

China CITIC Bank International Limited Treasury & Markets: Foreign Exchange Trading Practices

China CITIC Bank International Limited (“CNCBI” or “the Bank”) would like to clarify certain matters in relation to the Bank’s role in Foreign Exchange (“FX”) markets with clients (together with other market participants, “counterparties”). This document sets out CNCBI’s standard business practices and discloses the basis on which the Bank undertakes the FX trading activity with clients.

Trading Capacity

CNCBI acts in a principal capacity when undertaking FX trading with counterparties and will take the relevant risks of transactions as a principal, including market and credit risk. Unless explicitly agreed between the Bank and the counterparties in writing beforehand, the Bank does not act as agent, fiduciary, financial advisor or in any similar capacity on behalf of counterparties and thus does not undertake any of the duties or risks that an entity acting in those capacities ordinarily would perform. Although the Bank will be truthful in its statements about any facts, its statements should not be considered as recommendations or advice to counterparties. Each counterparty (or its agent) should be independently responsible for evaluating the appropriateness of an FX transaction in the best interest of its own.

Market Making

Market making involves a person or firm routinely standing ready to enter into transactions for their own account at prices determined by them. CNCBI acts as a principal when acting as a market maker. The market making activities of the Bank will include making markets to clients and counterparties, managing inventory and risk management.

Conflict of Interest

As a market maker in principal capacity managing a portfolio of positions for many counterparties with competing interests, CNCBI may trade prior to or alongside a counterparty transaction to execute transactions for the Bank or to facilitate executions with other counterparties or clients, to manage risk, to source liquidity or for other reasons. CNCBI is dedicated to upholding a high level of integrity and adhering to best practices and regulatory requirements.

Risk Transfer

Unless otherwise agreed, CNCBI acts as principal on a full risk transfer basis when executing a transaction. Risk Transfer means that the Bank takes on market risk in connection with an order. The point at which that risk transfer occurs is when the transaction is executed between CNCBI and the counterparty who gave the order.

Pricing and Mark-up

CNCBI will make clear whether the prices quoted are firm or indicative. Unless expressly agreed in writing, any firm or indicative price quoted by CNCBI to a client or a counterparty will be an “all-in” price with mark-up included in accordance with the Bank’s mark-up policy, in order to compensate the Bank for a number of considerations. These considerations may involve the Bank’s position, inventory strategy, client relationship, cost and risk management, and other business factors and objectives. As such, CNCBI has discretion to set forth different prices and different mark-up to different clients and counterparties for the same or substantially similar transactions. CNCBI’s sales and trading personnel are not obliged to disclose the amount of revenue CNCBI expects to earn from a transaction, nor they are required to disclose the components of CNCBI’s all-in price.

Information Handling

Protecting the confidentiality and security of counterparty information is an important part of how we do business. CNCBI has policies and controls that are designed to protect a counterparty’s confidential information. However, a counterparty should understand that CNCBI makes use of information provided to it as principal in order to effectuate and risk manage transactions. Specifically, unless otherwise agreed, CNCBI may use the economic terms of a transaction (but not the counterparty identity) in order to source liquidity and/or execute risk-mitigating transactions. In addition, as part of its obligations as a regulated entity, CNCBI may also share counterparty information as required by its global regulators.

We may analyze, comment on, and disclose anonymized, aggregated and appropriately non-specific information regarding orders and executed transactions (with the exception of orders and transactions containing material, non-public information), together with other relevant market information, internally and to third parties, as market colour.

CNCBI may also analyze information with regards to executed transactions on an individual, or aggregated basis for a variety of purposes internally, such as counterparty risk management, sales coverage, and client relationship management.

Order Prioritization and Execution

In general, all the received orders through execution channel from counterparties will be worked on a first come first served basis. Orders will be executed as quickly as possible with timeliness being the overriding factor. However, as the market practice, the exceptional situation is that orders will be re-prioritized at the time of the amendment or resubmission if they are amended or cancelled and resubmitted. Unless as instructed and agreed with counterparties prior to transactions, orders will not be aggregated.

As principal, CNCBI attempts to execute an order to make an appropriate return on the transaction if possible, taking into account the Bank’s position, including the inventory strategy and overall risk strategy.

Pre-Hedging

When acting in a principal capacity, pre-hedging is the management of the risk associated with the anticipated execution of one or more client orders, designed to benefit the client in connection with such orders and any resulting transactions. As a principal, CNCBI may pre-hedge actual or anticipated client orders for the purposes of risk management. The Bank may risk-mitigate or hedge any exposure that would be created by a certain transaction order from clients. While pre-hedging, the Bank may also continue to conduct on-going FX business for purposes such as risk management, market making or executing other client orders.

CNCBI has discretion to assess whether pre-hedging is being undertaken with considerations including prevailing market conditions (such as liquidity) and the size and nature of the anticipated transaction. The Bank will communicate with clients, if needed, in regard to the pre-hedging practices, and will make every effort to be with transparency.

Clients will not, as a matter of routine, be provided with further notification of the Bank's intention to pre-hedge. Any client that does not wish for the Bank to pre-hedge their request must notify their salesperson in writing. Once an order has been received, the FX trading desk may manage its risk and any such hedging may be undertaken by traders.

Risk Management

CNCBI may undertake risk management activity, including hedging on a portfolio basis, which is commensurate with the trading strategy, positioning, risk assumed, prevailing liquidity and market conditions. Risk management may include trading the same FX product or currencies, trading in correlated products or currencies and establishing derivative positions on any of the foregoing and may also take account of other sources of exposure (such as market dislocations and disruptions).

Market Information Determination

CNCBI has its own discretion in determination on the reference prices (e.g. high/low) in good faith and in a commercially reasonable manner the highs and lows of the FX market in accordance with prevailing market practice.

- The FX trading desk will observe reference price on Bloomberg and Reuters or on other appropriate venues
- For currency pairs that are not commonly quoted, the Bank may, at its discretion simultaneously use one valid high or low trade, as defined above, together with a tradeable price observable on the primary dealing venues noted above, in order to calculate cross-currency rates.
- Transactions executed at off-market prices are not taken into account when determining the high or low level, unless otherwise agreed by the parties in writing.

Barrier Options

As an active participant in the FX options market, there may be situations where routine hedging or trading activity undertaken by the FX trading desk may unintentionally impact the movement of the underlying reference price of a barrier option.

If you have any questions related to our FX trading practice or concerning CNCBI's dealings with you, we encourage you to contact your CNCBI representative.

This notice is also available at our Bank's website (<https://www.cncbinternational.com/home/en/index.jsp>) and may be updated from time to time without prior announcement in order to address changing regulatory, industry and other developments.

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