10,000)
Interest cost	HK$372 (HK$15,000 x 2.48%)*	0
Portfolio Margin Ratio (PMR)	85% ((HK$15,000 + HK$372) ÷ (HK$30,000 x 60%))	N/A
Return on investment	46% ((HK$5,000 – HK$ 372) ÷ HK$10,000))	20% (HK$2,000 ÷ HK$10,000)

*Assuming the current best lending rate is 5.00%, the actual interest rate would be 5.00% - 2.52% = 2.48%, the loan holding period is 1 year

3.2 What is the consequence of using Investment Financing over regular investment in adverse market conditions?

	HSBC's Investment Financing	Own cash investment
Your available own cash	HK$10,000	HK$10,000
Current unit price of the eligible unit trust fund	HK$1.00	HK$1.00
Total value of the eligible unit trust fund you can purchase	HK$25,000 (10,000 ÷ (1-60%))	HK$10,000
Number of units purchased	25,000	10,000
Possible Investment Loan amount	HK$15,000 (HK$25,000 - HK$10,000)	0
Portfolio Margin Ratio (PMR)	100% ((HK$25,000 - HK$10,000) ÷ (HK$25,000 x 60%))	N/A
Assume that market value of the unit trust fund decreases by 40%		
Latest unit price of the eligible unit trust fund	HK$0.60	HK$0.60
Total value of your purchased unit trust fund	HK$15,000 (25,000 x HK$0.6)	HK$6,000 (10,000 x HK$0.6)
Loss after redemption	HK$10,000 (HK$25,000 - HK$15,000)	HK$4,000 (HK$10,000 - HK$6,000)
Interest cost	HK$372 (HK$15,000 x 2.48%)*	0
Portfolio Margin Ratio (PMR)	171% ((HK$15,000 + HK$372) ÷ (HK$15,000 x 60%))	N/A
Return on investment	-104% ((-HK$10,000 – HK$ 372) ÷ HK$10,000))	-40% (-HK$4,000 ÷ HK$10,000)

*Assuming the current best lending rate is 5.00%, the actual interest rate would be 5.00% - 2.52% = 2.48%, the loan holding period is 1 year

In order to bring down the PMR to 100% or less, the unit trusts will be force liquidated. After the unit trusts have been sold with entire redemption proceeds to repay the investment loan, there is still an outstanding loan position of HK$372 (HK$15,000 of investment loan amount + HK$372 of interest cost - HK$15,000 of redemption proceeds) and we will have the right to sell, enforce and/or set-off any other asset or properties deposited in your various Accounts with us as defined in the HSBC's Integrated Account Terms and Conditions and take any other legal action we consider appropriate to ensure repayment of this amount by you to us.

Below are the two examples assuming that:

- you purchase a unit trust with a Margin Ratio of 60% and the current **Best Lending Rate is 6.00% (1.00% above the Best Lending Rate quoted in previous two examples);** and
- Own cash and Margin Ratio are taken into account when determining the Investment Loan amount and the maximum subscription amount.

3.3 What is the benefit of using Investment Financing over regular investment in favorable market conditions with interest rate increase of 1.00%?

	HSBC's Investment Financing	Own cash investment
Your available own cash	HK$10,000	HK$10,000
Current unit price of the eligible unit trust fund	HK$1.00	HK$1.00
Total value of the eligible unit trust fund you can purchase	HK$25,000 (10,000 ÷ (1-60%))	HK$10,000
Number of units purchased	25,000	10,000
Possible Investment Loan amount	HK$15,000 (HK$25,000 - HK$10,000)	0
Portfolio Margin Ratio (PMR)	100% ((HK$25,000 - HK$10,000) ÷ (HK$25,000 x 60%))	N/A

Assume that the market value of the unit trust fund increases by 20%		
Latest unit price of the eligible unit trust fund	HK$1.20	HK$1.20
Total value of your purchased unit trust fund	HK$30,000 (25,000 x HK$1.2)	HK$12,000 (10,000 x HK$1.2)
Profit after redemption	HK$5,000 (HK$30,000 - HK$25,000)	HK$2,000 (HK$12,000 - HK$10,000)
Interest cost	HK$522 (HK$15,000 x 3.48%)*	0
Portfolio Margin Ratio (PMR)	86% ((HK$15,000 + HK$522) ÷ (HK$30,000 x 60%))	N/A
Return on investment	44.7% ((HK$5,000 – HK$ 522) ÷ HK$10,000))	20% (HK$2,000 ÷ HK$10,000)

*Assuming the current best lending rate is 6.00%, the actual interest rate would be 6.00% - 2.52% = 3.48%, the loan holding period is 1 year

3.4 What is the consequence of using Investment Financing over regular investment in adverse market conditions with interest rate increase of 1.00%?

	HSBC's Investment Financing	Own cash investment
Your available own cash	HK$10,000	HK$10,000
Current unit price of the eligible unit trust fund	HK$1.00	HK$1.00
Total value of the eligible unit trust fund you can purchase	HK$25,000 (10,000 ÷ (1-60%))	HK$10,000
Number of units purchased	25,000	10,000
Possible Investment Loan amount	HK$15,000 (HK$25,000 - HK$10,000)	0
Portfolio Margin Ratio (PMR)	100% ((HK$25,000 - HK$10,000) ÷ (HK$25,000 x 60%))	N/A

Assume that market value of the unit trust fund decreases by 40%		
Latest unit price of the eligible unit trust fund	HK$0.60	HK$0.60
Total value of your purchased unit trust fund	HK$15,000 (25,000 x HK$0.6)	HK$6,000 (10,000 x HK$0.6)
Loss after redemption	HK$10,000 (HK$25,000 - HK$15,000)	HK$4,000 (HK$10,000 - HK$6,000)
Interest cost*	HK$522 (HK$15,000 x 3.48%)*	0
Portfolio Margin Ratio (PMR)	172% ((HK$15,000 + HK$522) ÷ (HK$15,000 x 60%))	N/A
Return on investment	-105% ((-HK$10,000 – HK$ 522) ÷ HK$10,000))	-40% (-HK$4,000 ÷ HK$10,000)

*Assuming the current best lending rate is 6.00%, the actual interest rate would be 6.00% - 2.52% = 3.48%, the loan holding period is 1 year

In order to bring down the PMR to 100% or less, the unit trust will be force liquidated. After the unit trusts have been sold with entire redemption proceeds to repay the investment loan, there is still an outstanding loan position of HK$522 (HK$15,000 of investment loan amount + HK$522 of interest cost - HK$15,000 of redemption proceeds) and we will have the right to sell, enforce and/or set-off any other asset or properties deposited in your various Accounts with us as defined in the HSBC's Integrated Account Terms and Conditions and take any other legal action we consider appropriate to ensure repayment of this amount by you to us.

What are the Key Risks?

Price volatility and the underlying liquidity of the investments financed by your Investment Loan.
Below is a non-exhaustive list of the key risks associated with Investment Financing. Prior to subscribing to our Investment Financing services you should read the risk disclosure below, ask questions and take independent advice if you so wish.

1. General risk of securities trading

The prices of securities vary, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that you will incur losses rather than making profit when buying or selling securities.

2. Risks associated with margin requirements

You must provide us with an initial cash amount before subscribing for your investment. The required amount of initial cash is determined by us and can be varied by us from time to time, in our absolute discretion. Any cash and securities deposited with us will be charged, pledged and/or assigned to us. If the Portfolio Margin Ratio for your investment exceeds a certain level (e.g. because of a decrease of value of your investment), we may request you to provide additional cash on short notice or sell securities to repay all or part of the Investment Loan ("margin call"). The amount of additional cash that we may request you to provide us may be substantial and exceed the amount of initial cash deposited with us. While any Investment Loan provided by us to you remains outstanding, you may be restricted from selling or otherwise dealing with any cash or investments deposited with us.
If you do not act promptly upon receiving of a margin call notice and do not take the required actions (such as selling securities and/or repaying the Investment Loans) within the prescribed time, we may have various rights, including the right to sell part or all of your investments, as well as to exercise set-off in relation to any cash that you have deposited with us in connection with your investments ("forced sale"), even in adverse market conditions. You will bear all losses and may remain liable to repay us any resulting deficit in your account (including interests) and any other amounts due from you to us.
Financing your investment with an Investment Loan could expose you to significant losses. As a result of adverse market movements, you may incur losses in excess of your own initial funds and your investments, and you may be required to repay the Investment Loans in full.
We may have the right to sell, at our absolute discretion, part or all of any of your investments and/or appropriate and/or dispose of part or all of the cash or other assets deposited with us and take any other legal action, without notice or demand. For example, we may have such right when due to adverse market conditions the market value of your investments drops significantly and/or your investments cease to be eligible for Investment Financing and/or we need to cover any shortfall and/or reduce your potential exposure to unacceptable risks or heavy losses and/or where you have not complied with your obligations in relation to Investment Financing.

3. Risk of using leverage

The high degree of leverage in connection with Investment Financing transactions can lead to large losses (e.g. in the event we have to force sell your investment) as well as gains.
The higher your leverage is, the bigger your losses can be in adverse market conditions.

4. Interest rate risk

Interest rate fluctuations may have an adverse impact on the value of your investments. In addition, where the interest rates by reference to which interests on your Investment Loan are calculated fluctuate, this may adversely affect the return on your investments. In particular, the cost of borrowing may be equal to or exceed the actual return on your investments.

5. Liquidity risk

Investing in certain products may present liquidity risk as under certain market conditions you may have difficulties to sell your investments. In the event we have to force sell your investments, the price at which such sale is concluded may also be affected where there is no or little liquidity in the market for your investments and/or collateral.

6. Commissions, Fees and Charges

You should familiarize yourself with commissions, fees and charges for which you will be liable under Investment Financing transactions as they may affect your net profit (if any) or increase your loss.

Investment Financing Illustrative Guide

Do you know:

1. Investment Financing (IF) benefits
2. Key risks
3. Potential gain & loss with IF

1. Investment Financing benefits

- Higher potential yields and returns from investment with leverage
- Greater investment flexibility by having access to loan facility without additional approval required
- Wide range of eligible funds to meet income and yield enhancement objectives

2. Key risks

1. General risk of securities trading
2. Risks associated with margin requirements
3. Risk of using leverage
4. Interest rate risk
5. Liquidity risk
6. Commissions, Fees and Charges

For details, please refer to product factsheet

3. Potential gain & loss with IF

Assumptions: investment and loan horizons of 1 year, margin ratio of 70%, customer does not fully utilize the loan and invests with a 60% margin ratio (i.e. the loan amount is 60% of the total investment amount), fund dividend yield of 4% p.a, loan interest rate of 1.38% p.a, initial unit price of UT: US$1, other fund management and administrative / subscription fees are excluded

Scenario 1 – Unit price of UT remains unchanged

US$2,500,000 (US$1,000,000 + US$1,500,000)
Cash investment + Investment loan

Portfolio Margin Ratio (PMR)* = US$1,500,000 ÷ (US$2,500,000 x 70%) = 85.7%

US$100,000 (US$2,500,000 x 4%)	–	**US$20,700** (US$1,500,000 x 1.38%)	=	**7.9%** (US$100,000 - US$20,700) ÷ US$1,000,000
Annual dividend		Interest cost		Return on investment

Portfolio Margin Ratio (PMR)* = (US$1,500,000 + US$20,700) ÷ (US$2,500,000 x 70%) = 86.9%

Scenario 2 – Unit price of UT rises by 5%

US$79,300 (US$100,000 - US$20,700)	+	**US$125,000** (2,500,000 x US$0.05)	=	**20.4%** (US$79,300 + US$125,000) ÷ US$1,000,000
Annual dividend after deducting interest cost		Profit after redemption		Return on investment

Portfolio Margin Ratio (PMR)* = (US$1,500,000 + US$20,700) ÷ (US$2,625,000 x 70%) = 82.8%

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Scenario 3 – Unit price of UT decreases by 5%

US$79,300 (US$100,000 - US$20,700)		**US$125,000** (2,500,000 x US$0.05)		**- 4.6%** (US$79,300 - US$125,000) ÷ US$1,000,000
Annual dividend after deducting interest cost	–	Loss after redemption	=	Return on investment

Portfolio Margin Ratio (PMR)* = (US$1,500,000 + US$20,700) ÷ (US$2,375,000 x 70%) = 91.5%

* In order to monitor outstanding margin positions, portfolio's risk and Bank's credit exposure, Margin call / Force Liquidation procedures are triggered when "Portfolio Margin Ratio" (PMR) (i.e. Total Investment Loan Amount ÷ Maximum Principal Amount) for individual IF account reaches 105%, 110% respectively. Annual dividend is excluded from PMR calculation in these scenarios.

Investment return projection in Upside and Downside scenarios

Upside scenario	Margin Ratio (MR)	Without IF Annualized return	With IF	
			Invest at MR of	Investment return*
Unit Trust A	80%	10%	70%	30.1%
Unit Trust B	70%		60%	22.9%
Unit Trust C	60%		50%	18.6%

Downside scenario	Margin Ratio (MR)	Without IF Annualized return	With IF	
			Invest at MR of	Investment return*
Unit Trust A	80%	-10%	70%	-36.6%
Unit Trust B	70%		60%	-27.1%
Unit Trust C	60%		50%	-21.4%

Note:
Under margin ratio 80%, investing at margin ratio of 70% means customer does not fully utilize the loan and the loan amount is 70% of the total investment amount
Other fund management and administrative / subscription fees are excluded for easier calculation

- Higher potential returns with IF in Upside Scenario
- Higher potential losses with IF in Downside Scenario

* Included loan interest rate of 1.38% p.a

Investment Financing Illustrative Guide

Additional Information:

a. Margin call framework
b. Illustration of margin call buffer under different Margin Ratios (MR)
c. Illustration on Portfolio Margin Ratio (PMR) under Margin Call Status

a. Margin call framework

Type of notification you would normally receive and actions required from you in different Margin Call Scenarios

Type	When your Portfolio Margin Ratio (PMR) reaches to	Your action	Type of notification
Margin Call	105% ≤ PMR < 110%	Satisfy the Margin Call by settling the excess amount within 5 business days	SMS message and a phone call to alert you about the Margin Call
Forced Liquidation	PMR ≥ 110% / not satisfy a Margin Call by settling the excess amount within 5 business days	N/A	SMS message to inform you after the Forced Liquidation

b. Illustration of margin call buffer under different Margin Ratios

Example of IF with 80% MR

Invest at a MR of:	50%	60%	70%	80%	Margin status	Condition
Buffer*	40%	28%	16%	4%	Margin call	105% ≤ PMR < 110%
	43%	31%	20%	9%	Forced liquidation	PMR ≥ 110%

Example of IF with 70% MR

Invest at a MR of:	50%	60%	70%	Margin status	Condition
Buffer*	31%	18%	4%	Margin call	105% ≤ PMR < 110%
	35%	22%	9%	Forced liquidation	PMR ≥ 110%

Disclaimer: Other fees e.g. fund management and administrative / subscription fees are excluded for simple calculation

- Under Unit Trusts with a margin ratio of 80% (i.e. the maximum loan amount is 80% of the total investment amount), if you invest in a 70% margin ratio (i.e. the loan amount is 70% of the total investment amount), the buffer to trigger margin call is 16%.

Note:
*Buffer (round down to the nearest integer) means when the unit price drops within that level, pre-margin call/ margin call/ force liquidation will not be triggered
Under margin ratio 80%, investing at a margin ratio of 50%, 60%, 70% means that customer does not fully utilize the loan.
Under margin ratio 70%, investing at a margin ratio of 50%, 60% means that customer does not fully utilize the loan.

Change in Margin Ratio

The Margin Ratios of unit trusts are subject to ongoing review and the Bank may make changes to the Margin Ratios from time to time in accordance with the Terms and Conditions for Investment Financing.

Customers holding multiple unit trusts, may be less the impacted on margin ratio downward adjustments.

HSBC

c. Illustration on Portfolio Margin Ratio under Margin Call Status

Your available own cash: US$1,000,000
Current unit price of the eligible unit trust fund: US$1
Margin ratio: 70%
Investing at margin ratio of 60% (i.e. the loan amount is 60% of the total investment amount)
Number of units purchased: 2,500,000
Dividend is not included in this example

US$1,000,000	+	**US$1,500,000**	=	**US$2,500,000**
Cash investment		Investment loan		Gross investment

Portfolio Margin Ratio (PMR): (US$1,500,000 ÷ (US$2,500,000 x 70%) = 85.7%

Assume that market value of the unit trust fund decreases by 20%

US$2,000,000
(2,500,000 x US$0.8)
New market value of unit trust holding

-US$520,700 -(US$500,000 + US$20,700)	=	**-52.1%** (-US$520,700 ÷ US$1,000,000)
Loss after redemption and interest cost*		Return on investment

Portfolio Margin Ratio (PMR) = (US$1,500,000 + US$20,700) ÷ (US$2,000,000 x 70%) = 108.6%

Bring down the PMR to 100% or less

1. Deposit additional cash

[**US$1,520,700**	–	**US$120,700** (US$1,520,700) - (US$2,000,000 x 70%)]	÷	**US$1,400,000** (US$2,000,000 x 70%)	= **100%**
Loan amount		Deposit additional cash		Maximum Principal Amount	

or

2. Redemption

[**US$1,520,700**	–	**US$402,333** [(US$120,700 ÷ (1 - 70%)]]	÷	**US$1,118,367** [(US$2,000,000 - US$402,333) x 70%]	= **100%**
Loan amount		Redemption of eligible unit trust		Maximum Principal Amount	

*Assuming the current best lending rate is 2.5%, the actual interest rate would be 2.5% - 1.12% = 1.38%, the loan holding period is 1 year

In order to bring down the PMR to 100% or less to satisfy the Margin Call by settling the excess amount within 5 business days, you can deposit additional cash of US$120,700 in your Investment Financing Settlement Account or redeem eligible unit trust fund of US$420,333 to be applied towards repayment of the Investment.

Remarks:
This Investment Financing Illustrative Guide provides a high level overview of the potential impact of Investment Financing on your investments. It must be read together with our Terms and Conditions, and Product Factsheet on Investment Financing. You must understand and acknowledge the risks of investing with leverage, including being subject to margin calls and forced liquidation.
This service is subject to customer needs and appropriate assessment(s). This service is only available to clients holding a valid and appropriate Risk Profiling Questionnaire, and only available in the branch. In the worst case scenario with Investment Financing, it could expose you to significant losses; you may incur losses in excess of your own initial funds and your investment, and you may be required to repay the Investment Loans in full.

"To borrow or not to borrow? Borrow only if you can repay!"

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