

**Making Sense of Your Finances – Structured Deposit Term Sheet 2**

A structured deposit (SD) is essentially a combination of a deposit and an investment product, where the return is dependent on the performance of some underlying financial instrument. Typical financial instruments linked to such deposits include market indices, equities, interest rates, fixed-income instruments, foreign exchange or a combination of these. MoneySENSE showed you what was contained in an interest rate-linked SD term sheet last fortnight. This week, we look at what is contained in an equity-linked SD term sheet. For more educational materials on SD, visit the MoneySENSE website at [www.moneysense.gov.sg](http://www.moneysense.gov.sg) or the Association of Banks in Singapore website at [www.abs.org.sg](http://www.abs.org.sg)

An equity-linked SD means the returns are linked to stocks, a basket of stocks, an equity index (e.g. Straits Times index) or a group of indexes. In this example, the return is linked to the relative performance of an equity index and a bond index. An equity (bond) index measures the stock (bond) market movement based on a group of selected stocks (bonds)

This shows you how the actual interest payable is computed every 6 months on 5 June and 5 December. Assume \$100,000 is invested and for that 6-month period (180 days) the Equity Return is greater than or equal to Bond Return. The interest paid would be equal to \$100,000 x 4% p.a. x 180/365 = \$19,726.60.

If the Equity Return exceeds the Bond Return in all of the 6-month periods when interest is payable, the total interest paid for the full tenor of the structured deposit would be \$19,726.60 x 10 interest periods = \$19,726.

However, you should not focus on optimistic scenarios alone. You should also find out what is payable in the worst case scenario. The term sheet would also typically show this information.

In this example, the worst case scenario if you hold the principal to maturity is that you will receive 0.00% interest. This would happen if the Equity Return is less than the Bond Return at every Valuation Date till maturity.

XYZ Bank	
<b>5-Year Equity-Linked Structured Deposit (Bullish Equity Index – Bearish Bond Index) Term Sheet</b>	
This 5-year SGD Equity-Linked Structured Deposit ("SD") offers depositors an opportunity to have yield enhancement linked to the relative performance of an equity index and a bond index. An Interest Rate of 4.00% per annum* is payable if the return of the equity index is greater than or equal to the return of the bond index, otherwise, no interest will be payable for the relevant 6-month period.	
In addition, the SD can be terminated early upon the occurrence of a Trigger Event, when the return of the equity index outperforms the bond index by 15% or more on any 6-monthly valuation dates. Upon Early Termination, depositors will be repaid with 100% of the principal amount plus the applicable accrued interest. The SD is 100% principal protected when it is held to maturity **.	
Principal Amount	Minimum of SGD 5,000 and in subsequent multiples of SGD1,000.
Deposit Taker	XYZ Bank ("the Bank")
Deposit Start Date	5 December 2005
Maturity Date	6 December 2010 (subject to Early Termination Provision as stated below)
Interest Period	Every 6 months, ending on but excluding every 5th of June and December of each year, commencing from the Deposit Start Date to but excluding the Maturity Date.
Interest Payment Dates	Semi-annually on every 5th of June and December, commencing on 5th June 2006, to and including the Maturity Date, subject to adjustment in accordance with the Following Business Day Convention.
Interest Rate Formula	The Interest Rate(t) for each 6-month period is determined as either : A. 4.00% per annum - if the Equity Return(t) is greater than or equal to the Bond Return(t) on the Valuation Date(t), or B. 0% per annum - if the Equity Return(t) is less than the Bond Return(t) on the Valuation Date(t)
Interest Amount	Interest Amount = Principal Amount x Interest Rate x Actual Number of Days in the Interest Period / 365
Equity Return(t)	The ratio of the Equity Index Level(t) for period (t) over the initial Equity Index Level(0).
Equity Index Level(t)	The Official Closing Level of the Equity Index on Valuation Date(t).
Equity Index Level(0)	The Official Closing Level of the Equity Index on the Initial Valuation Date.
Bond Return(t)	The ratio of the Bond Index Level(t) for period (t) over the initial Bond Index Level(0).
Bond Index Level(t)	The Official Closing Level of the Bond Index on Valuation Date(t).
Bond Index Level(0)	The Official Closing Level of the Bond Index on the Initial Valuation Date.
Initial Valuation Date	1 December 2005 (or the first day thereafter that is a Scheduled Trading Day if 1 December 2005 is not a Scheduled Trading Day).
Valuation Date(t)	The Valuation Date for a relevant 6-month period shall be the date which is 5 Business Days prior to the Interest Payment Dates.
Trigger Event	A Trigger Event shall deem to have occurred if the rate differential, measured as the Equity Return minus the Bond Return, is greater than or equal to 15% on any Valuation Date(t).
Early Termination Provision	Upon the occurrence of the Trigger Event, the Depositor will be repaid with an Early Termination Amount on the Early Termination Payment Date.
Early Termination Amount	100% of the Principal Amount plus applicable Interest Amount.
Early Termination Payment Date	The immediate Interest Payment Date following the occurrence of the Trigger Event.
Pre-Mature Withdrawal Fee	The full tenor of this deposit is 5 years and Depositor should keep the Deposit until maturity unless the Early Termination Provision applies. If a Depositor wants to pre-maturely withdraw the Deposit, it can only be done on a monthly basis (middle of the month) and the Depositor must pay a Pre-Mature Withdrawal Fee, derived as the cost of replacing the above Deposit at market rates for such tenor. A minimum of 1% will be imposed if such pre-mature withdrawal is made within the first 6 months.
<b>Notes:</b>	
* Under the worst case scenario where the Equity Return is less than the Bond Return on every Valuation Date till maturity, the effective rate of return is 0.00% p.a.	
** Full amount (100%) of the Principal Amount will be protected provided that there is no pre-mature withdrawal of the deposit by the depositor before the Maturity Date. Should depositor choose to early terminate the deposit, charges will be incurred and the Principal Amount may be subject to deduction. The charges will be calculated based on the replacement cost of such deposit at the then prevailing market rates and any administrative costs that may be incurred by the Bank.	

Some SDs include an agreement that enables the bank to terminate the deposit early before the maturity date for reasons specified in the terms and conditions of your contract. In this example, the SD can be terminated early upon the occurrence of the trigger event where the return of the equity index exceeds the return of the bond index by 15% or more. Where a SD is terminated early by the bank, you can expect to receive, at a minimum, the full value of your principal. But, this is not the case if you withdraw your deposit before maturity.

This is the date agreed between you and the Bank as being the first Business Day on which the SD will commence.

The semi-annual interest rate payable on 5 June and 5 December is either 4% per annum or 0% per annum. The interest payable is 4% per annum if the return of the equity index (Equity Return) is more than or equal to the return of the bond index (Bond Return) for that particular 6-month period. Interest payable is 0% per annum if the Equity Return is less than the Bond Return.

For any 6-month period, the Equity Return is the percentage increase / decrease of the official closing equity index level at the end of the period over the initial index level determined on the Initial Valuation Date which is 1 December 2005. The Bond Return is computed similarly.

This is the date the SD matures (ends). SDs, like fixed deposits, are meant to be held to maturity. Your principal will be repaid in full only at maturity or upon early termination by the Bank. If you withdraw your deposit before the maturity date, you may lose part of your return and / or principal. In this example, you will need to pay a Pre-Mature Withdrawal Fee, with a minimum of 1% if the Pre-Mature Withdrawal is made within the first 6 months of the start of the SD.

Note: Only part of the SD Term Sheet is featured in this illustration. Past performance figures as well as any projection or forecast made in this material, are not necessarily indicative of future or likely performance of the Equity-Linked SD.