Investment Insights

About: Equity-Linked Notes (ELNs)? How can they be used?

An Equity-Linked Note is a structured note linked to a share. A typical ELN is purchased at 100% of the Nominal Amount and offers investors an enhanced yield in a Fixed Coupon amount at Maturity. On the Maturity Date, depending on where the Final Share Price of the Share is at, above or below the Strike Price, the investor would receive a Redemption Amount in the form of either cash or physical delivery of the Share (valued at a predetermined Strike Price). Investors can use ELNs to attempt to enhance yield in a portfolio relative to deposit rates or use ELNs to attempt to identify entry points into targeted stocks below the current market price.

What are some of the key risks associated with ELNs?

Price: Stock price fluctuates, investors therefore hold the risk of the stock price going below the strike price and the ELN is converted.

Coupon: If the share market is typically illiquid – Before maturity, bid prices may be available only on a selective basis and are likely to be unattractive.

Potential Capital Loss: Not from the ELN but from the stock in the event of exercise.

How do they work?

On the Maturity Date, one of the following two scenarios would result:

(1) If the Final Share Price of the Share equals to or is greater than the predetermined Strike, investors will receive physical delivery of the Share. The number of physical shares the investors receive per Note will equal to the Denomination per Note divided by the predetermined Strike rounded down to the whole number, as decided by the Calculation Agent. Fractional shares may result in delivery of cash in addition to the shares at the issuer’s option. Investors will be responsible for any stamp duty and fees on the share transfer in relation to the delivery of shares by the issuer.

Hypothetical example:

<table>
<thead>
<tr>
<th>Tenor of Note: 32 Days</th>
<th>Initial Share Price: US$50.00</th>
<th>Denomination Per Note: US$10,000</th>
<th>Number of Notes: 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Stock (Current Share Price)</td>
<td>104.00</td>
<td>Strike Price: US$45.00 (90% of Initial Share Price)</td>
<td>Fixed Coupon: US$100 (1% or 11.41% p.a.)</td>
</tr>
<tr>
<td>Cash</td>
<td>10,166.00</td>
<td>344.44</td>
<td>US$100</td>
</tr>
<tr>
<td>Cash</td>
<td>10,166.00</td>
<td>344.44</td>
<td>NA</td>
</tr>
<tr>
<td>Cash</td>
<td>10,166.00</td>
<td>344.44</td>
<td>US$100</td>
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<tr>
<td>Scenario 1: Worst Case Scenario</td>
<td></td>
<td></td>
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</tbody>
</table>

Investors may lose all their initial investment in the event of:

(i) issuer default; or
(ii) if the Closing Share Price is zero on the Final Valuation Date.

Scenario 2: Closing Share Price on Final Valuation Date ≥ Strike

Redemption in CASH and FIXED COUPON

Denomination per Note = US$10,000 (in cash)

i.e. 100% Denomination per Note + 1% Fixed Coupon

= (100% + 1%) x US$10,000 = US$10,100

Return: (Redemption Amt – Initial Invested Amt)

= (US$10,100 – US$10,000) = US$100

Annualized Yield to Maturity

= [(US$100/ US$10,000) / 32] x 365 = 11.41% (rounded to 2 decimal place)

Source: Citibank N.A., Singapore Branch, Regional Wealth Management.

Scenario 3: Breakeven price of the Share

Redemption by physical delivery of the SHARE and FIXED COUPON

Denomination per Note = US$10,000 (in cash)

Fixed Coupon = (1% x US$10,000) = US$100

Redemption by way of physical delivery of Share per Note = (Denomination per Note / Strike Price)

= (US$10,000 / US$45.00) = 222 Shares (rounded down to the nearest whole number)

Fractional cash amount = Final Share Price x The Fractional Amount = US$44.55 x 0.222

= US$9.90 (rounded to the nearest 2 decimal places with 0.005 or more rounded upwards)

Return per note: If investor decides to sell the Share at market price (e.g. US$44.55) immediately,

Proceeds from selling the Shares + Fixed Coupon + Fractional cash amount – Denomination per Note

= (US$44.55 x 222) + US$100 + US$9.90 - US$10,000 = US$0 (Return).

In this scenario, the investor has reached the break-even point whereby he will not make neither a profit nor a loss through his investment.

Scenario 4: Closing Share Price on Final Valuation Date < Strike

Redemption by physical delivery of the SHARE and FIXED COUPON

Denomination per Note = US$10,000 (in cash)

Fixed Coupon = (1% x US$10,000) = US$100

Redemption by way of physical delivery of Share per Note = (US$10,000/US$45.00)

= 222 Shares (rounded down to the nearest whole number)

Fractional cash amount = Final Share Price x The Fractional Amount = US$42.00 x 0.222

= US$9.33 (rounded to the nearest 2 decimal places with 0.005 or more rounded upwards)

Return per note: If investor decides to sell the Share at market price (e.g. US$42.00) immediately,

Proceeds from selling the Shares + Fixed Coupon + Fractional cash amount – Denomination per Note

= (US$42.00 x 222) + US$100 + US$9.33 - US$10,000 = US$566.67 (loss).

Total Loss = US$566.67 / US$10,000 = -5.67% (rounded to 2 decimal place)

In this scenario, the unrealized loss (or realized loss should the investor sell the Underlying at the market price) to the investor would be -US$567.00.

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