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24 May 2004

By Fax: 2869 6794

Ms Connie Szeto
Clerk to Panel on Financial Affairs
Legislative Council Building
Hong Kong

Dear Ms Szeto,

**LegCo Panel on Financial Affairs (“FA Panel”)
Meeting on 1 March 2004
Item VII – Briefing on the draft Wing Hang Bank Limited (Merger) Bill**

I refer to your letter dated 29 March 2004 requesting the Administration to take follow-up actions in respect of the FA Panel meeting on 1 March 2004. The following is our response to the Hon NG Leung Sing’s request (*paragraph 74 of the minutes*), for information on the general benefits of bank mergers.

The Hong Kong Monetary Authority (“HKMA”) has enquired with a number of banks that have merger experience in recent years and all of them confirmed that their merger activities had benefited their operations. Such benefits include improved efficiencies and cost economies, increased market share and customer base, and reduced funding costs. In addition, bank mergers have been helpful to risk reduction as the merged banks are able to spread loans over a wider customer base. However, banks do not have specific data to quantify directly the benefits of bank mergers as bank mergers are only one of the many factors affecting banking operations and profitability.

The HKMA believes that in general, bank mergers, if successfully executed, should improve the efficiency and stability of the banking sector. In this regard, it has been the Government's policy to support consolidation of the banking sector in Hong Kong. The Administration has referred the Legislative Council to this policy stance during the passage of various bank merger bills in the past few years.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Danny Leung', with a stylized flourish at the end.

(Danny Leung)
for Secretary for Financial Services and the Treasury

c.c. CE/HKMA (Attn: Mr Y K Choi)