

## Making Sense of Your Finances – Structured Deposit Term Sheet

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 shows you what is contained in an interest rate-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).

<p>An interest rate-linked SD means that the returns are usually linked to some interest rates. There is usually a formula that makes reference to a specific floating interest rate (the SGD interest rate swap in this example). Your actual returns depend on the interest rate movements.</p>	<p><b>XYZ Bank</b></p> <p style="text-align: center;"><b>Interest Rate-Linked Structured Deposit (5 years)</b> <b>(SGD CMS Spread, callable every 3 months)</b></p> <p style="text-align: center;"><b>Term Sheet</b></p> <p>This 5-year SGD deposit offers an Interest Rate of up to 3.20%* per annum. The Interest Rate payable to depositors is accrued with no compounding on a daily basis, if and when the 10-year SGD Interest Rate Swap rate is higher than the 2-year SGD Interest Rate Swap rate by the barrier spread on that date. Interest Rate for the first year is 3.20% p.a. with no barrier spread. For the second year to the fifth year, the effective interest rate will range from a minimum of 0% p.a. to a maximum of 3.20% p.a. depending on market conditions. In addition, XYZ Bank (the "Bank") has the right, but not the obligation, to early terminate the deposit every 3 months on every Interest Payment Date. Full amount (100%) of the principal will be repaid to depositors at maturity or as and when the Bank early terminates the deposit**.</p> <p>Principal Amount: Minimum of SGD 5,000 and in subsequent multiples of SGD1,000.</p> <p>Deposit Start Date: 26 September 2005</p> <p>Maturity Date: 26 September 2010, subject to Early Termination provision below</p> <p>Interest Amount: Interest Amount = Principal Amount x Interest Rate x Actual Number of Days in Interest Period / 365</p> <p>Interest Period: 3 months</p> <p>Interest Payment Dates: Quarterly on every 26th of December, March, June and September, commencing on 27th December 2005, and ending on the Maturity Date.</p> <p>Interest Rate Formula: Interest Rate = 3.20% per annum x N1 / N2 where, N1 is the number of calendar days in each Interest Period where the daily Reference Rate is higher than or equal to the Barrier Spread***, and N2 is the number of calendar days in the relevant Interest Period.</p> <table border="1"> <tr> <td>Barrier Spread:</td> <td>Period</td> <td>Reference Rate</td> <td>Barrier Spread</td> </tr> <tr> <td></td> <td>Year 0 – 1</td> <td>Not Applicable</td> <td>Not Applicable</td> </tr> <tr> <td></td> <td>Year 1 – 5</td> <td>10y SGD IRS – 2y SGD IRS</td> <td>0.70%</td> </tr> </table> <p>Reference Rate: 10y SGD IRS – 2y SGD IRS For the purposes of determining the Reference Rate on each day, the observation of the 10y SGD IRS and 2y SGD IRS rate fixings as per Reuters Page "SGDSFIX=" at or around 11.00 a.m. Singapore time on that day shall apply.</p> <p>10y SGD IRS: Refers to the SGD Interest Rate Swap ("IRS") daily fixing rate with a designated maturity of 10 years, polled by the Association of Banks in Singapore ("ABS").</p> <p>2y SGD IRS: Refers to the SGD Interest Rate Swap ("IRS") daily fixing rate with a designated maturity of 2 years, polled by the Association of Banks in Singapore ("ABS").</p> <p>Early Termination: XYZ Bank has the right, but not the obligation, to early terminate the deposit on every Interest Payment Date, by giving notice to the depositors at least 2 Business Days prior to the Early Termination Date. The depositors will be entitled to the applicable interest payments due on the Early Termination Date.</p> <p>Early Termination Date: The Interest Payment Date on which the Early Termination provision has been exercised by the Bank</p> <p>Pre-Mature Withdrawal Fee: The full tenor of this deposit is 5 years and depositors should keep the deposit until maturity unless the Bank chooses to exercise its early termination option. If a depositor wants to pre-maturely withdraw the deposit, it can only be done on a monthly basis (middle of the month) and customer 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 premature withdrawal is made within the first 6 months</p> <p>Business Day: Singapore</p> <p>Business Day Convention: <b>Modified Following Business Day</b> If Modified Following Business Day Convention is specified, that date will be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day.</p> <p><b>Notes</b> * With a minimum internal rate of return of 0.6483% p.a. ** Full amount (100%) of the Principal Amount will be protected provided that there is no pre-mature withdrawal of the deposit by depositors before the Maturity Date. Deductions may be made due to pre-mature withdrawal requested by the customer. The charges will be calculated based on the replacement cost of such a Structured Deposit at the then prevailing market rates and any administrative costs that may be incurred by the Bank. *** If a day is not a Singapore Business Day, the Reference Rate applicable for that day will be the rate observed on the immediate preceding Singapore Business Day. In addition, for the observation days starting at 5 Business Days prior to each Interest Payment Date, the Reference Rate observed 5 Business Days prior to that Interest Payment Date shall be used.</p>	Barrier Spread:	Period	Reference Rate	Barrier Spread		Year 0 – 1	Not Applicable	Not Applicable		Year 1 – 5	10y SGD IRS – 2y SGD IRS	0.70%	<p>Some SDs include an agreement that enables the bank to redeem or "call" the deposit before the maturity date for reasons specified in the terms and conditions of your contract. Where a SD is callable, you can expect to receive, at a minimum, the full value of your principal if the bank redeems the deposit. However, this is not the case if you withdraw your deposit before maturity.</p>
Barrier Spread:	Period	Reference Rate	Barrier Spread											
	Year 0 – 1	Not Applicable	Not Applicable											
	Year 1 – 5	10y SGD IRS – 2y SGD IRS	0.70%											
<p>This is the date agreed between you and the bank as being the first Business Day on which the SD shall commence.</p>		<p>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. The actual amount payable depends on the movement of the SGD interest swap rates that the product is linked to, which cannot be pre-determined. So, make sure you consider your liquidity needs before you invest in a SD. Note that banks usually charge you a fee if you choose to make a pre-mature withdrawal, in this case, a minimum of 1% within the first 6 months.</p>												
<p>This shows you how the actual interest payable is computed. Assume \$100,000 is invested and the barrier is 0.7%. During a 3-month period (90 days), if there are 83 days where the SGD Interest Rate Swap Rate is above the barrier and 7 days where the Rate is below the barrier, the interest paid equals <math>\\$100,000 \times 3.2\% \text{ p.a.} \times (83/90) \times 90/365 = \\$727.67</math>. The term sheet would also typically show the worst case scenario and the rate of interest investors would receive in such situation. You should understand this, and not just focus on the maximum interest payable. In this example, the maximum interest payable is 3.2% p.a. Find out what is the minimum interest payable so you can better understand the risks of investing in the SD.</p>														
<p>Your returns depend on how this reference rate(s) perform.</p>														
<p>In this example, the minimum is 0.6483% p.a if you hold the principal to maturity.</p>														
<p>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 Interest Rate-Linked SD.</p>		<p>This is the level which determines whether there is a payout. In this case, the number of days where the spread between the two interest rates (10y SGD IRS and 2y SGD IRS) is equal to or exceeds 0.7% will affect how much interest you receive in Year 1-5.</p>												

This information is provided by the Monetary Authority of Singapore and the Association of Banks in Singapore as part of the MoneySENSE national financial education programme.