

Interbank Offered Rate Reforms

Bank of Communications Co., Ltd. Hong Kong Branch (the “Bank”) would like to inform you regarding the Interbank Offered Rate (“IBOR”) Reform. If you have entered into one or more products (for example a loan and/or an over-the-counter derivative) from the Bank on which interest and/or other payment(s) may be calculated with reference to the London Interbank Offered Rate (“LIBOR”) ¹, and/or certain other Interbank Offered Rate, you may be affected by the IBOR Reform.

The Financial Conduct Authority, a regulatory body in the United Kingdom, stated in July 2017, that it will no longer compel banks to continue contributing to the calculation of LIBOR beyond 2021. It implied that LIBOR may be discontinued after the end of 2021. Considering this risk, banks are encouraged globally by regulators including the Hong Kong Monetary Authority (“HKMA”), to stop referencing LIBOR as the benchmark for transactions, in an orderly manner.

Adoption of Alternative Reference Rates (“ARR”)

Banks should use ARR, such as Secured Overnight Financing Rate (“SOFR”), instead of LIBOR if LIBOR is permanently discontinued. Regulatory bodies around the globe are also considering carrying out reform of some other IBORs and interest rate benchmarks due to market and industry practices, and which, in some cases, may or may not be discontinued. For IBORs such as HIBOR, we do not anticipate any discontinuation in the near future and so it is expected to continue alongside the respective ARRs.

The ARRs are perceived by regulators to be more representative and reliable as a measurement of interest rate benchmark. Financial contracts referencing IBORs (especially those referencing LIBOR) may require amendments to incorporate the replacement interest rate. These amendments may focus on IBOR cessation clause (as a “fallback”

¹ LIBOR or the London Interbank Offered Rate is an interest rate benchmark administered by ICE Benchmark Administration Limited.

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provision²), or specifically replacing an IBOR with an ARR. The ARRs currently identified by market participants are different from the IBOR in several aspects, such as the calculation methodologies. As a result, if an ARR is used in place of an IBOR, payments under the product and/or the value of the product may be impacted. This may materially impact the economic value of the relevant financial transactions and hedging arrangements, such as liabilities/assets associated with IBOR.

Next steps

The Bank will reach out to affected customers. Customers will be provided with further information on the development of the situation and industry solutions. You are encouraged to stay aware of future developments of the transition and seek professional advice on the potential impact of LIBOR discontinuation on the products you have with the Bank.

Please be aware that this notice is intended as a general overview of IBOR transition only. It is provided to you for informative purposes and should not be treated as an exhaustive list of all relevant risks. There contains no advice or recommendation provided by the Bank in this notice nor does the Bank assume any responsibility to provide any such advice. The Bank and its branches (whether within or outside Hong Kong) and/or its subsidiaries or affiliates or associated companies assume no fiduciary liability or responsibility for any direct, indirect or consequential loss arising from the use of any information in this notice.

² Fallback language refers to the contractual provisions that lay out the process through which a replacement rate can be identified if a benchmark (e.g., USD LIBOR) is not available. In other words, the fallback language within a contract acts as a how-to guide for identifying replacement rates (hereafter referred to as benchmark replacements or replacement rates) should the original benchmark be unavailable.

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For more information on IBOR reforms

For more general information or market updates on interest rate reform and IBOR transition, please refer to the published information from regulators, working groups and other industry bodies, including:

- U.S. Alternative Reference Rates Committee (ARRC)
<https://www.newyorkfed.org/arrc>
- European Central Bank (ECB)
https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html
- Bank of England
<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>
- Financial Conduct Authority (FCA)
<https://www.fca.org.uk/markets/benchmarks>
- Bank of Japan
<https://www.boj.or.jp/en/paym/market/sg/index.htm/>
- Swiss National Bank (SNB)
https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates
- Treasury Markets Association (TMA)
https://www.tma.org.hk/en_market_LIBOR.aspx
- Financial Stability Board (FSB)
<https://www.fsb.org/work-of-the-fsb/policy-development/additional-policy-areas/financial-benchmarks>
- International Swaps and Derivatives Association (ISDA)
<https://www.isda.org/category/legal/benchmarks>

Should you have any queries, please contact [our the Bank's](#) Customer Services Hotline at 398 95559 during office hours.

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