Product Features

A bond is a long-term debt security where the bond issuer (the borrower) issues the bond for purchase by the bondholder (the lender). It is known as a fixed income security, as a bond usually gives the investor a regular or fixed return. Non-payment in full, be it principal or coupon constitutes to a default.

When you invest in a bond, you are essentially lending a sum of money to the bond issuer. In return, you are usually entitled to receive

- **Interest payments** (coupon) at scheduled intervals; and
- **Capital repayment** of your initial principal amount at an agreed date in the future (maturity date).

Typical bond issuers include:

- Government/Government Agencies
- Banks
- Non-bank financial institutions
- Corporations

What is Bond Quality?

Before you make an investment decision to invest in a bond, it is important to consider the **quality** of the bond (or the creditworthiness of the issuer). You can do that by looking at its assigned bond rating. This is a credit rating given to the bond by specialized rating agencies, after they have reviewed the issuer's financial condition and debt repayment ability.

Which Bond is Suitable to You?

Depending on your risk appetite, when making your investment decision you may choose to invest either an investment-grade bond, or a high-yield bond.

- An **investment-grade bond** is a more secure investment and should give you stable source of investment income.
- A **high-yield bond** pays relatively higher return but carries with it a higher risk of default – and will therefore require closer monitoring.

However, in all cases, the repayment of bonds is always subject to the creditworthiness of the particular issuer.

WARNING: This investment is not a deposit. Do not invest in bonds unless you fully understand and are willing to assume the risks associated with it. If you are in any doubt about the risks involved in bonds, you may seek independent professional advice. The investment decision is yours and you are advised to exercise caution in making any investment decision, including understanding the extent of your exposures to loss of your initial investment with regards to your financial situation, investment experience and investment objectives. This document contains a brief summary of some (and NOT ALL) of the bond features and risk disclosures and is not meant to be an exhaustive summary. The contents of this document have not been reviewed by any regulatory authority. The use of a specific term in relation to bonds by one issuer may not be exactly the same as the use of the same term by a different issuer even if the structure of the bond in relation to which it is used may be similar or virtually identical. There may be seemingly minor differences in the definitions of such terms for different issuers which may result in significant differences in investment calculations and outcomes. As such, you should refer to the relevant Product Documentation for each issuer to ascertain the correct interpretation of such terms.

Why Invest in Bonds?

1. **Higher returns than bank deposits** – bonds typically pay a higher yield (return) than bank deposits of a similar term (tenor). Note however that bonds carry higher risks than those associated with bank deposits.
2. **Regular Income** – except for zero-coupon bonds, issues are bound by the terms of the bond to pay out regular coupon income to bondholders (subject to credit risk of the issuer).
3. **Hedge against inflation** – with proper bond selection, you may potentially earn an investment return which keeps pace with or even exceed the inflation rate.
4. **Capital appreciation** – like all instruments traded in the secondary market, the price of bonds can appreciate (or depreciate) over and above (or below) the initial purchase price, and allow you to realize capital gains (or capital losses).

Definition of Terms

Accrued Interest

This is the portion of interest that is earned from the last coupon payment of the bond to the date you purchase/sell the bond from/to the open market. This amount of interest must be paid/received by you to/from the sellers/buyers of the bond, in addition to the market price.

Coupon Frequency

Coupon payments are made at regular intervals and may be quarterly, semi-annually. The coupon reflected is usually quoted in annual terms. You should divide the coupon stated by the number of intervals to obtain the actual return received at each payment.

What are the Risks?

In the investment world, risk refers to an uncertain return on your investment. When you make an investment, you may lose your money, or at least not see any gains. Generally, people try to match their desired return with an acceptable level of risk.

The description of the investment risks that follows is not, and does not purport to be, exhaustive. You must understand bonds and their associated risks before making the decision to invest.

Call Risk

Bonds with call features might be called by the issuer, exposing the investor to reinvestment risk and/or lower returns.

Credit Risk/Default Risk

An investor may experience losses due to a borrower's failure to pay principal and/or interest in a timely manner on instruments such as bonds, loans, or other forms of security which the borrower issued. This inability of the borrower to make good on its financial obligations may have resulted from adverse changes in its financial condition thus lowering credit quality of the security and consequently lowering the price (market/price risk) which contributes to the difficulty in selling such security. It also includes risk on a counterparty (a party the investor trades with) defaulting on a contract to deliver its obligation either in cash or securities. This is the risk of losing value in your investment in the event the borrower defaults on his obligation or in case a counterparty fails to deliver on the agreed trade. This decline in value happens because the default/failure would make the price of the security go down and may make the security difficult to sell. As these happen, your investment will be affected by a decline in value.

You should take note of the credit ratings of bond issuers. Issuers with credit ratings below BBB- (S&P & Fitch-IBCA) of Baa (Philratings) are of non-investment grade and have ratings that are speculative grade. If you own such bonds, you may face the risk of the issuer being unable to make interest or principal payments when due. In addition, changes in the ratings outlook or in the actual credit ratings of a bond might also impact its value.

Country Risk

An investor may experience losses arising from investments in securities issued by/in foreign countries due to the political, economic and social structures of such countries. There are risks in foreign investments due to the possible internal and external conflicts, currency devaluations, foreign ownership limitations and tax increases of the foreign country involved which are difficult to predict but must be taken into account in making such investments.

Interest Rate Risk

An investor may experience losses due to changes in interest rates. The purchase and sale of a debt instrument may result in profit or loss because the value of a debt instrument changes inversely with prevailing interest rates. Your investment, when marked-to-market, is affected by changes in interest rates thereby affecting the value of fixed income investments such as bonds. Interest rate changes may affect the prices of fixed income securities inversely, i.e. as interest rates rise, bond prices fall and when interest rates decline, bond prices rise. As the prices of bonds adjust to a rise in interest rates, the value of your investment may decline.

Foreign Exchange Risk

An investor may experience losses due to fluctuations in foreign exchange rates. The exchange rates depend upon a variety of global and local factors, e.g., interest rates, economic performance, and political developments. There is that risk in currency fluctuations when the value of investments in securities denominated in currencies other than his base currency depreciates. Conversely, it is the risk of the investment to lose value when the base currency appreciates. The value of a trust fund invested in foreign currency-denominated securities may decrease to incur loss when the peso appreciates.

Legal Risk

The offering/selling of this instrument is subject to the laws of the Philippines. There is no assurance that any future change in the laws or regulations governing bonds will not affect the value, the level of return, cost and other commercial considerations relating to this instrument.

Liquidity Risk

An investor may experience losses due to the inability to sell or convert assets into cash immediately or in instances where conversion to cash is at a loss. These may be caused by different reasons such as trading in securities with small or few outstanding issues, absence of buyers, limited buy/sell activity or underdeveloped capital market. Liquidity risk occurs when certain securities may be difficult or impossible to sell at a particular time and which may delay or prevent the liquidation of your investment until it can be converted to cash. Even government securities which are the most liquid of fixed income securities may be subjected to liquidity risk particularly if a sizeable volume is involved.

Market/Price Risk

An investor may experience losses due to changes in market prices of securities (e.g., bonds and equities). This relates to exposure to the uncertain market value of a portfolio due to price fluctuations. It is the risk of your investment to lose value due to a decline in the prices of securities which may occur rapidly or unpredictably. The value of investments may fluctuate over a given time period because of general market conditions, economic changes or other events that impact large portions of the market such as political events, natural calamities, etc. As a result, the value of your investment may increase to make profit or decrease to incur loss.

Not Insured

Investments in bonds are not insured by the Philippine Deposit Insurance Corporation (PDIC).

Reinvestment Risks

This is associated with the possibility of having lower returns or earnings when maturing funds or the interest earnings of funds are reinvested.

Term-To-Maturity

This refers to the length of time to when the bond matures. You should note that the longer the term to maturity, the greater the risk of the bond.

Unsuccessful Book-Building

If you place an order for a bond and your size is smaller than its required minimum denomination, the Broker reserves the right to cancel the purchase order if there are insufficient orders for the bond.

Other Risks

Your account may be further exposed to the risk of any actual or potential conflicts of interest in the handling of in-house or related party transactions by EWBC. These transactions may include own-bank deposits; purchase of own-institution or affiliate obligations (stocks, mortgages); purchase of assets from or sales to own institution, directors, officers, subsidiaries, affiliates or other related interests/parties; or purchases or sales between fiduciary/managed accounts.

Client's Declaration

I/We acknowledge and understand that this document contains a brief summary of some (and not all) of the product terms, features and risk disclosures and is not meant to be an exhaustive summary and I/we understand further that East West Banking Corporation does not make any representation or warranty as to the completeness of the information contained in this document. I/We have read and understood the contents of this document. As with any financial transaction, I/we understand and agree to comply with all the regulatory requirements applicable to me/us and have considered the legal, tax, accounting, regulatory implications of entering into this kind of transactions. I/We understand that I/we should seek independent legal and/or financial advice regarding the product, if I/we deem it necessary.

By signing on this document, I/We declare that I/we fully understand and acknowledge the risks involved in investing/transacting in Bonds.

Complete Investment Account Name:

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SIGNATURE VERIFIED

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Signature over printed name of Authorized Signor	Signature over printed name of Authorized Signor

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