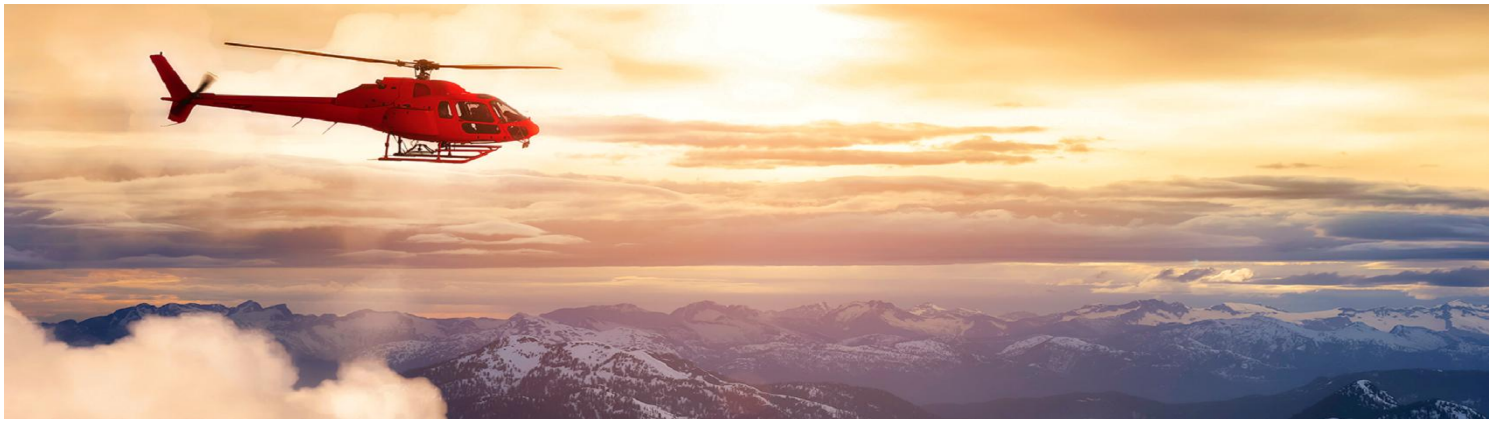
HSBC Private Bank

CIO Academy

Open models, lower prices: Will China compress America's AI moat?

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Highlights: A wave of low-cost, open-weight Chinese models is making AI cheaper and more accessible worldwide. As models' performance converges and inference prices fall, pressure is building on frontier US model-layer economics. Does this mean that China's AI models will compress America's AI moat? The answer, in our view, is multi-layered and nuanced. We think the competitive battleground is moving beyond just the cost of AI models towards reliability, safety, compute, distribution and enterprise integration. Model pricing alone will not determine who ultimately captures the value of AI, other factors will:

- **China is winning usage, not the AI economics yet.** Lower prices have helped Chinese models gain a larger share of the global token volumes. They have not, however, translated into gaining a corresponding share of model spend. Moreover, today's pricing may prove difficult to sustain.
- **Enterprise buyers will pay for trust.** Models' safety, reliability and governance increasingly matter alongside performance. AI guardrails, auditability, traceability, telemetry and constrained generation are more important for enterprises than the lowest token price.
- **It's the AI ecosystem that's the real moat, not the model.** Models work within a broader stack of compute, platforms, distribution, security, governance and integrations. US AI model companies increasingly own the enterprise relationship. Switching providers can mean retraining employees, rebuilding integrations & repeating compliance reviews — all big switching costs.
- **Compute remains America's structural advantage**. Access to advanced chips, manufacturing capability and leading-edge AI infrastructure gives US labs greater capacity to train and improve frontier models. Supply of memory and compute remain constrained in China. US export controls and China's limited access to advanced chipmaking tools reinforce that advantage for the US.
- **Agentic AI could widen the gap again**. As 'enterprise AI' moves from answering questions to executing multi-step workflows with AI agents, demand for more capable models, greater compute, stronger reliability and AI safety will rise. That favours the US frontier labs—provided they can convert technical leadership into dependable enterprise products.
- **Geopolitics will shape commercial adoption**. Chinese models may face restrictions in Western enterprise markets, just as advanced US chip exports are restricted for China. A future ban on the use of Chinese models by US administration remains a non-zero probability in our view, and hence it's a risk that US enterprises need to factor in when choosing AI vendors.

Eventually, we envisage the co-existence of two AI ecosystems: a US-led, high-performance and enterprise-oriented stack; and a China-led, lower-cost and more open stack. Their relationship may eventually resemble iOS and Android—distinct ecosystems, different strengths and different price points**. For investors,** convergence in model performance suggests that value may migrate across the AI stack. Standalone model providers could face margin compression, while owners of scarce assets—compute, chips, power and distribution—may capture a greater share of AI economics. But the picture is not one-sided. US power availability and permitting could constrain domestic expansion, while China has built substantial power capacity. But Chinese data centres face a critical limitation - access to advanced chips.

What do we like? Chips, compute, AI-enabled applications and the companies adopting AI at scale.

The US–China AI race: from models to margins

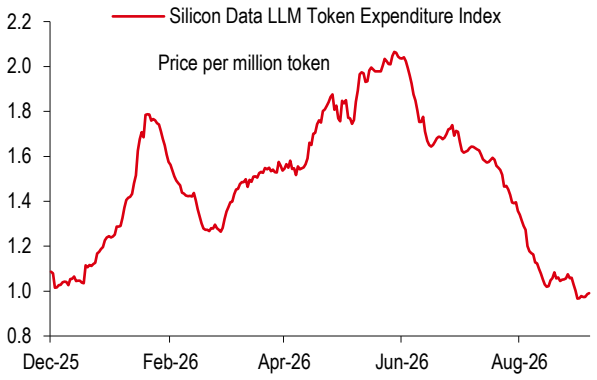
For years, investors have treated America's AI leadership as a durable moat. That assumption is now being tested by low-cost, open-weight Chinese models that can be downloaded, fine-tuned and deployed almost anywhere. In this AI race, China's strategic endeavour is not necessarily to build the single best AI model. It may be to make capable AI so abundant and inexpensive that US frontier models become a premium niche, while much of the market shifts towards systems that are cheaper to deploy, easier to customise and simpler to replace.

This possibility is amplified by the digital economics of open-weight AI. Unlike solar panels or electric vehicles, China's AI models can cross borders digitally at almost zero marginal distribution cost. Add to this the fact that China also benefits from lower operating costs, substantial power capacity and rapid resource mobilisation.

While US export controls have restricted China's access to the most advanced AI chips, the same constraints have also inspired Chinese developers to find workarounds and extract more performance from less capable hardware. Chinese developers have improved efficiency through techniques such as low-precision training, compressed attention and mixture-of-experts architectures (which activates only a tiny fraction of total parameters per token during inference - reducing computational costs per token). As a result, Chinese models are becoming capable enough for many routine enterprise workloads—and are narrowing the performance gap faster than expected. This performance gap may narrow further given US AI labs' recent focus on AI safety, which may slow their further development.

Chinese models' aggressive pricing is accelerating their adoption, putting pressure on the US model layer, where high research and compute costs require premium pricing.

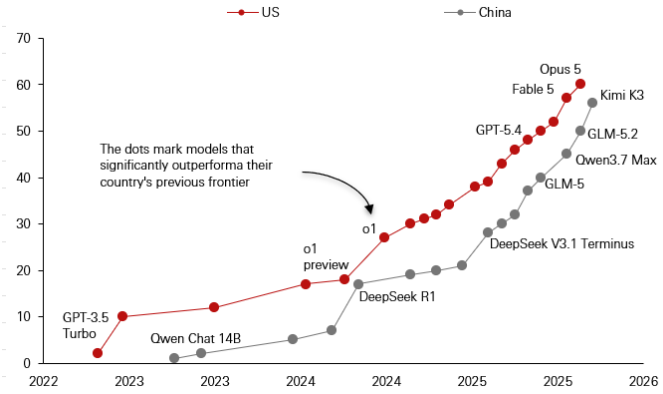
Average price paid per AI token has fallen



Source: Bloomberg Technology – The Big Take, HSBC Private Bank, October 2026

Chinese models are narrowing the performance gap

Artificial Intelligence Index – composite benchmark measuring coding, scientific reasoning and general ability



Source: Bloomberg Technology – The Big Take, HSBC Private Bank, October 2026

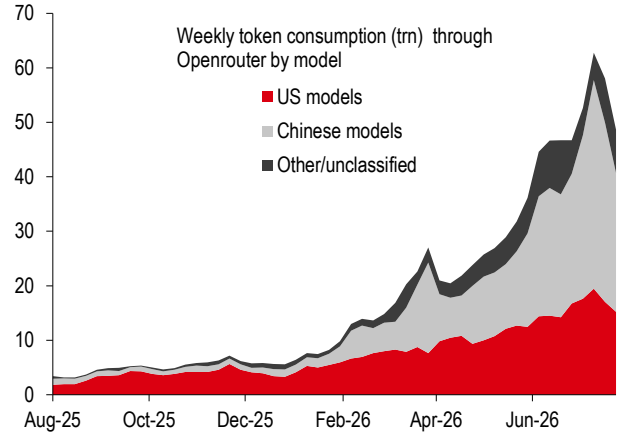
So, will cheaper Chinese models challenge America's AI moat?

The answer, in our view, is multi-layered & nuanced. We analyse data and several dimensions in detail to get an in-depth, well-rounded answer to this key question that's looming large on the US AI frontier labs and investors allocating capital to the AI ecosystem.

We assess six key factors we think investors need to take cognisance of:

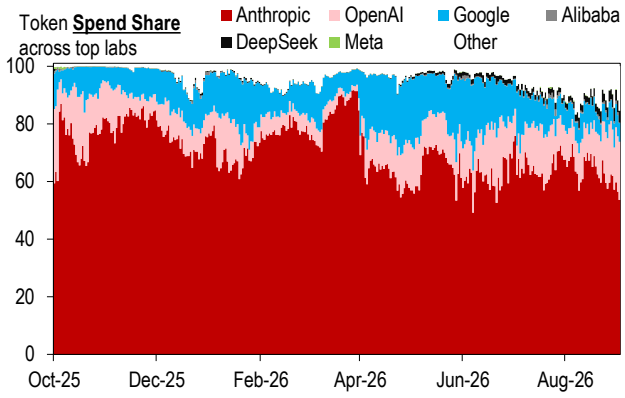
1.) **China is winning usage—not economics, yet.** The average price paid per token has fallen by approximately 50% since its peak in May 2026, as users have migrated towards cheaper Chinese models. Chinese open-weight models are gaining share of global token volumes, but this has not translated into a comparable share of token spending. This persistent gap points to an important investor nuance – gaining token volume share and token-spend share are two different things. US frontier models continue to capture most of the economic value generated at the model layer, despite losing share of overall usage.

Chinese models are gaining share in token volume usage…



Source: OpenRouter, HSBC Global Investment Research, HSBC Private Bank, October 2026

…but not the overall token spend



Source: Vercel, HSBC Global Investment Research, HSBC Private Bank, October 2026

2.) **Enterprises will pay for trust, not just cheap tokens.** In enterprise AI, trust is part of the product. The cost of failure can far exceed the cost of inference, particularly for regulated companies —like financial institutions— handling sensitive data or using AI in decision-making and multi-step workflows. Buyers will therefore assess more than price. Reliability, output quality, context handling, security, governance, auditability and integration with existing systems may matter more than a lower per-token cost. As AI moves from pilot projects into critical business processes, corporate buyers are likely to pay a premium for dependable performance and accountable operating environments. US frontier providers are well placed to meet this demand by combining advanced models with guardrails, telemetry, constrained generation, compliance controls and enterprise distribution. Open-weight models should continue to expand adoption, particularly in generic and cost-sensitive workloads. But the cheapest model won't necessarily win the highest-value work.

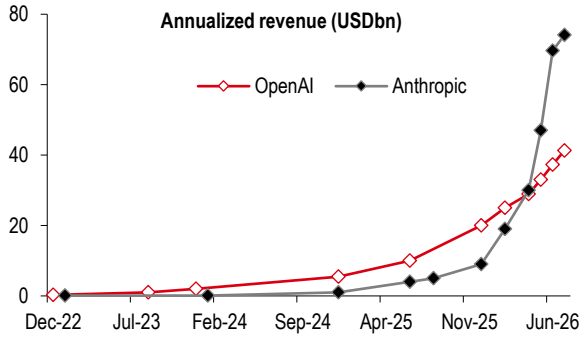
From price per token to value per successful task: As AI becomes embedded in business processes, **"cost per successful task"** may become more useful than price per token. The relevant measure will be value per dollar, combining price, speed, reliability and context efficiency.

A cheaper model may deliver poor economics if it requires more supervision, generates errors or fails to complete the task. This should favour the most dependable models in high-stakes sectors such as defence, advanced biotech, drug discovery and scientific research, where precision, data security and AI safety are critical.

3.) **The moat is the ecosystem—not the model:** The AI models sit within a broader stack of cloud infrastructure, data, applications, security, governance, APIs and workflow integrations. US providers increasingly combine advanced models with trusted platforms and established enterprise relationships.

This embeddedness creates switching costs. Replacing an AI system can mean retraining employees, rebuilding integrations, repeating compliance reviews and redesigning workflows—not simply swapping one model for another. These costs allow platform providers to monetise the wider bundle of software, safety, governance and support, even as underlying model prices fall. Therefore, models may become interchangeable. Trusted ecosystems won't.

Despite Chinese competition, US frontier models are seeing rapid growth in revenues



Source: Tickertrends, OpenAI, HSBC Global Investment Research, HSBC Private Bank, October 2026

4.) **Compute remains America's structural advantage:** Compute is the foundation of frontier AI, and the US remains better positioned. Its lead spans across advanced accelerators, memory, chip design, manufacturing equipment, packaging and hyperscalers' data centres, giving US labs greater capacity to train, improve and deploy increasingly capable models.

China's position is weaker on this front. Domestic semiconductor fabrication plants supply less than 15% of the country's demand for memory and AI chips (*Source: HSBC Global Research, IndexBox, September 2026*). Export controls have further restricted access to leading-edge chips and chipmaking equipment, including EUV lithography tools, while relatively limited capital adds to the challenge.

Whilst this advantage is durable for the US, it is not unassailable. Restrictions may accelerate China's development of domestic alternatives, while the US faces its own bottlenecks around electricity, grid capacity, permitting and local opposition to data-centre expansion. Even so, as AI moves towards more demanding reasoning and agentic workloads, abundant and efficient compute will become more—not less—important. Models may converge in capability, but the ability to train, improve and serve them at scale remains a powerful American edge—for now.

5.) **Adoption of Agentic AI could widen the gap again**: The next phase of AI won't just answer questions—it will complete workflows. As enterprises deploy agents to write code, coordinate tasks and support decisions, the premium will shift towards models that can reason reliably across long, multi-step interactions and operate safely within business systems.

In agentic workflows, small differences in accuracy or context handling can compound over time, producing materially different outcomes. This favours leading US providers, whose models and agent products—such as Claude Code and OpenAI Codex—are already embedded in technical organisations and enterprise platforms. Agents are also intensive users of inference, creating significant new demand for compute. Adoption remains concentrated in proven use cases, but the direction is clear - as AI moves from generating content to executing workflows, reliable models, integrated platforms and abundant compute become more valuable. The US lead could widen—but only if frontier labs convert technical strength into secure, dependable products that deliver measurable productivity gains.

6.) **Geopolitics will shape commercial adoption:** AI won't compete in a policy vacuum. There's a non-zero risk that US authorities' concerns over national-security, cyber-risk and data-sovereignty may trigger restrictions on Chinese open-weight models in Western enterprise markets, just as US export controls have limited China's access to advanced chips. The US may restrict or prohibit enterprise use of Chinese models partially or entirely or potentially impose broader limits on certain open-source systems over the coming years. That possibility creates a meaningful commercial advantage for US frontier providers, particularly in regulated industries where vendor approval, data safety and governance, and supply-chain resilience are central to procurement decisions. Enterprises will therefore need to assess more than capability, cost and reliability. Jurisdictional risk, regulatory exposure and the durability of market access may become equally important.

Over time, geopolitics could create an AI "iron curtain", dividing the market into distinct technology ecosystems and pushing US enterprises towards domestically aligned providers—even where Chinese models are cheaper or technically competitive.

For investors, this makes selectivity across the AI stack essential. The next section examines how these ecosystems may divide—and how investors can navigate the consequences.

The AI stack is splitting - investors need a new framework

Despite several pros, US AI model pricing will still come under pressure, at least in the near term, as across the market, the cost of running AI (inference) has been falling faster than many expected. As such, America's AI moat is compressing the fastest at the model/software layer. Therefore, a useful way to think about AI investing is to divide it into layers:

- **Model layer** (software and algorithms): where you choose an LLM.

- **Compute layer** (chips and data centres): where you train and run models.

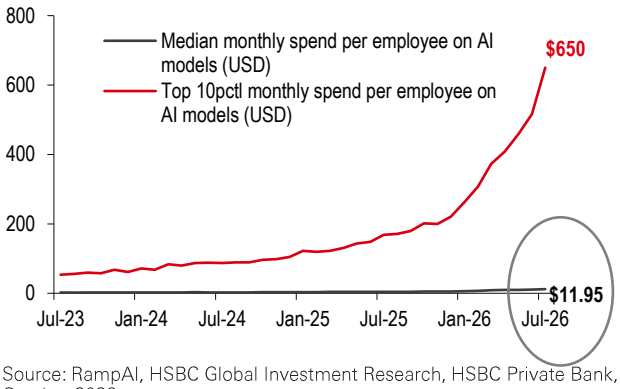
- **Distribution layer** (apps, workflows, enterprise platforms): where businesses actually adopt AI.

These layers have different economics

As model performance converges and margins come under pressure, value may migrate away from standalone model providers towards owners of scarcer assets—particularly compute and distribution, where the US retains structural advantages.

We believe AI investment and adoption remain at an early stage, with significant room to grow. Corporate adoption is accelerating, supported by early productivity gains, while agentic AI should drive deeper integration into business workflows. Average enterprise AI spending per employee could therefore rise materially from the current level of $11.95.

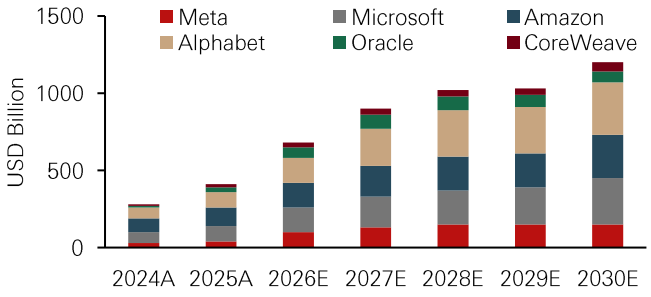
Monthly spend per employee on AI models



Source: RampAI, HSBC Global Investment Research, HSBC Private Bank, October 2026

As it stands currently, the industry cannot build data centres and infrastructure fast enough to meet the existing demand for compute. Bloomberg estimates that AI infrastructure will require more than US $6 trillion in capital investment by 2030. So, both the demand for AI and AI capex should stay strong—unless a major geopolitical shock intervenes. For investors, the opportunity is shifting from simply owning the best model to owning the infrastructure and distribution channels that make AI useful at scale.

AI Capex could approach $6trn through 2030



Source: Bloomberg Intelligence, HSBC Private Bank, October 2026

What investors should watch over the next 12–24 months

a.) **Faster model commoditisation—and faster adoption:** Cheaper, more efficient models should reduce inference costs and accelerate enterprise adoption—a potential example of the Jevons paradox. As usage expands, demand should rise for data centres, electricity, chips and networking. The investment implication is that value may shift away from models and towards scarce infrastructure and distribution assets, which could continue to support leading US AI providers.

b.) **Geopolitics will be the biggest swing factor.** The US and China are likely to develop increasingly separate AI ecosystems. Investors should monitor export controls, procurement rules and restrictions on the use of specific models, as these could reshape market access and vendor selection.

c.) **Power is both a bottleneck and an opportunity.** Power availability is becoming a critical constraint on US data-centre expansion. Long lead times for generation, transmission and grid equipment could limit AI deployment, while creating opportunities across power generation, grid infrastructure and electrical equipment.

d.) **AI safety as a condition for durable growth** AI safety should be viewed as an enabler of long-term adoption—not a brake on innovation. Recent incidents and calls to pace frontier-model development are more likely to encourage stronger safeguards and governance than to halt progress. The leading providers will be those that combine rapid capability gains with secure, reliable and governable products. Greater attention to safety should ultimately support investor confidence and sustainable value creation.

e.) **Focus on AI safety should not derail AI capex**: US frontier labs' increased focus on AI safety should have no detrimental impact on the on-going AI capex, especially as most enterprises are still in the foothills of AI adoption and are already seeing a pick-up in productivity. We expect enterprise adoption to continue, and plenty of AI applications to be developed by these AI adopters, as they enjoy AI-driven productivity benefits - creating sustained demand for compute and therefore continued need for AI capex.

Long-term outlook: two AI ecosystems, fragmented use cases

As AI use cases fragment by sector, geography, data sensitivity and price point, a simple US-versus-China framing becomes less useful.

The market could evolve more like two different mobile operating systems, iOS and Android: With the US frontier models serving high-value, complex workloads, alongside Chinese open-weight models optimised for affordability, local deployment and regional needs.

Large, regulated and specialised organisations—including financial institutions, advanced healthcare businesses and defence companies—are likely to favour US frontier models for complex reasoning and agentic workflows, supported by strong security, governance, compute and enterprise infrastructure.

Chinese open models will gain traction among start-ups and smaller businesses, particularly where local deployment, data residency, lower costs and Chinese-language performance matter. They could also support highly localised applications, from domestic finance and healthcare to traffic management and connected autonomous transport.

Government-backed AI communities and shared repositories of models and datasets could accelerate adoption across China, where the priority is national capability over individual company profits.

Over time, regulation may reinforce this fragmentation. Once countries align their institutions, data rules and governance frameworks with a particular AI ecosystem, switching becomes slow, costly and politically difficult —another form of lock-in and therefore parallel co-existence of the two AI ecosystems. The likely result is partial bifurcation, not a clean split - two broad ecosystems with areas of overlap, but increasingly distinct centres of gravity.

In essence – with models getting commoditised, the ecosystem becomes the moat

Chinese open-weight models are narrowing the performance gap and driving inference prices lower. They may compress the price of intelligence, but they don't automatically capture more economic value—or eliminate America's broader AI advantage.

For enterprises, the key metric will increasingly be cost per successful task, which can also be seen as "reliable intelligence per dollar". Output quality, speed, context handling, security, governance and the cost of errors or human rework will matter more than token price alone.

This makes trust, distribution and integration decisive. Enterprises need predictable AI performance, guardrails, permissions, audit trails, telemetry, support and reliable fallbacks—especially as AI agents connect to sensitive systems and execute multi-step workflows. US frontier providers are currently better positioned to deliver this complete, governable ecosystem.

The US also retains structural advantages across advanced chips, compute, networking, platforms and enterprise relationships. Chinese pricing and efficiency may pressurise standalone US model margins, but export controls, limited access to advanced EUV lithography and relatively constrained capital continue to restrict China's ability to scale leading-edge AI. Over time, value is likely to migrate towards scarce parts of the AI stack - chips, compute, power, networking and trusted distribution, as well as applications that turn AI adoption into measurable productivity gains.

What should investors watch?

- **Model commoditisation** will migrate economic value away from standalone models to owners of compute and enterprise distribution.
- **Scarce infrastructure**: chips, compute, power and networking provide investment opportunities.
- **Trusted distribution**: cloud, software, security, governance and integrations remain key US moats.
- **Agentic AI**: will create greater demand for capable, reliable models, higher compute and better AI safety.
- **Geopolitics:** separate US- and China-led ecosystems could emerge, shaped by regulation, data sovereignty and market-access restrictions, pushing US enterprises towards domestically aligned providers.
- **AI Applications**: the winners will be companies converting AI adoption into measurable productivity and economic value.

Eventually, we expect two AI ecosystems to coexist, much like iOS and Android: a US-led, high-performance and enterprise-oriented stack for complex, regulated and agentic workloads; and a China-led, lower-cost, open-weight stack focused on local deployment, sovereignty and price-sensitive use cases. These ecosystems may overlap, but geopolitics, regulation, data residency & switching costs will increasingly keep them distinct.

What do we like? We favour the semiconductor and memory companies; companies benefiting from the AI build-out - including materials and energy providers; businesses monetising AI-enabled applications; and AI adopters in sectors such as financials and industrials which are already converting AI into measurable productivity gains.

Sources Used:

*Bloomberg reports and data
*HSBC Global Investment Research reports, September 2026

Risk Disclosures

Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. cotractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability. These features can introduce notable risks to investors who may lose all their invested principal.

Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.

Investors should note that their capital is at risk and they may lose some or all of their capital.

Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government.

Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond.

There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk.

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

Alternative Investments

Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

Private Equity - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or

transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

Risks of investing in private markets

The value of investments and any income from them can go down as well as up and investors may not get back the

amount originally invested. Past performance information presented is not indicative of future performance. The return and costs may increase or decrease as a result of currency fluctuations.

- **Liquidity Risk -** Investors may be unable to dispose of an investment quickly and at a price that's closely related to recent similar transactions. There is no guarantee of distributions and no established secondary market.
- **Event Risk -** A significant event may cause a substantial decline in the market value of all securities.
- **Long-term Horizon -** Investors should expect to be locked-in for the full term of the investment, which is subject to extensions.
- **No Capital Protection -** Investors may lose the entirety of invested capital.
- **Unpredictable Cashflows -** Capital may be called and distributed at short notice.
- **Economic Conditions -** Ability to realise/divest from existing investments depends on market conditions and the regulatory environment.
- **Risk of Forfeiture -** Failure to make call payments could result in forfeiture of commitment, including invested capital, without compensation.
- **Default Risk -** in the event of default investors risk losing their entire remaining interest in the vehicle and may be subject to legal proceedings to recover unfunded commitments.
- **Reliance on Third-party Management Teams -** Underlying investments will be managed by various third-party management teams that will in aggregate determine the eventual returns for the investor.

The risk factors listed above are not exhaustive, always refer to product specific documentation for full details and risk disclosures.

Risk disclosure on Emerging Markets

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalisation or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (c) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

Currency risk – where product relates to other currencies

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

Chinese Yuan ("CNY") risks

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

Illiquid markets/products

In the case of investments for which there is no recognised market,

it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

Environmental, Social and Governance ("ESG") Customer Disclosure

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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