REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

GLOBAL AND HONG KONG ECONOMY

Although market conditions became more stabilised and signs of recovery emerged in certain economies in the latter part of 2009, the path to global recovery was clouded by the looming of the sovereign debt crisis in Europe in early 2010 and the slip of economic activities in the US since the middle of 2010. The market was sceptical about whether the stimulus effect generated by the unconventional fiscal and monetary measures would persist for an extended period of time, which cast considerable uncertainty on the likelihood of a sustained solid recovery in the advanced economies. The monetary easing in the advanced economies would continue to fuel asset market bubbles and posed immense inflationary pressures on economies in Asia and the rest of the world.

In respect of the Hong Kong economy, after experiencing the recession in 2009, the economy rebounded at a faster pace than expected, with the GDP rising by 7.0%, mainly driven by strong private consumption, government investment and net export. With the historically low interest level and rapid growth in domestic credit, the monetary conditions eased significantly in 2010. The soft US dollar drove inflationary pressure, especially in the fourth quarter of 2010. Significant rise in property prices were recorded which raised fears of the risk of an asset bubble forming. A series of measures were introduced by the Government and the HKMA to prevent banks from excessive mortgage lending.

BANKING ENVIRONMENT IN HONG KONG

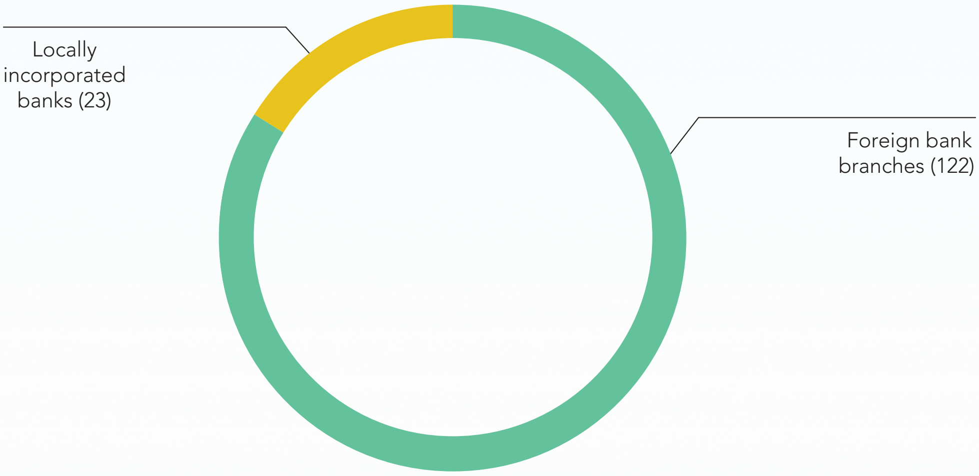
Despite the continued uncertainty in the financial markets, the banking sector of Hong Kong remained resilient in 2010. The capital position of banks remained strong, with sight of improvement in profitability and loan quality. Delinquency ratio stayed at a low level compared with historical standards. Statistics released by the HKMA show that the aggregate pre-tax operating profits of retail banks' Hong Kong offices grew by 10.4% in 2010. The post-tax return on average assets increased to 1.01% in 2010 from 0.97% a year ago. The classified loan ratio fell to 0.77% at the end of 2010 from 1.38% a year earlier. Retail banks generally managed their liquidity position well with the quarterly average liquidity ratio standing high at 39.3% in the final quarter of 2010, well above the statutory minimum of 25%. The consolidated capital adequacy ratio of locally incorporated authorized institutions was also strong despite a slight decline to 15.9% at the end of 2010 from 16.8% a year earlier. Tier-1 capital ratio fell marginally to 12.3% in 2010 versus 12.9% in 2009.

Given the robustness of banks in Hong Kong, the full deposit guarantee (FDG) provided by the Hong Kong SAR Government expired at the end of 2010 as scheduled without one single activation. The transition to the enhanced DPS was smooth and no adverse movements in deposits in the banking sector has been noted.

PROFILE OF SCHEME MEMBERS

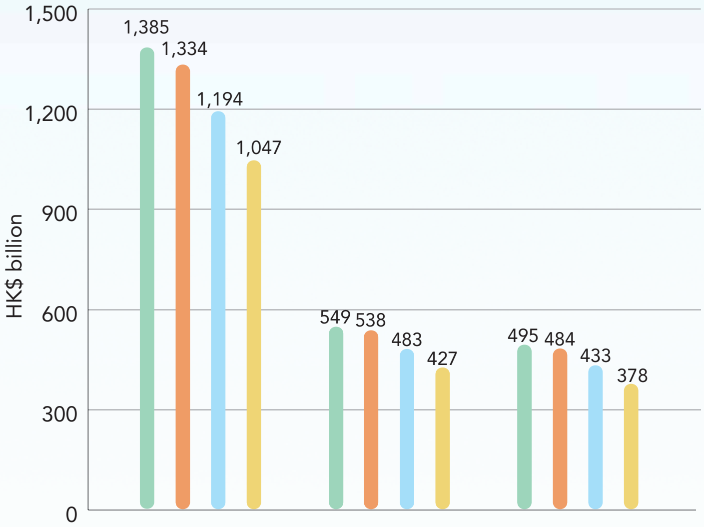
At the end of March 2011, the number of Scheme members remained unchanged at 145. During the year, four new members joined the scheme upon being authorised as licensed banks by the banking regulator including a restricted licence bank that was upgraded to a licensed bank. Four members were revoked because of organisational restructuring, mergers and acquisitions, or downsizing. Of the 145 Scheme members, 23 are locally incorporated banks and 122 are foreign bank branches. This is roughly in line with the number of retail banks and wholesale banks in Hong Kong respectively.

Number of Scheme members as at 31 March 2011



Scheme members reported the amount of relevant deposits held with them in 2010 on a new reporting basis to reflect that: (i) the protection limit of the DPS was increased from HK$100,000 per depositor per bank to HK$500,000; (ii) the scope of the Scheme was expanded to cover secured deposits; and (iii) Scheme members were allowed to report the amount on a net deposit basis (i.e. a liability owed by a depositor could be applied to reduce the amount of relevant deposits of the depositor). According to the returns submitted by Scheme members, the aggregate amount of relevant deposits (based on the HK$500,000 protection limit) increased by 152% to HK$1,385 billion in 2010 as compared to HK$549 billion in 2009 (based on the previous HK$100,000 protection limit). Based on statistics provided by Scheme members, about 90% of the depositors were fully covered under the raised protection limit of HK$500,000.

Relevant deposits held with Scheme members



% of Total	**2010**	2009	2008
Top 5	**76%**	78%	76%
Top 10	**86%**	88%	87%
Top 20	**96%**	98%	98%
Total	**100%**	100%	100%

Note:
The total relevant deposits for 2010 are based on the current protection limit of HK$500,000 while the respective figures of 2009 and 2008 are based on the then limit of HK$100,000.

The distribution of relevant deposits among Scheme members under the new protection limit was similar to that calculated based on the previous HK$100,000 limit, with large retail banks accounting for 86% of the aggregate relevant deposits held by the industry. Small to medium-sized retail banks held 11% of the industry total and the wholesale banks held the remaining 3%. On the whole, the top 20 Scheme members by size of relevant deposits continued to account for more than 95% of the total relevant deposits of the industry. The stable distribution of relevant deposits among Scheme members demonstrates that there was no abnormal migration of deposits during the transition from the expiry of FDG to the enhanced DPS.

Relevant deposits held with large retail banks and small to medium-sized retail banks

(in HK$ billion)	**2010**	2009	±%
Large retail banks	1,186.8	480.2	147%
Small to medium-sized retail banks	152.8	58.8	160%

ENSURING ADEQUACY OF COVERAGE OF THE DPS

Enhanced protection for depositors

The effectiveness of deposit insurance schemes as a pillar of the financial safety net was severely tested during the recent global financial crisis. Many deposit insurers around the world took measures, whether temporary or permanent, to improve their schemes to provide better protection to the depositors in their jurisdictions to sail through the crisis. In line with international development, the Board promptly completed a thorough review of the DPS in 2009. A public consultation was conducted in two phases to solicit the views of the public, the industry and other stakeholders on the various enhancements identified in the review. Taking into account the comments received, the final set of recommendations was then developed into legislative amendments in early 2010.

In close collaboration with the Financial Services and the Treasury Bureau and the Department of Justice, the Board introduced to the LegCo the Bill embodying the required legislative amendments for implementing the DPS enhancements in April 2010 which was passed by the LegCo in June. Immediately after the passage of the Bill, the Board completed and tabled the enhancements to the representation requirements governing disclosure about DPS in the form of a subsidiary legislation and the negative vetting process of the legislation ended in October 2010. As a result of all these efforts, all the enhancements took effect on 1 January 2011 as scheduled, which enabled depositors to enjoy better protection under the DPS after the expiry of the Government's FDG at the end of 2010.

Summary of enhancements to the DPS

The major enhancements to the DPS implemented since 1 January 2011 include:

- Better deposit protection for depositors
  - Raised the DPS protection limit five fold from HK$100,000 to HK$500,000, enabling full protection by the DPS for 90% of depositors
  - Extended the DPS coverage to include secured deposits (i.e. deposits pledged as security for credit facilities)

- Enhanced transparency to the public
  - Updated the reference to the new DPS protection limit in the DPS membership signs displayed by Scheme members
  - Tightened the negative disclosure requirements in respect of non-protected deposits so that depositors will be aware of their protection status when they invest in such deposits
  - Introduced positive disclosures in respect of protected deposits so that depositors can be assured that such deposits are protected
  - Requested Scheme members to promptly respond to customers' enquiries on the protection status of their financial products to ensure that depositors are well informed

- Improved efficiency in making compensation payment
  - For values relevant for the calculation of compensation payment which are uncertain immediately upon a bank failure, empowered the Board to make reasonable estimate to reduce the time for the determination of deposit compensation
  - Empowered the Board to make different amounts of interim payment to different depositors so that the payout process can be expedited
  - Allowed the Board's business to be conducted by electronic means to ensure that time-critical decisions in a payout can be dealt with promptly to avoid any delay in the payout process

- Reduction in annual contributions by Scheme members
  - Reviewed the target size of the DPS Fund to take into account the latest profile of Scheme members and to re-determine the target fund size
  - Reduced the rate of contributions payable by Scheme members to mitigate additional cost burden on banks as a result of the enhancements to the DPS
  - Allowed Scheme members to report relevant deposits on a net basis for contribution assessment purpose
  - Aligned priority claims for depositors in bank liquidations to the protection limit under the DPS to ensure the Scheme can continue to fully recover the compensation it pays to depositors

ENSURING PAYOUT READINESS OF THE DPS

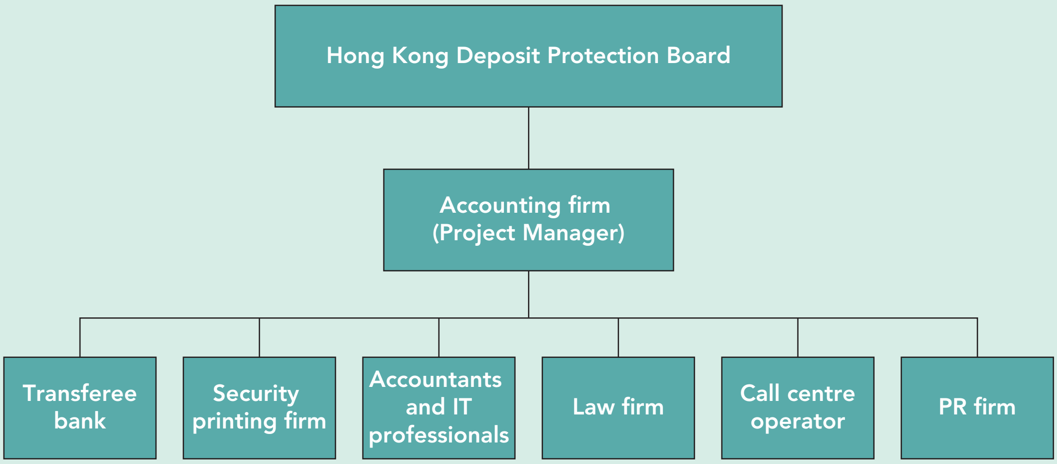
Background on Payout Readiness

What is payout readiness?

"Payout readiness" refers to the Board's ability to deliver on its mandate of making compensation payments to affected depositors in the event of a bank failure (a process that is commonly referred to as a payout). This generally relates to having the appropriate people, processes and systems in place to be brought into action on short notice if payment of compensation from the DPS Fund is triggered.

Payout team structure

The Board adopts a virtual organisation structure. It retains a core level of staff with in-depth knowledge to administer the DPS, and develops flexibility, by contractual arrangement, to call upon a network of external service providers (collectively referred to as payout agents) to assist with calculation and payment of compensation to depositors should there be a bank failure. When compensation payment is triggered, the Board will mobilise the network of these payout agents to handle the payout. Regular payout rehearsals involving the payout agents are conducted to ensure that they are able to work in a co-ordinated and efficient manner and that they are well versed with the Board's payout processes and systems.



Background on Payout Readiness (Continued)

Compliance review

When compensation under the DPS is triggered in respect of a Scheme member, the Board will determine depositors' compensation based on the customer records obtained from the failed Scheme member. The timeliness and accuracy of deposit and depositor information is therefore of critical importance to the efficiency and effectiveness of a payout. To guard against risks arising from this critical reliance, the Board issued a set of detailed information system requirements, in the form of a guideline, to require Scheme members to make ready the relevant information necessary for the Board to calculate compensation. The Board monitors the compliance by Scheme members through conducting compliance reviews of customer records maintained by Scheme members in accordance with the guideline.

The enhanced DPS raised the protection limit and expanded the scope of coverage, as well as provided the Board with new powers intended to enhance the Board's ability on payout efficiency. During the year, the Board has undertaken a number of initiatives to adjust its payout operations for the implementation of these features. In addition, the Board continued its effort to enhance its payout readiness by improving the payout policies, procedures and processes.

Payout policies, procedures and processes

The payout agents are mainly guided by a comprehensive set of procedures, documented in the Board's Payout Procedure Manual as well as other reference materials, when performing the activities required to process a payout. In preparing for the implementation of the enhanced protection, the Board revised the procedure manual to make reference to the new protection limit and the expanded deposit coverage, as well as areas highlighted for improvement as identified in the rehearsal and simulation tests previously conducted. The six simulation tests conducted during the year verified that both the procedures and the payout system have the capability to support a payout under the enhanced DPS.

The new DPS also confers additional powers to the Board to handle a payout efficiently and the Board has already begun to formulate the corresponding policies and procedures. The Board fully understands that it should exercise the new powers, especially those involving discretion to be exercised by the Board, in a responsible, fair and transparent manner. To achieve accountability and transparency, guidance notes are being developed to define the principles and approaches to be adopted by the Board on exercising these powers in the compensation determination process. The Board will consult the banking industry and other stakeholders such as professional accounting bodies before finalising the guidance notes for incorporation into the Board's policies and procedure manual.

Appropriate technology deployment plays an important part in payout capacity and speediness. The hardware of the payout system was further upgraded during the past year to enable the Board to cope with a larger Scheme member's failure and to calculate compensation payment at a faster speed. Small Scheme members are not required to provide their customer records in a specified format. Based on experience accumulated from past compliance reviews, the Board has enhanced the payout system to support rule-based data translation and conversion functions so as to facilitate the Board to expedite the calculation of compensation payments for the smaller Scheme members.

Engagement of payout agents

During the year, many contractual arrangements with the payout agents were due to expire. The Board completed the tendering and engagement processes of all payout agents in accordance with the Board's procurement rules and guidelines, and expanded the payout agent network by appointing additional accounting firms to mitigate the risks of unavailability of resources for the provision of project management and accounting services by the payout agents as a project manager.

Rehearsal and procedure walkthrough activities

The Board continued to work with selected accounting firms to maintain effective coordination with other service providers and refresh their understanding of their role and responsibilities during a payout. This is achieved by procedure walkthrough exercise and rehearsal of various challenging scenarios for testing the capabilities of the service providers in performing their functions up to the required standards. Two walkthrough sections were performed in 2011, and in each session, an accounting firm engaged by the Board acted as a project manager to master the payout operation details.

Following the completion of three successful full-scale rehearsals in previous years, the Board conducted an issue-specific rehearsal in 2010. The rehearsal focused on the compensation determination process in respect of a group of depositors, each of which has a complex liability profile, for example, the depositor owed debts jointly and severally with another debtor, or the depositor provided a guarantee to a customer of the Scheme member which was the subject of the rehearsal. The rehearsal proved that the Board has adequate processes, procedures and systems in place to guide the payout agents in calculating payment to depositors with respect to set-off calculation applicable to most of the scenarios involving different deposit and liability combinations. The payout agents made some suggestions on how to make the payout processes even more efficient, as well as on how certain payout processes could be streamlined. These have been incorporated into the Board's plan for updates to the payout policies, processes and for payout system enhancements.

Compliance with the information system guideline

In accordance with the Board's compliance review programme which has been communicated to the industry, six compliance reviews were conducted during the year using a risk-based approach for selection of Scheme members. The scope of each review covered the verification of the correctness of data format, and the completeness and accuracy in which the Scheme member made the required data available to the Board. Based on the reviews conducted so far, the level of compliance was generally satisfactory. Scheme members were required to provide action plans to resolve any variance from the guideline identified in the reviews. The Board monitored the progress of implementation of the remedial actions by the Scheme members to ensure the gaps were filled.

Concurrent with the compliance reviews, the Board used the customer records provided by Scheme members to conduct simulation tests. This included application of payout processes and procedures to test for specific simulated scenarios such as handling of incomplete depositor details and applying various approaches to stratify depositors to formulate interim payment strategies. The simulations also served as part of a knowledge management process to maintain the readiness of the Board's personnel and payout agents to perform payouts.

The Board issued amendments to the information system guideline and an explanatory note in March 2009 to address areas for improvement identified from the Scheme's operation since its commencement. Compliance with such amendments by Scheme members became mandatory in July 2010. The Board closely monitored the progress of Scheme members in preparation for full compliance. According to the reports submitted by Scheme members, all institutions had achieved full compliance in 2010. The Board would verify the level of compliance through its compliance review programme.

Access to pre-established funding facilities

Upon triggering of payment under the DPS, the Board is obliged to make compensation to the depositors of the failed Scheme member as soon as practicable. To this end, the Board established in October 2006 a standby funding facility from the Exchange Fund of an amount up to HK$40 billion to meet the funding requirements of the DPS in a payout. The costs and losses that may be incurred in the payout process will be absorbed by the DPS Fund.

As the increase in DPS protection limit to HK$500,000 became effective on 1 January 2011, the existing facility limit of HK$40 billion would not be sufficient to meet the Board's liquidity requirements. In order to meet the increased liquidity needs, the Board secured from the HKMA an increase in the size of the standby credit facility to HK$120 billion.

Building up the DPS Fund

Composition of the Fund

The DPS Fund mainly consists of two components, namely the annual contributions made by Scheme members (other than exempted members) to the Board and the returns generated from the investments of the Fund.

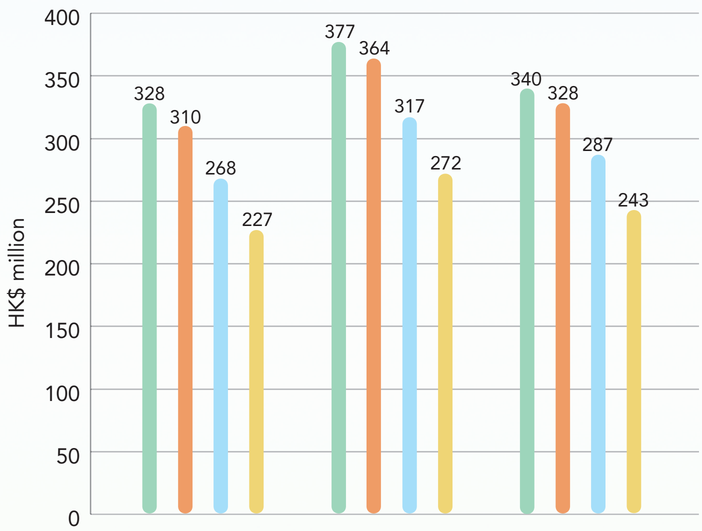
Reporting of relevant deposits

Scheme members are required to report the amount of relevant deposits held with them in the fourth quarter each year and the reported figure, together with the supervisory rating provided by the HKMA, serves as the basis for determination of the amount of contribution payable by a Scheme member in the coming year. In 2010, the return of relevant deposits was revised to reflect: (i) the increase in the protection limit to HK$500,000; (ii) the expansion in DPS coverage to secured deposits; and (iii) the option made available to Scheme members for reporting on a net deposit basis. Clear and early guidance has been provided by the Board to facilitate the industry to adopt the new reporting standards. The Board also conducted briefings to Scheme members to facilitate the industry's preparation for the change.

Assessment and collection of contributions

The amount of contributions collected from Scheme members for the year amounted to HK$328 million, representing a 13% decrease from that in the previous year. The decrease was mainly attributable to the reduction in contribution levy across the board for all Scheme members and the new basis for reporting the amount of relevant deposits for assessment of contribution payable, both of which were introduced by the enhanced DPS. All contributions were paid by Scheme members in accordance with the DPS Contribution Rules in the first quarter of 2011. The top 20 Scheme members continued to account for about 95% of the total contributions and there was no major change in the distribution of contribution payment among Scheme members when compared to the same period in 2010.

Contribution paid by Scheme members
by relevant deposits held



% of Total	**2011**	2010	2009
Top 5	**69%**	72%	71%
Top 10	**82%**	84%	84%
Top 20	**95%**	97%	96%
Total	**100%**	100%	100%

To ensure that the relevant deposit data reported in the returns submitted by Scheme members are correctly compiled, the Board has been requesting Scheme members to conduct regular audit reviews of their Returns of Relevant Deposits in accordance with the policy for reviewing returns since 2007. A total of 40 Scheme members were requested to submit an audit report to the Board on the correctness of their returns in 2011. The results of the review were generally satisfactory and no reporting error leading to a material impact on the amount of contributions collected by the Board was noted. After the completion of the review, over 90% of the relevant deposits reported on the HK$500,000 protection limit basis have been verified by an auditor. This provides a confidence of the correctness of the total amount of contributions payable by the industry.

Investment of the DPS Fund

As the financial market remained volatile during the year, the Board continued to exercise extra caution and adopted a conservative investment strategy in accordance with the investment restrictions set out in the DPS Ordinance and investment policies of the DPS Fund. This was aimed at capital preservation and guarding against possible losses that might arise from any sudden change in market sentiment. The investment operation was in strict accordance with the investment control policies which set out clear guidelines on risk assessment and control measures, and the segregation of duties required for investment activities.

In view of the strong US dollar against Hong Kong dollar, the Board sold before the end of March 2011 all the US Treasury papers which it held for most of the time during the year and converted the proceeds into Hong Kong dollar to lock up the profit for the Fund. As a result, the Fund's assets were predominantly held as deposits at call with the Exchange Fund at the end of March 2011, and almost all were denominated in Hong Kong dollars with only minimal balance in US dollars. This is in sharp contrast to a more balanced mix in the investment portfolio in the previous year when cash and investment securities accounted for about 40% and 60% of the DPS Fund respectively. Amidst the low interest rate environment, the DPS Fund managed to make an investment return of 0.7%, compared with 0.6% in the previous year.

Mix of cash and investments of the DPS Fund (as at 31 March)

(in HK$ million)	**2011**	2010
Cash and deposit balance	**1,535.9**	484.7
Investment securities	**0.0**	782.6
Total	**1,535.9**	1,267.3

Currency mix of cash and investments of the DPS Fund (as at 31 March)

(in HK$ million)	**2011**	2010
HK dollar	**1,535.5**	126.6
US dollar	**0.4**	1,140.7
Total	**1,535.9**	1,267.3

ENHANCING PUBLIC AWARENESS AND UNDERSTANDING

Focused on delivering key messages

It is widely recognised that adequate communication in ensuring public awareness of the existing deposit protection arrangements and any upcoming changes is essential to the effective functioning of a deposit insurance system. During the past year, the Board maintained close coordination with the relevant authorities to keep the public well informed of the expiry of the FDG offered by the Hong Kong SAR Government by the end of 2010 and the commencement of the enhanced DPS at the beginning of 2011.

To reach the widest audience possible on the key messages of the impending changes, an extensive publicity and educational campaign was commissioned, with professional advice from public relations and advertising consultants, for implementation throughout the year. The objectives were to promote and sustain general public awareness and understanding of the key features of the new DPS and to enhance transparency and credibility of the Board.

The strategy was to create a two-phase integrated communications programme with the aid of a wide diversity of mass media covering TV, radio, newspapers and print materials, public transport and the internet. The first phase of the campaign was launched in mid-2010, focusing on LegCo's endorsement of the legislative proposals for putting into effect the various enhancement measures.

In the second phase, towards the end of November 2010, the focus was to reinforce the public awareness of the imminent transition from the FDG to the enhanced DPS, continuing into early 2011 with greater emphasis placed on the new protection limit and other features in the new protection regime. In addition to the mass communications channels, a roving exhibition, with onsite public interaction, was held in various districts across the territory.

A snapshot of the TV commercial to remind the public of the expiry of the FDG

Publicity campaigns to reach mass public

A series of TV advertisements was produced and broadcast widely at regular intervals on TV channels. Through the popular quiz show format, the advertisements were well received and turned out to be very effective in driving home a number of key messages, notably:

- the protection limit raised to HK$500,000 under the enhanced DPS;
- secured deposits are protected;
- deposits denominated in Hong Kong dollars or other currencies are protected;
- the types of financial products not protected; and
- the requirement to disclose product protection status by banks.

Series of infomercials to educate the public about the key features of the DPS

DPS messages are displayed in different transportation systems

Outreach activities to promote dialogue with the public

To further broaden the reach of the campaign, roving exhibitions were held in high foot traffic venues to engage the public at a community level. The aim was to engage the public in an active dialogue with the Board and to answer public enquiries on the DPS in an interactive manner. Information leaflets and souvenirs bearing DPS slogans were distributed to members of the public during the events. The exhibitions were staged at MTR stations and shopping malls in various districts throughout Hong Kong.

Outreach opportunities through weekly roving exhibitions to reach the public in different districts

To further enhance the reach of the DPS messages, the Board also collaborated with Scheme members in promoting the DPS messages to customers. Strong support from Scheme members was obtained which made available the information leaflets and other seasonal souvenirs produced by the Board for distribution at their branches. With a view to allowing the public to be acquainted with the transition from the FDG to the enhanced DPS, more than 4.5 million copies of information leaflets were distributed by about 100 Scheme members to their customers as statement inserts since December 2010 to inform their depositors of the enhanced deposit protection arrangements starting 2011.

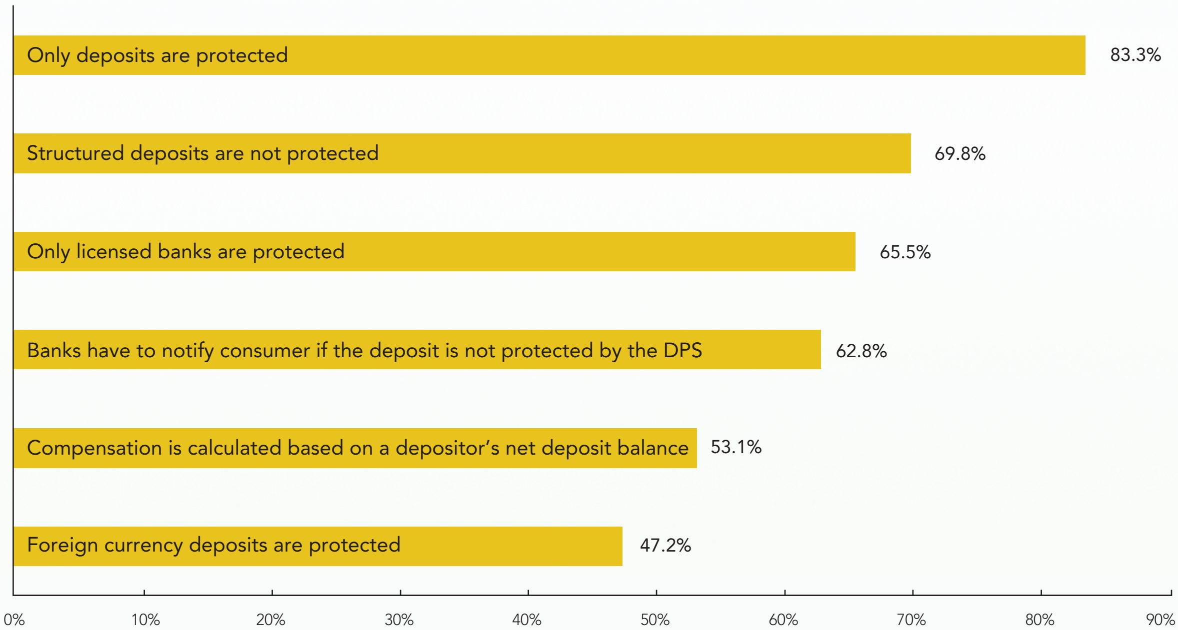
Seasonal souvenirs and information leaflets are distributed by Scheme members on behalf of the Board

Effectiveness of the publicity campaigns

Since the DPS commenced operation in 2006, the Board has been engaging an independent research agency to conduct opinion surveys to measure the level of public awareness and understanding of the DPS, so as to assess the effectiveness of its publicity campaigns.

The findings of the survey conducted in December 2010 indicated that the public was generally well aware of the transition arrangement from the FDG to the enhanced DPS. Among those who were aware of the FDG, close to 80% of them knew the scheduled date of the expiry of the FDG. In addition, about 70% of all respondents were well aware of the new protection limit under the enhanced DPS at HK$500,000. The statistics reflected that the publicity programs of the Board were able to enhance public awareness of deposit protection. While a stronger emphasis was placed on the transitional arrangements during the end of 2010 and the beginning of 2011, the awareness level of the key features of the DPS remained largely the same as in the previous year. After a smooth transition to the enhanced DPS, more publicity focus was put on the scope and coverage of the DPS to enable depositors to have a more comprehensive understanding about the Scheme. The Board will continue to make use of the findings of surveys to enhance its future communication and publicity strategies.

Level of understanding of different aspects of the DPS



Note: As a percentage of those who were aware of the DPS

DPS membership and strengthened product representations by Scheme members

The Representation Rules were first issued by the Board in 2006 to govern the representations made by Scheme members about their DPS membership and the protection status of the financial products offered by them. During the past two years, close to 40 on-site examinations were completed to assess the level of compliance of Scheme members with the representation requirements applicable to both the FDG and the DPS. The findings indicated that the overall compliance standard of Scheme members was satisfactory. There were only isolated non-compliance incidents in respect of which Scheme members took immediate remedial actions to tighten their controls and safeguard the interests of the depositors affected.

In November 2010, the Board introduced amendments to the DPS Representation Rules in the form of subsidiary legislation, to implement the enhancements to the disclosure regime as concluded in the review of the DPS in 2009. The major enhancements include:

- requiring Scheme members to give notifications to customers of non-protected deposits on a transaction basis;
- to make positive disclosures in respect of the deposits protected by the DPS;
- to restrict the use of the term "structured deposit"; and
- to respond to customers' enquiries on the protection status of financial products in a specified manner and within a specified timeframe.

All the amendments, except the restriction on the use of the term "structured deposit", took effect on 1 January 2011. To allow time for Scheme members to make the requisite system changes, the restriction on the use of the term "structured deposit" will take effect on 1 July 2011.

A set of guidance notes providing guidance on operational issues in relation to achieving compliance with the enhanced Representation Rules has been issued to facilitate Scheme members' preparation for compliance. The Board also held briefings well in advance of the effective date of the Rules to enable Scheme members to get prepared to meet the new standards.

While the representation requirements have been enhanced to improve transparency, in the absence of close monitoring of the level of compliance by Scheme members with the requirements, the effectiveness of this communication channel would be compromised easily. Therefore, to detect any major non-compliance with the enhanced Representation Rules at an early stage, the Board conducted a focused review in the first quarter of 2011. The review examined the representations made by major retail Scheme members and covered the following major requirements:

- the display of DPS membership signs at bank branches and on websites;
- membership representation in advertisements;
- display of notice of types of protected deposits at bank branches;
- negative disclosure in respect of non-protected financial products; and
- positive disclosure in respect of protected deposits.

The review results indicated that there was in general no major non-compliance with the representation requirements by the selected Scheme members. Going forward, self-assessment reviews and on-site examinations will be conducted for compliance checking.

RELATIONSHIP WITH OTHER SAFETY NET PLAYERS

Co-operation with the Hong Kong Monetary Authority

Both the Board and the HKMA are financial safety net players in Hong Kong and share a common aim of promoting the stability of the banking system. To ensure this is accomplished, the Board and the HKMA have signed a Memorandum of Understanding (MoU) setting out how the two organisations are to co-operate with each other in the performance of their respective functions. In addition, as the Board is required by the DPS Ordinance to perform functions through the HKMA, the Board and the HKMA have agreed on the extent of support provided by the HKMA. The Board has also secured a standby facility from the Exchange Fund to provide the necessary liquidity required for payment of compensation in the event of a bank failure. During the year, the Board and the HKMA closely co-operated with each other in accordance with the terms of the MoU, particularly on ensuring the smooth expiry of the full deposit guarantee on 31 December 2010.

Relationship with the Securities and Futures Commission and the Investor Compensation Company

Under certain circumstances in the event of a bank failure, the funds of a depositor or a portion of those funds is simultaneously covered by the DPS and the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance for compensating securities or futures investors. To ensure that no person receives double compensation, the Board and the Securities and Futures Commission (SFC) have agreed on a set of arrangements to co-ordinate and exchange information between the parties. The detailed arrangements have been documented in a MoU between the Board, the SFC and the Investor Compensation Company (ICC), the company recognised by the SFC for administering the ICF. Specifically, the MoU recognises that the DPS will normally pay the depositors first in the event of a bank failure and, to avoid double compensation, the parties should inform each other when compensation is paid to a depositor that has lodged a claim with the ICF.

INTERNATIONAL COOPERATION

As a member of the International Association of Deposit Insurers (IADI), the Board actively participated in conferences and seminars organized by the IADI, its member deposit insurers and other international organisations and exchanged knowledge and views on issues relevant to deposit protection in the international forum. This is particularly important for keeping up-to-date with the international developments, for better coordination both in times of financial crisis as well as in the aftermath of the crisis where sharing of experience on the effectiveness of reform measures overseas provides insights and an impetus for change to ensure a robust DPS in Hong Kong.

In 2010-2011, the Board's personnel took part in a number of international meetings including:

- the IADI 9th Annual Conference and Annual General Meeting in Tokyo, Japan;

CEO Meena Datwani shares her views in the conference in Tokyo, Japan

- the 9th Asia Regional Committee Annual Meeting and International Conference of IADI in Bangkok, Thailand; and

CEO Meena Datwani is a speaker of the event

- a seminar on deposit insurance assessments and fund management organised by the IADI and the Federal Deposit Insurance Corporation in Washington DC, United States attended by the Deputy CEO (Operations).

To gain a better understanding and exchange payout operation know-how with the well established deposit insurers, the Board met the colleagues from the Canadian Deposit Insurance Corporation in April 2011.

Deputy CEO (Payout) Anita Chan (third from right) with the representatives from Canadian Deposit Insurance Corporation