

Bank of Communications (Hong Kong) Limited (Merger) Bill

**Information Paper for Members of Bills Committee
Legislative Council of the Hong Kong Special Administrative Region**

This paper seeks to address those questions to which the Bills Committee Members have requested a written response from Bank of Communications Co., Ltd. Hong Kong Branch further to the Bills Committee Meeting held on 4th July 2016, in relation to the Bank of Communications (Hong Kong) Limited (Merger) Bill ("**Bill**").

The Bill provides for the transfer of the activities, assets and liabilities which constitute the retail banking business and private banking business of Bank of Communications Co., Ltd. ("**Bank of Communications**") located in Hong Kong, currently operated through a branch in Hong Kong ("**Bank of Communications, Hong Kong Branch**"), to a wholly owned subsidiary within the Bank of Communications group of companies. The subsidiary, Bank of Communications (Hong Kong) Limited ("**Bank of Communications (Hong Kong)**"), is incorporated in Hong Kong and holds a full banking licence under the Banking Ordinance (Cap 155). Bank of Communications (Hong Kong) is a wholly owned subsidiary of Bank of Communications and is a member of the Bank of Communications group of companies of which Bank of Communications is the ultimate holding company.

1. Capital Base of Bank of Communications (Hong Kong)

As Bank of Communications (Hong Kong) is a fully licensed bank subject to the direct supervision by the Hong Kong Monetary Authority ("**HKMA**"), it needs to comply with the HKMA's capital adequacy requirement for locally incorporated banks. No such requirement is applicable to Bank of Communications, Hong Kong Branch as it is under the supervision of China Banking Regulatory Commission (namely, the banking regulator located at the place of incorporation of Bank of Communications).

As at 9th February 2015, Bank of Communications (Hong Kong) has a paid-up share capital of HK\$300 million, which is the statutory minimum share capital requirement, as submitted to HKMA for the banking licence application. To reaffirm its commitment to Hong Kong, Bank of Communications (Hong Kong) will increase its capital base from HK\$300 million to HK\$XXX billion as part of the transfer exercise and before the appointed day. The capital base of Bank of Communications (Hong Kong) will be reviewed from time to time to meet the capital adequacy ratio as

regulated by the HKMA.

2. Property and Liabilities to be transferred under the Bill

According to Clause 2 of the Bill, "undertakings (業務)" means the businesses and all existing property, reserves and liabilities of Bank of Communications, Hong Kong Branch of whatever nature as recorded in or created by any of the books and records of Bank of Communications, Hong Kong Branch (*other than any excluded property and liabilities*).

Reading together with the definition of "excluded property and liabilities (除外財產及法律責任)" contained in Clause 2 of the Bill, undertakings essentially means all existing property, reserve and liabilities of Bank of Communications, Hong Kong Branch which relate in whole to its retail banking business and private banking business, but excluding the existing property, reserve and liabilities of Bank of Communications, Hong Kong Branch which relate in whole or in part to its corporate banking business or its other businesses.

We have summarized in the table below the nature of retail and private banking businesses (in respect of the services that are being provided to the retail and private banking customers of Bank of Communications, Hong Kong Branch) which are intended to be transferred to Bank of Communications (Hong Kong) under the Bill:

Category	Banking Services
Retail and Private Banking	Deposit taking and deposit products
	Safety deposit box
	Loans (personal loans, SME financing and mortgage loans)
	Trade finance and hire purchase
	Card services (credit cards, debit cards and pre-paid cards)
	Investment products
	Securities brokerage
	Insurance agency/brokerage
	Mandatory Provident Fund services
	Payroll services
	Foreign exchange services
	Internet banking and mobile banking

In its corporate banking business, Bank of Communications, Hong Kong Branch also provides the above services and products to its corporate banking customers but all existing property, reserve and liabilities for such corporate banking business will not be transferred to Bank of Communications (Hong Kong) under the Bill. In addition, the institutional banking business and all other businesses of Bank of Communications, Hong Kong Branch will not be transferred to Bank of Communications (Hong Kong) under the Bill.

In addition, as Bank of Communications, Hong Kong Branch primarily carries out its retail and private banking businesses at sub-branches situated at over 40 locations in Hong Kong, the tenancy agreements with respect to the premises that have been leased by Bank of Communications, Hong Kong Branch to operate these sub-branches are also intended to be transferred to Bank of Communications (Hong Kong) under the Bill in order to ensure the continuous and smooth operation of these sub-branches after the transfer. Whilst the real estates owned by Bank of Communications in Hong Kong will not be transferred to Bank of Communications (Hong Kong) and will be retained by Bank of Communications, Hong Kong Branch or Bank of Communications.

It is contemplated that, in very limited cases, Bank of Communications may need to designate certain property and liabilities of the retail or private banking businesses of Bank of Communications, Hong Kong Branch to be excluded from the effect of the Bill. For examples, there may be (i) some selected customers who request to retain its account with Bank of Communications, Hong Kong Branch (and whom are appropriate to be retained by Bank of Communications, Hong Kong Branch), (ii) some contracts between Bank of Communications, Hong Kong Branch and certain counterparties (e.g. service providers) which, for sake of clarity and to avoid uncertainty, would be best to clearly specify that they should not be transferred to Bank of Communications (Hong Kong); and (iii) some foreign law governed contracts for which steps under local law are required to be taken to individually transfer the contracts to Bank of Communications (Hong Kong).