

Meeting of Legislative Council Panel on Financial Affairs on 6 July 2015

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

Bank Representative's Speech

Thank you Chairman. Good morning, Members.

I am Shou Fugang, the Chief Executive of Bank of Communications Co., Ltd., Hong Kong Branch. On my left is the financial adviser of the bank and on my right is the legal adviser of the bank. On the row behind are the Deputy Chief Executives of the bank, Ms. Nancy Chan and Mr. Alan Liu. I am pleased to be given the opportunity to introduce the Bank of Communications (Hong Kong) Limited (Merger) Bill to the Panel on Financial Affairs today and to hear your valuable comments on the Bill. As the Hon. Ng, SBS, JP has mentioned, the Bill aims to effect the merger of the retail banking business and private banking business of Bank of Communications, Hong Kong Branch into Bank of Communications (Hong Kong).

1. Hong Kong as the focus of development – demonstrating long-term service commitment to the Hong Kong society and customers

The decision to merge the retail and private banking businesses of Bank of Communications, Hong Kong Branch into a wholly-owned subsidiary of Bank of Communications newly established in Hong Kong comes as part of Bank of Communications' strategy to continue to build on our strong foundation in Hong Kong by expanding and intensifying our business and product offerings. This includes expanding and intensifying our retail and private banking businesses, thereby responding to the growing demands for a variety of banking and financial services. This demonstrates the bank's long-term commitment to Hong Kong and our customers, employees and business partners.

2. Meeting the industry trend – further improvements on internal governance

There is a rising trend worldwide for international financial institutions to transfer their retail banking business to local subsidiaries. The merger of the retail and private banking businesses of Bank of Communications, Hong Kong Branch into the new subsidiary established in Hong Kong also reflects our confidence in Hong Kong as one of the leading and most suitably regulated financial markets in the Asia Pacific region. At the same time,

this enables Bank of Communications to follow the development trend in the industry and further affirms its service commitment to customers and employees as well as members of the public in Hong Kong.

The customers of the retail and private banking businesses are primarily the local public and local enterprises. The local subsidiary established by Bank of Communications in Hong Kong will be a licensed bank, which will set up a corporate governance structure consisting mainly of the board of directors, board committees and senior management in accordance with regulations directly under the financial supervisory system in Hong Kong. Its operation will be more transparent. It will directly interact with the customers, employees and other business partners, where governance will be increasingly localised and the bank will be closer to its service targets. This will facilitate the strengthening of the internal governance of the bank.

3. Clear service scope – openness and transparency – resulting in more professional services to Hong Kong customers

The bank's customers will ultimately benefit from the merger of the retail and private banking businesses of Bank of Communications, Hong Kong Branch into Bank of Communications (Hong Kong). The locally incorporated bank will focus primarily on providing retail and private banking services in Hong Kong, whereas the existing Bank of Communications, Hong Kong Branch will focus primarily on providing corporate banking services and other banking services. This signifies a clearer and more focused separation in the servicing of different customer groups of Bank of Communications. Further, both Bank of Communications, Hong Kong Branch and Bank of Communications (Hong Kong) will be able to design products and services of a more professional and satisfactory quality on this basis and the business of the two banks can also complement one another.

As the Hon. Ng, SBS, JP has mentioned, the Bank of Communications (Hong Kong) Limited (Merger) Bill is similar to those private bank merger bills that have been passed in the past. The Bill has been submitted to all relevant Government departments for their review and comments, and their comments have been considered.

Bank of Communications, Hong Kong Branch aims to protect the interests of the customers by ensuring that the operations of the bank will be disrupted to the slightest extent in the

process of the merger. Bank of Communications, Hong Kong Branch has entered into a large volume of contracts with its customers, employees and other banks, suppliers and counterparties relating to its retail banking business or private banking business in its day-to-day operations. Under the Bill, the retail and private banking customers of Bank of Communications, Hong Kong Branch will automatically become customers of Bank of Communications (Hong Kong) without the need to sign new customer documentation. Those customers who have entered into contracts with Bank of Communications, Hong Kong Branch that are governed by Hong Kong law and that are within the ambit of the Bill will not be required to execute new contract in order to effect the transfer. The Bill provides a practicable means for effecting the merger. The process will be open, transparent and comprehensible by customers, third parties and members of the public. In the past 30 years there have been over 20 cases of merger of banks being effected by way of legislation similar to the Bill.

In terms of employees, it is the intention of Bank of Communications (Hong Kong) to keep all the employees who will be transferred from Bank of Communications, Hong Kong Branch to Bank of Communications (Hong Kong). The Bill ensures that the terms of their contracts of employment with Bank of Communications (Hong Kong) will be in line with the terms of their contracts of employment with Bank of Communications, Hong Kong Branch. They will not suffer any losses in respect of accrued benefits, such as annual leave and long service leave and the continuity of their employment will not be interrupted as a result of the merger. Following the transfer of business, each of Bank of Communications, Hong Kong Branch and Bank of Communications (Hong Kong) will continue to expand their business and will continue to employ local employees.

Bank of Communications is a nationwide state-owned joint stock commercial bank established in China and is authorised under the Banking Ordinance to carry out banking business in Hong Kong. Bank of Communications has been operating in Hong Kong for more than 80 years. The registered office of Bank of Communications, Hong Kong Branch is in Hong Kong. Its retail and private banking businesses employ more than 700 employees and offer various banking and financial services and products to hundreds of thousands of customers in over 40 locations in Hong Kong. The newly established Bank of Communications (Hong Kong) is a wholly-owned subsidiary of Bank of Communications

with its registered office in Hong Kong. Following the merger, Bank of Communications (Hong Kong) will take over the retail and private banking businesses of Bank of Communications, Hong Kong Branch.

The above is my brief introduction on the Bank of Communications (Hong Kong) Limited (Merger) Bill. Should you have any comments or questions, my colleagues, our legal and financial advisers and myself are pleased to consider or answer.

Thank you for your time in considering the Bill.