

**Bank of Communications (Hong Kong) Limited (Merger) Bill
(the "Bill")**

Response to the Follow-up Questions

Arising from the Meeting of the Panel on Financial Affairs on 5 December 2016

1. Please provide information to demonstrate the financial soundness of Bank of Communications (Hong Kong) Limited ("Bank of Communications (Hong Kong)").

(a) **Capital base:** Bank of Communications (Hong Kong) has a paid-up share capital of HK\$300 million, which is the statutory minimum share capital requirement. To reaffirm its commitment to Hong Kong, Bank of Communications (Hong Kong) will increase its capital base from HK\$300 million to HK\$XXX million 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 Hong Kong Monetary Authority ("HKMA").

(b) **Allocation of assets:** Assets, liabilities and reserves in relation to the private and retail banking business will be transferred to Bank of Communications (Hong Kong), all other items, including shared items, will remain in Bank of Communications Co., Ltd. Hong Kong Branch ("**Bank of Communications, Hong Kong Branch**").

From an accounting perspective, based on Clause 7.1a of the Bill, the retail banking business and private banking business of Bank of Communications, Hong Kong Branch would be transferred to Bank of Communications (Hong Kong) at their carrying value in the accounts of Bank of Communications, Hong Kong Branch immediately prior to the appointed day.

(c) **Corporate governance:** Bank of Communications (Hong Kong), being an independent licensed bank under the direct supervisory regulations by the HKMA, is subject to the requirements under the Hong Kong Banking Ordinance in respect of its operation and capital requirements and will abide by laws and regulations by establishing a corporate governance structure

mainly consisting of the board of directors, board committees and senior management. Like other local banks, it will comply with all the relevant laws and regulations and regulatory requirements.

The current level of protection offered to the customers of Bank of Communications (Hong Kong) remains substantially unchanged by the transfer under the Bill, and is equal to the protection enjoyed by customers of other locally incorporated banks.

2. Please provide information relevant to the operation of the retail and private banking businesses of Bank of Communications (Hong Kong) in order to ensure that customers' interests would be protected during the transfer.

Taking into account the following arrangements and factors relating to the operation of Bank of Communications (Hong Kong), Bank of Communications believes that customers' interests would be protected during and after the transfer:

- (a) **No change in substance:** There will be no change in substance to the products or services offered to the customers of the retail and private banking businesses from the perspective of the customers, save for certain logistic or administrative changes (such as a change of account number). Appropriate arrangements will be put in place, and customers will be adequately informed of such logistic or administrative changes. Please refer to paragraph (g) below for the communication with the customers.
- (b) **No change in contractual rights:** Customers' contractual rights will remain unchanged as a result of the transfer, except that their claims will be against Bank of Communications (Hong Kong) rather than Bank of Communications, Hong Kong Branch. In particular, there will be no change to the principal recourse for the customers. Before the transfer, the principal recourse for the Hong Kong customers of Bank of Communications, Hong Kong Branch is in Hong Kong courts since Bank of Communications, Hong Kong Branch is the obligor of the deposits. Similarly, when a customer opens an account with Bank of Communications (Hong Kong) after the transfer, Bank of Communications

(Hong Kong) will become the principal obligor and the customer's recourse will continue to be in Hong Kong courts.

- (c) **Strengthened corporate governance:** Bank of Communications (Hong Kong) is a licensed bank subject to direct supervisory regulation by the HKMA. As a locally incorporated bank, Bank of Communications (Hong Kong) is required to, among others, establish a local board of directors and appoint its own independent non-executive directors. Corporate governance of the local subsidiary will thus be enhanced following the transfer.
- (d) **Financially sound:** In accordance with the requirements of the HKMA, Bank of Communications (Hong Kong) will be capitalised to reflect the extent of its business in Hong Kong and the risks to which it is subject. As set out in the response to Question 1 above, it is expected that the capital of Bank of Communications (Hong Kong) will be increased as part of the transfer exercise and before the appointed day; and 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. This represents a commitment of capital to Hong Kong which will be available to the creditors of Bank of Communications (Hong Kong) including its depositors.
- (e) **Deposit insurance scheme:** Bank of Communications (Hong Kong) has participated in the deposit insurance scheme, such that its depositors are adequately protected to a level comparable with that provided by other banks in Hong Kong.
- (f) **Support from Bank of Communications:** It is in Bank of Communications' strong interest that Bank of Communications (Hong Kong), a wholly-owned subsidiary of Bank of Communications, meets its financial obligations at all times. In this light, Bank of Communications would be committed to provide such support and assistance as is necessary to the operations of Bank of Communications (Hong Kong) in line with the policy of Bank of Communications, just as it does to other members within the Bank of Communications group.

- (g) **Adequately and fully informed:** Bank of Communications believes that its customers have been made aware of the transfer through various means including, among others, the public announcement relating to the transfer on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange on 24 June 2015, as well as gazettal of the full text of the Bill in the HKSAR Government Gazette and the notice of the Bill in the newspapers. Bank of Communications will implement further measures (such as making further announcement(s) on the stock exchanges as appropriate, sending written notices to its customers before the appointed day and setting up a helpline for its customers) to keep its customers informed of the transfer.