

香港存款保障委員會
HONG KONG DEPOSIT
PROTECTION BOARD

Annual Report 2010-2011



The Hong Kong Deposit Protection Board is a statutory body established under the Deposit Protection Scheme Ordinance to oversee the operation of the Deposit Protection Scheme. The Scheme is designed to protect depositors and to help maintain the stability of Hong Kong's banking system.

The Board's mission is to maintain an efficient and effective deposit protection scheme in accordance with the Ordinance and in line with international best practice.



**Hong Kong
Deposit
Protection Board**

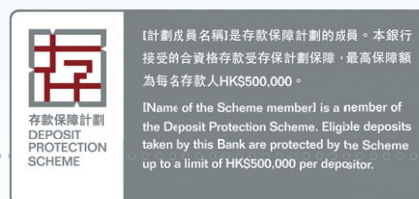
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DEPOSIT PROTECTION SCHEME AT A GLANCE

All licensed banks, unless otherwise exempted by the Board, are required to participate in the Deposit Protection Scheme (DPS) as a Scheme member. All Scheme members display a membership sign prominently at their places of business.



The DPS protects deposits up to a limit of HK\$500,000 per depositor per Scheme member. *(The compensation limit has been raised from HK\$100,000 since 1 January 2011.)*

Depositors are not required to apply or pay for protection or compensation. Eligible deposits held with Scheme members are automatically protected by the DPS.

Deposits denominated in Hong Kong dollar, Renminbi or any other currencies are protected.

The DPS protects eligible deposits held with Scheme members. Secured deposits have also come under the protection of the DPS starting from 1 January 2011. The DPS however does not protect term deposits with a maturity longer than five years, structured deposits, bearer instruments, off-shore deposits and non-deposit products such as bonds, stocks, warrants, mutual funds, unit trusts and insurance policies.

A depositor's entitlement to compensation will be calculated on a net basis, that is, the liability of the depositor to a Scheme member will be deducted from the protected deposits he maintains with the Scheme member in determining compensation.

A Deposit Protection Scheme Fund (DPS Fund) is being built up through collecting contributions from Scheme members. The target fund size is 0.25% of the total amount of protected deposits held with all Scheme members, or approximately HK\$3.5 billion.

Contributions payable by Scheme members for building up the DPS Fund are assessed on a differential premium basis. Assessment is made annually with reference to the supervisory rating of each Scheme member.



ACCOMPLISHMENTS IN 2010-2011

CONTINUING DEPOSIT PROTECTION

- Depositors enjoyed additional protection under the enhanced DPS after the expiry of the full deposit guarantee (FDG) provided by the Hong Kong SAR Government at the end of 2010. The transition from the full guarantee to the enhanced protection arrangement under the new DPS was smooth.
- The enhanced protection limit of HK\$500,000 took effect in January 2011. Secured deposits have also come under the protection of the DPS starting from 2011.

90% OF DEPOSITORS FULLY PROTECTED

- The Board completed the legislative process for implementing a number of major enhancements as concluded in the DPS review in 2009, including raising the protection limit and expanding its coverage. The Deposit Protection Scheme (Amendment) Bill 2010 (the "Bill") was passed by the Legislative Council (LegCo) in June 2010 to give effect to the enhancements on 1 January 2011. After the enhancements, 90% of the depositors in Hong Kong are fully protected by the DPS.
- The Board completed the legislative process in the form of negative vetting of the Deposit Protection Scheme (Representation on Scheme Membership and Protection of Financial Products under Scheme) (Amendment) Rules 2010 for implementing the remaining enhancements identified in the DPS review. The negative vetting was completed in October 2010.

FULL READINESS TO PAYOUT

- The Board continued its efforts in maintaining the readiness of its payout agents by conducting procedure walkthrough and rehearsal activities, as well as to ensure Scheme members' compliance with the information system requirements to facilitate an efficient payout.
- The Board verified its capability to undertake payout in accordance with the enhanced DPS through conducting six simulation tests on Scheme members of different business nature and size.

CONFIDENCE OF THE PUBLIC

- The Board launched massive publicity campaigns to promote public awareness and enhance their understanding about the expiry of the FDG at the end of 2010 and the commencement of the enhanced DPS at the start of 2011.
- A territory-wide opinion survey in December 2010 revealed that over 70% of the respondents were aware of the commencement of the enhanced DPS with effect from 1 January 2011, indicating that the publicity efforts were effective in informing the public of the impending change in the deposit protection arrangement ahead of time.
- The Board continued to monitor closely Scheme members' compliance with the DPS representation requirements through a self-assessment exercise and on-site examinations.

SUFFICIENCY OF FUNDING AND INVESTMENT OF DPS FUND

- The Board collected HK\$328 million contributions from Scheme members in 2011.
- The assets of the DPS Fund totalled HK\$1,548 million at the end of March 2011.
- The investment objective of the DPS Fund is mainly to preserve capital and ensure sufficient liquidity to meet the financial obligation of the Board. The DPS Fund achieved an investment return of 0.7% amidst a low interest environment.
- The Board secured an increase in the size of the standby credit facility provided by the Exchange Fund from HK\$40 billion to HK\$120 billion in January 2011 to meet the liquidity required for payment of compensation under the increased protection limit in the event of a bank failure.



MESSAGE FROM THE CHAIRPERSON



Mrs CHAN WONG Shui, Pamela, BBS, JP
Chairperson

The year under review was as challenging as it was fulfilling, heralding in a new era of deposit protection – and banking stability – in Hong Kong. It saw the historic transition, upon the expiry of the Government's full deposit guarantee, to a new regime of enhanced deposit protection on 1 January 2011. Significantly, the new Deposit Protection Scheme raised, inter alia, the protection limit to HK\$500,000 and extended the coverage to secured deposits, covering 90% of the depositors in Hong Kong.

The Board went through a mandatory legislative process to give effect to the new Scheme, involving amendments to the Deposit Protection Scheme Ordinance and a subsidiary legislation, secured sufficient funding to meet demands for compensation payment in the event of a bank failure, and streamlined the payout process to ensure quick access to deposit compensation by depositors. These and other key operational areas were crucial to maintaining the Board at a high level of confidence in the efficient and effective administration of the deposit protection scheme.

That the transition was achieved so smoothly and successfully within a very tight timeframe is most gratifying and a true credit to the many parties involved – the legislature, the Financial Services and the Treasury Bureau, the Department of Justice, the banking industries and other stakeholders – for bringing it into fruition. Needless to say, the confidence and support of the general public who are the ultimate beneficiaries of the protection, is most pivotal.

The Board is fully aware that a credible deposit protection scheme is only as good as its readiness for payout and its ability to deliver on its mandate of making compensation payments promptly to affected depositors, on short notice, when there is a bank failure. Towards this goal, the Board has made good progress in improving its payout efficiency, with enhanced powers under the new scheme to make compensation in a more expeditious manner. Thanks to the Hong Kong Monetary Authority, a standby credit facility to the tune of HK\$120 billion from the Exchange Fund was made available to the Board. The Board has also adopted measures having a mitigating effect on the cost implication to the banking industry in their contributions to the target DPS fund size caused by the wider protection.



Another key area of our work is effective communication with the general public. We have never lost sight of the importance of building up consumer awareness and understanding to canvass their support and confidence in deposit protection. A massive publicity campaign and interactive dialogue with the public with specific focus on the transition and enhanced protection was drawn up and put into action to good effect. In a concerted effort, the Board was also active in urging the banking industry to proactively disclose to deposit account holders of their protection status under the new scheme. As evidenced by the smooth transition from full guarantee, our hard work overall has paid off abundantly.

In the past year, there were considerable personnel changes at the Board, Professor Andrew Chan, Chairman since 2004 has completed his six years service with the board, likewise three Members have retired. Ms Meena Datwani succeeded Mr Raymond Li as CEO of the Board. Taking this opportunity, I would like to express my heartfelt thanks to the outgoing members, namely, Mr Ian Chapman, Professor David Cheung, Mr Nicholas Etches as well as Mr Li for building up a solid foundation for the continuous development of deposit protection.

Last but not least, I am highly honoured and fortunate to have Professor Andrew Chan as my predecessor, during whose tenure of chairmanship, a significant proportion of the work was initiated and carried out to near conclusion. Professor Chan exhibited outstanding leadership and insight in shaping the protection scheme beneficial to deposit consumers, and in steering the growth of the Board since its inception in 2006. He has left a legacy of excellence that would be hard for me to match. I owe him my personal gratitude.

The general economic outlook of Hong Kong for the year ahead is positive despite uncertainties of the financial markets of some economies. On our part, the Board remains vigilant in discharging our functions by closely monitoring the global trends to offer protection to depositors. As we strive for improvements in the new era of enhanced deposit protection in Hong Kong, we will continue to rely on the wisdom and guidance of our members; the dedication and professionalism of its Chief Executive Officer and the staff. We also look forward to the continued support of our stakeholders and members of the depositor public to our efforts.



CHAN WONG Shui, Pamela
Chairperson



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Ms DATWANI Meena
Chief Executive Officer

The year 2010-2011 was a particularly challenging and busy one in the Hong Kong Deposit Protection Board's brief 5-year history as the Board moved forward to a new regime of enhanced deposit protection for bank depositors. Despite an extremely tight schedule, the DPS enhancements which gave depositors a higher protection limit and extended the scope of the DPS to include secured deposits – were brought in place at the start of the year 2011 on 1 January.

Massive preparatory work was undertaken to ensure the transition would be smooth and on schedule, upon the expiry of the Government's full deposit guarantee introduced in the aftermath of the global financial crisis in 2008. More importantly, the Board needed to ensure that the new scheme would have the broad support and confidence of the public, the banking industry and other stakeholders. Towards these objectives, the Board directed its efforts in a number of key operational areas in the year under review.

THE LEGISLATIVE PROCESS TO AMEND THE ORDINANCE

Considerable effort was put into the preparation of the Bill to amend the Deposit Protection Scheme Ordinance. In April 2010, the Board, in collaboration with the Financial Services and the Treasury Bureau and the Department of Justice, introduced to the Legislative Council the Bill embodying the required legislative amendments for implementing the DPS enhancements. The Bill was passed in June; and in October, the Board completed and tabled the enhancements to the representation requirements governing disclosure and increasing transparency of the new DPS to the public. The entire legislative process was finalized in time to usher in the transition on 1 January 2011.

The enhanced DPS raised the compensation limit from HK\$100,000 to HK\$500,000 per depositor per Scheme member, including deposits in currencies other than Hong Kong dollars, thus effectively covering 90% of the depositors in Hong Kong who now can enjoy full DPS protection since January 2011. Under the new scheme, secured deposits are protected but structured deposits will remain outside the protection net. The next survey to assess the implications of the popularity of structured deposits will take place next year. The issue of ensuring adequacy of coverage of the DPS is a subject of regular reviews by the Board, in line with global developments and international best practice.



NEW POWERS TO ENHANCE DPS PAYOUT EFFICIENCY

The Board is fully conscious of the importance and need to ensure the readiness of the DPS to payout in the event of a sudden bank failure. In the exercise of its new powers under the enhanced DPS, the Board has undertaken a number of initiatives to adjust its payout operations including its payout policies, procedures and processes accordingly. The Board spared no efforts to vigorously ensure payout readiness by testing data integrity of Scheme members in compliance reviews, and monitoring proper functioning of the payout system and procedures through simulation tests, payout walkthrough and rehearsal activities to verify and ensure they have the capability to support a payout under the enhanced DPS.

During the year, no fewer than six simulation tests and two walkthroughs were conducted much to the satisfaction of the Board. There is, however, no room for complacency. The Board will continue to undertake initiatives as warranted with its enhanced powers to ensure the Board's payout readiness.

SECURING SUFFICIENT FUNDING TO PAYOUT

To meet the increased liquidity needs of the enhanced DPS, the Board was able to secure from the Hong Kong Monetary Authority (HKMA) an increase in the size of the standby credit facility from HK\$40 billion to HK\$120 billion effective January 2011. Such substantial backup from the Exchange Fund of HKMA is necessary and essential in providing the Board with the financial ability to meet the demands for compensation from affected depositors when there is a bank failure.

During the year, the Board collected a total of HK\$328 million in contributions from Scheme members, representing a 13% decrease over the previous year and this brought the total assets of the DPS Fund to HK\$1,548 million by the end of March 2011. The decrease was due mainly to reduced contribution levy across the board for all Scheme members and the new basis for reporting the amount of relevant deposits for contribution assessment. The Board monitored the accuracy of Scheme members' audited returns for contribution assessment; no material error which would impact on the total contributions was noted. Amidst the continuing low interest environment, the DPS Fund achieved an investment return of 0.7% recording a slight increase than a year ago.

EXTENSIVE PUBLICITY CAMPAIGNS TO BUILD AWARENESS AND CONFIDENCE

It is crucial that the public is well informed of the level and scope of the deposit protection arrangement to ensure effective functioning of a deposit insurance system and banking stability. Our publicity strategy comprised a multi-media, two-phase programme to drive home the DPS messages spanning the entire period from mid-2010 as the legislative process commenced, reminding the public of the imminent migration from the Government's full guarantee to the enhanced DPS, to beginning of 2011 when the new protection limit and other features under the enhanced DPS came into force. In addition, outreach activities for the public were organized through roving exhibitions across the territory, and in collaboration with Scheme members, information leaflets were distributed at most of their branches and as inserts in their monthly statements to customers.



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

These massive publicity and educational campaigns have resulted, as indicated in an independent survey, in positive widespread public awareness of the key features of the transition in deposit protection – for instance, some 80% of respondents with prior knowledge of the FDG, were aware of the expiry date of the full guarantee; while some 70% of all respondents were informed of the new protection limit of up to HK\$500,000.

Further, public awareness and understanding was helped by better representation and disclosure of the protection status of financial products on the part of banks in compliance with the enhanced Representation Rules. To assess the extent of compliance, all Scheme members have been required to conduct a self-assessment review at this point in time. On-site compliance checks will also be carried out with the assistance of the HKMA to investigate any potential non-compliance cases.

A SMOOTH TRANSITION AND PLANS FOR 2011-2012

Overall, under the guidance of the Board, our efforts in these key operational areas have achieved the goal with a good measure of success as amply evidenced by the smooth transition. Our mission in protecting depositors and helping to maintain the stability of the Hong Kong's banking system was well and truly accomplished during a challenging year. With the commencement of the new DPS, we will turn our attention to other areas of priority.

In the coming year, we will focus on streamlining the payout mechanisms and procedures in our constant endeavour to maintain an efficient and effective deposit protection scheme. We will conduct more targeted publicity activities to deepen depositors' understanding of the key features of DPS protection. We must keep abreast of developments in the financial markets around the world and the latest recommended best practice consistent with the internationally recognized Core Principles for Effective Deposit Insurance Systems to ensure the long term effectiveness of our deposit protection arrangements.

A VOTE OF THANKS

Taking this opportunity, I would like to express my gratitude to members of the Board for their staunch support and valuable advice in the past year and, in particular, to the former Chairman, Professor Andrew Chan, whose exceptional leadership has made such a lasting contribution in shaping Hong Kong's deposit protection and the growth of the Board from its embryonic days, and the incoming Chairperson, Mrs Pamela Chan, for her vision in steering the Board to new horizons. I must thank also my colleagues for their dedicated services in assisting the Board in discharging its duties in a year of formidable challenge and which enabled a smooth transition to a new enhanced DPS regime.



DATWANI Meena
Chief Executive Officer



ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

INTRODUCTION

Launched in September 2006, the DPS is a key building block in Hong Kong's financial safety net. Through the provision of a measure of protection to depositors, the DPS contributes to the stability of the banking system. The Board is a statutory body established under section 3 of the DPS Ordinance (DPSO) to oversee the operation of the DPS.

MISSION AND FUNCTIONS OF THE BOARD

The Board's mission is to maintain an efficient and effective deposit protection scheme in accordance with the DPSO and in line with international best practice. Under section 5 of the DPSO, the Board's functions include the following:

- Assessing and collecting contributions payable by Scheme members;
- Managing the DPS Fund;
- Making payments to depositors in the event of a failure of a Scheme member; and
- Recovering payments made to depositors from the assets of the failed Scheme member.

PERFORMANCE OF FUNCTIONS THROUGH THE MONETARY AUTHORITY

Pursuant to section 6 of the DPS Ordinance, the Board shall perform its functions through the Monetary Authority (MA) unless indicated otherwise by the Financial Secretary (FS). This means the MA will act as an executive arm of the Board in administering the DPS.

The Hong Kong Monetary Authority (HKMA) has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources and information technology. Detailed arrangements regarding the extent of support provided by the HKMA are set out in a Memorandum of Understanding between the two organisations.

COMPOSITION OF THE BOARD

Members of the Board are appointed by the FS, with power delegated from the Chief Executive. They come from different professions such as accounting, banking, consumer protection, legal (insolvency), investment, information technology and public administration, and have rich experience in public service.

The Board currently comprises nine members including two ex officio members representing the MA and the Secretary for Financial Services and the Treasury.



ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

MEMBERS OF THE BOARD

Chairperson



Mrs CHAN WONG Shui, Pamela, BBS, JP

Former Chief Executive,
The Consumer Council of Hong Kong

Members



Miss CHAN Wai-hing, Annie

Managing Director,
Mazars Corporate Recovery & Forensic Services Limited



Professor CHIN Yuk-lun, Francis

Taikoo Professor of Engineering,
Chair of Computer Science,
Associate Dean of Engineering,
Department of Computer Science,
The University of Hong Kong



Mr HO Eugene

Former Chief Executive,
ICBC International Holdings Limited





Mr KIDD David

Head of Asian Business Restructuring Group,
Allen & Overy



Ms WAN Yuen-yung, Eleanor

Chief Executive Officer,
The Institute of Financial Planners of Hong Kong



Professor YEUNG Yuet-bor

Professor, Department of Information Systems,
City University of Hong Kong
Former Head of Information Technology, HSBC



Miss AU King-chi, JP

Permanent Secretary,
Financial Services and the Treasury (Financial Services)
Ex officio member of the Board representing the Secretary for
Financial Services and the Treasury



Mr YUEN Kwok-hang, Arthur, JP

Deputy Chief Executive,
Hong Kong Monetary Authority
Ex officio member of the Board representing the Monetary
Authority



ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

INVESTMENT COMMITTEE OF THE BOARD

The Investment Committee is established in accordance with section 7 of Schedule 2 to the DPSO. It consists of the following members:

Chairperson

Ms WAN Yuen-yung, Eleanor

Chief Executive Officer, The Institute of Financial Planners of Hong Kong

Members

Miss CHAN Wai-hing, Annie

Managing Director, Mazars Corporate Recovery & Forensic Services Limited

Mr CHU Siu-chuen, Francis

Executive Director (Reserves Management), Hong Kong Monetary Authority

Professor YEUNG Yuet-bor

Professor, Department of Information Systems, City University of Hong Kong

The terms of reference of the Investment Committee are:

- to make recommendations on the investment policy and strategy in respect of the DPS Fund;
- to monitor the investment performance of the DPS Fund and to establish proper risk management controls for the investment activities of the Board; and
- to deal with any other matters as determined from time to time by the Board.



DEPOSIT PROTECTION APPEAL TRIBUNAL

Under the DPSO, certain decisions of the Board and the MA can be the subject of an appeal to the Deposit Protection Appeals Tribunal. These include:

- the Board's decisions on whether a foreign bank branch can be exempted from participation in the DPS;
- the amount of contribution payable by a Scheme member;
- the amount of compensation payable to a depositor; and
- the MA's decision to impose an asset maintenance requirement on a Scheme member.

In accordance with section 40 of the DPSO, the Chief Executive of the Hong Kong SAR Government has made the following appointments to the Tribunal for the period from 14 January 2011 to 13 January 2014.

Chairman

Mr STUART-MOORE Michael, GBS

Panel of persons who may be appointed to be members of the Tribunal

Professor LAM Kit-chun

Mrs LUI FUNG Mei-yee, Mabel, JP

Ms XUEREB Maria

Sittings of the Tribunal are convened when required and members of the Tribunal will be appointed by the FS from the above panel.



ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

CONSULTATIVE COMMITTEE ON DEPOSIT PROTECTION SCHEME

To keep the industry informed of the development of the DPS, the Board has established a Consultative Committee comprising 13 representatives from the banking industry. The Committee serves as a useful forum for the Board and the banking industry to exchange views on issues of common interest. Members of the Committee are:

Mr CHOW Chak-chee, Bank of China (Hong Kong) Limited

Mr TONG Hon-shing, The Bank of East Asia Limited

Ms SO Yammie, BNP Paribas, Hong Kong Branch

Mr LING C Y, CITIC Ka Wah Bank Limited

Ms SO Francesca, Dah Sing Bank Limited

Ms HO Sinna, DBS Bank (Hong Kong) Limited

Mr CHO Joseph, Hang Seng Bank Limited

Mr CHOI Steve, The Hong Kong and Shanghai Banking Corporation Limited

Mr CHENG David, Industrial and Commercial Bank of China (Asia) Limited

Mr CHAN Dennis, JPMorgan Chase Bank, Hong Kong Branch

Ms CHEUNG Maggie, Mizuho Corporate Bank Limited, Hong Kong Branch

Mr HUI Peter, Nanyang Commercial Bank Limited

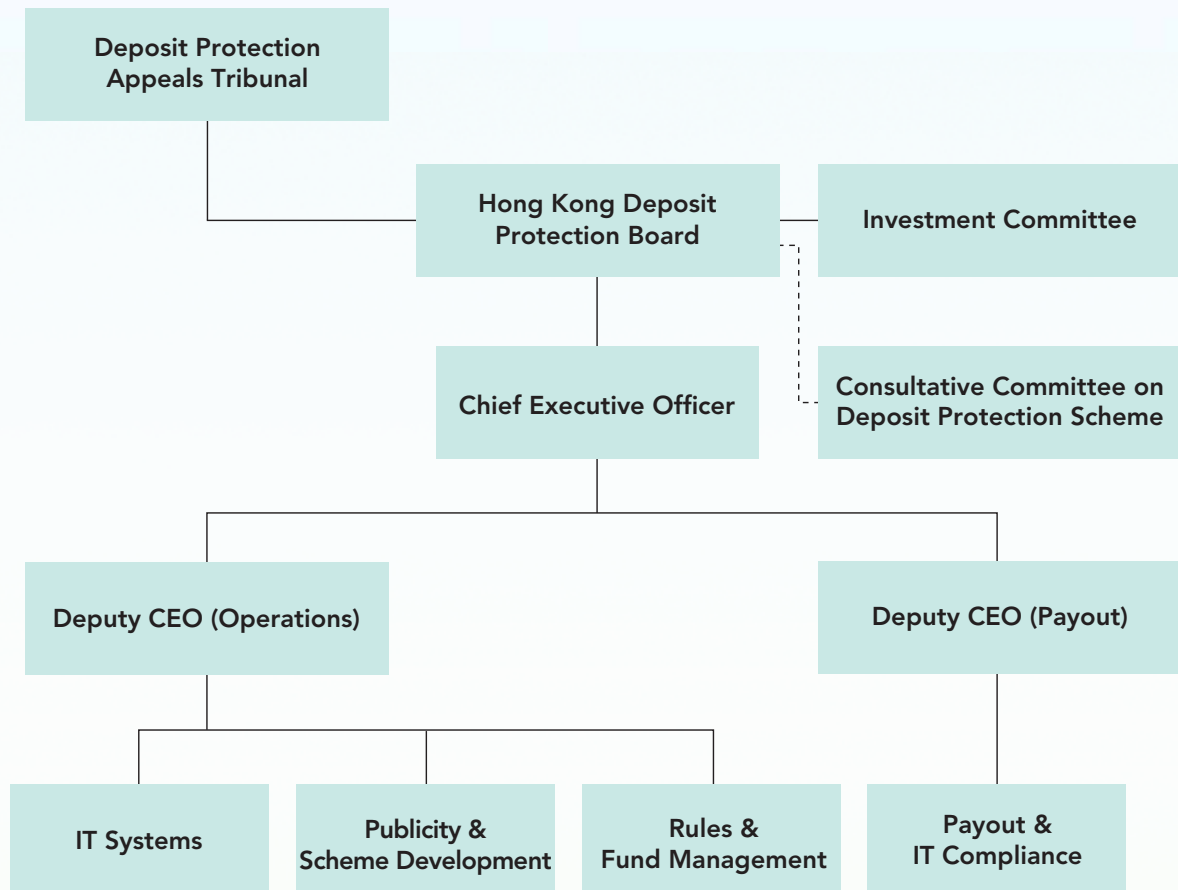
Mr WONG Teddy, Standard Chartered Bank (Hong Kong) Limited

The Committee's terms of reference are:

- to advise the Board on the formulation of the approach and strategy in relation to the development of the DPS;
- to consider and give comments on specific policy and operational initiatives proposed by the Board that may have an impact on the banking industry; and
- to assist the Board in maintaining effective communication with the banking industry.



ORGANISATIONAL STRUCTURE



CORPORATE GOVERNANCE

A strong and sound corporate governance framework is critical to the effectiveness of a DPS as a means to provide protection to depositors and to promote general banking stability. Therefore, apart from putting in place an efficient payout infrastructure and engendering a high level of public awareness and understanding of the DPS, the Board is fully committed to subscribing to sound corporate governance practices when administering the DPS, which in turn helps instil confidence in the public that the DPS will honour its commitments when a bank failure occurs.

Given the nature of the Board and the functions of the DPS, the corporate governance structure of the Board shares the characteristics of both a public organisation and a deposit insurer. The key elements of the Board's corporate governance structure interact and reinforce each other in supporting sound governance and are discussed in detail below.

BOARD GOVERNANCE

The Board is an independent statutory body formed under the DPSO. It is subject to the oversight of the FS who is responsible for approving the Board's annual budget and tabling the Board's annual report to the LegCo.

The functions and composition of the Board are set out in the DPSO which provides that the Board shall comprise between six to nine members, all of whom are non-executive members. Except for the two ex officio members, all other members are appointed for a fixed renewable term, but for not more than six years in normal circumstances. These members are appointed mainly because they possess professional or occupational experience relevant to the operation of the DPS and are committed to participate in public service.

The proceedings of the Board are governed by the relevant provisions in the DPSO. The Board meets three to four times every year to deliberate policy issues crucial to the operation and development of the DPS. In 2010-2011, the Board met four times. On average, over 90% of members were present at each meeting.

Under the DPSO, the Board may appoint committees to assist it in performing its functions. Currently, an Investment Committee comprising members with experience and expertise in banking and investment matters has been formed to advise the Board on the investment of the DPS Fund. The Chairperson and a majority of the members of the Committee are also members of the Board.



EXECUTIVE MANAGEMENT

Pursuant to section 6 of the DPSO, the Board shall perform its functions through the MA unless otherwise directed by the FS. This means the MA, acting as the executive arm of the Board, is responsible for managing the day-to-day operation of the DPS and assisting the Board in developing and implementing corporate policies and strategies.

The HKMA has assigned a team of staff to assist the Board in discharging its functions, headed by an Executive Director of the HKMA who is designated as the Chief Executive Director of the Board. The costs incurred by the HKMA for such purpose are reimbursed by the Board on a cost recovery basis in accordance with the provisions set out in the DPSO.

The powers that can be exercised by the Board in administering the DPS are specified in the DPSO. The Board has established clear guidelines on the division of responsibilities between the Board, the Management Team and other supporting divisions of the HKMA, and between the posts of the Chairperson and the Chief Executive Officer, which have been devised in line with good corporate governance practice. In general, strategic decisions relating to the operation and development of the DPS and those decisions requiring an exercise of the Board's powers under the DPSO have to be taken by the Board. The Management Team, on the other hand, is responsible for the day-to-day operation of the DPS according to the policies and principles endorsed by the Board.

RISK MANAGEMENT AND AUDITS

The Board ensures that appropriate and prudent risk management systems for managing the risks in operating the DPS have been implemented and reviewed regularly. Assisted by the Internal Audit Division (IAD) of the HKMA, which is a division independent of the departments in the HKMA supporting the Board, the Management Team performs an annual assessment of the risks inherent in various operational areas of the Board, and evaluates whether appropriate controls are in place to safeguard the Board against the potential risks identified. Regular audit reviews of the operation of the DPS are conducted to ensure that the various internal control procedures of the Board have been properly adhered to, especially in relation to activities posing a relatively high level of risk to the Board. The findings of the risk assessment also form part of the basis of the IAD in formulating its plan for auditing the operation of the DPS.

The IAD reports its findings and recommendations directly to a meeting of the Board to ensure independence of communication of its review results.

The appointment of the external auditor of the DPS Fund requires the approval of the FS. The external auditor is responsible for auditing the annual statement of accounts of the DPS Fund prepared by the Board. The external auditor reports its findings directly to the Board.

The external auditor for the year under review was PricewaterhouseCoopers (PwC). Apart from auditing the statement of accounts for 2010-2011, PwC is also engaged by the Board in providing advisory services for enhancing the efficiency of payout procedures and as a potential candidate eligible for appointment as a project co-ordinator for managing payout services.

To ensure the independence and objectivity of the external auditor, the Board has put in place policies which restrict engaging PwC for non-audit services during the financial audit period which might potentially compromise the independence of the financial audit.



CORPORATE GOVERNANCE

STANDARDS OF BEHAVIOUR AND ETHICS

In line with the good corporate governance standards applicable to deposit insurers, government representatives, including an HKMA officer, account for only a minority of the members of the Board. This allows the government and the banking supervisor to contribute to the operation of the DPS from the public administration and financial regulatory perspectives, but prevents the Board from overly exposing itself to the influence of the government and other financial safety-net players. The Management Team assigned by the HKMA to assist the Board is not responsible for prudential supervisory matters. The operation of the Board is insulated from the influence of the banking industry as no employees or directors of banks and banks' related companies can be appointed as a Board member.

The Board has established clear guidelines and procedures for declaration of interests and avoiding conflicts of interest. The relevant guidelines and procedures are set out in the DPSO and the Codes of Conduct for members and staff of the Board. Board members are required to register in writing their personal interests when they first join the Board or its committees, and annually thereafter, to the secretary of the Board. The register of Members' interests is kept by the secretary and is available for public inspection. Senior staff members of the Board are required to make a declaration to the Chairperson of the Board annually. Specific procedures are available on how members and staff of the Board should report their interests and be excused from a decision making process.

COMMUNICATIONS AND TRANSPARENCY

The Board is committed to open communication with the public and other stakeholders. It has set up an enquiry hotline to answer questions from the public, and maintains a website to facilitate access to information on different aspects of the DPS operations. In 2010-2011, the website registered over 150,000 visits. The Board also publishes an annual report, both for tabling to the LegCo and for public consumption. To keep the banking industry informed of the development of the DPS, the Board engages close discussion with the Consultative Committee on the Deposit Protection Scheme and the industry associations on policies and initiatives on the operation of the DPS that may have an impact on the banking industry.



APPEAL MECHANISM

Certain decisions made by the Board and the MA under the DPSO can be the subject of an appeal to the Deposit Protection Appeals Tribunal. The Tribunal is chaired by a High Court judge appointed by the Chief Executive. Members of the Tribunal are appointed by the FS from a panel of three people appointed by the Chief Executive.

REVIEW OF THE CORPORATE GOVERNANCE STRUCTURE

The Board has set a policy of reviewing its corporate governance structure regularly to ensure that it continues to adhere to sound corporate governance standards, despite any expansion or change in the scope of the Board's operations driven by the development of the DPS. Refinements are made between individual reviews as and when necessary as the Board keeps up with local and international best practices. In 2011, the IAD is conducting another review on the Board's corporate governance practices against the applicable standards promoted by international organisation and local professional body and authority.



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.

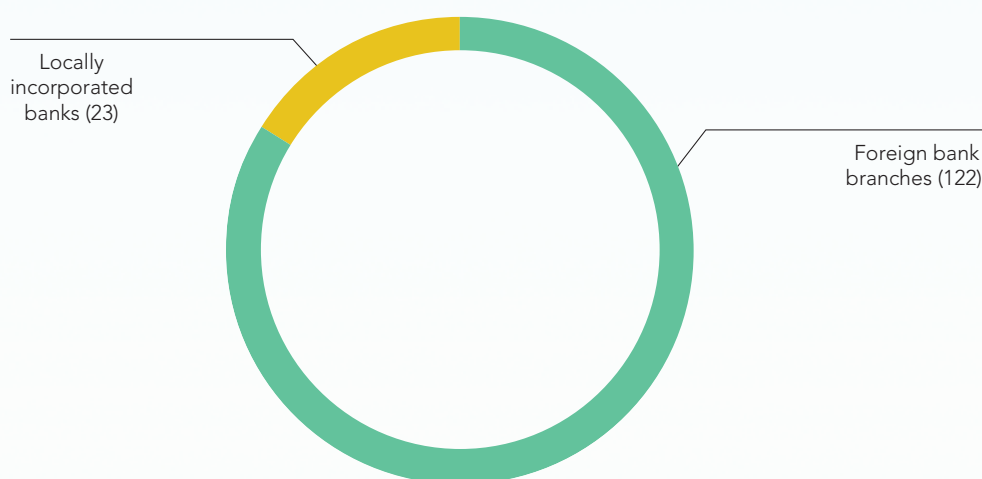
Given the robustness of banks in Hong Kong, the full deposit guarantee (FDG) provided by the Hong Kong SAR Government expired at the end of 2010 as scheduled without one single activation. The transition to the enhanced DPS was smooth and no adverse movements in deposits in the banking sector has been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

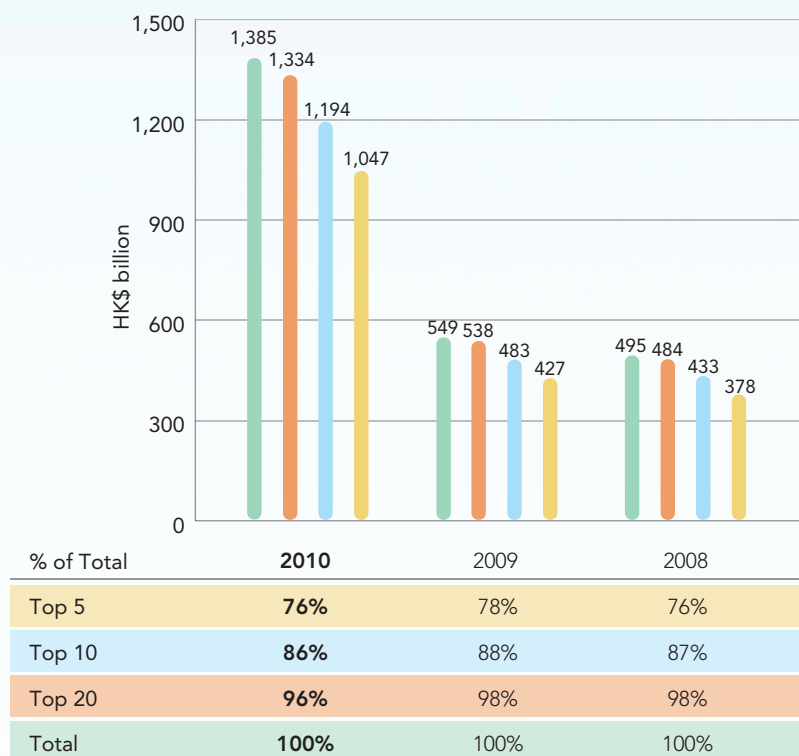


Scheme members reported the amount of relevant deposits held with them in 2010 on a new reporting basis to reflect that: (i) the protection limit of the DPS was increased from HK\$100,000 per depositor per bank to HK\$500,000; (ii) the scope of the Scheme was expanded to cover secured deposits; and (iii) 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.



REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

Relevant deposits held with Scheme members



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



REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

- 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

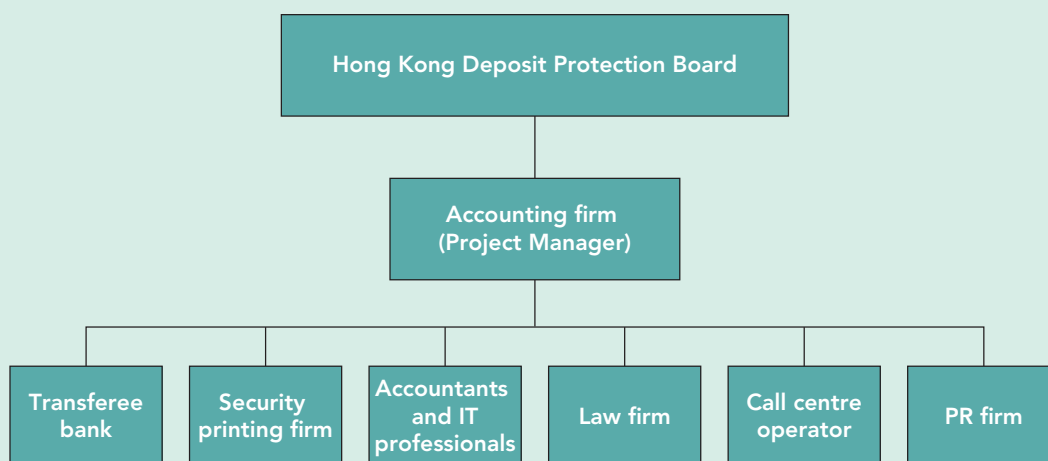
Background on Payout Readiness

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.



REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

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.



REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

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

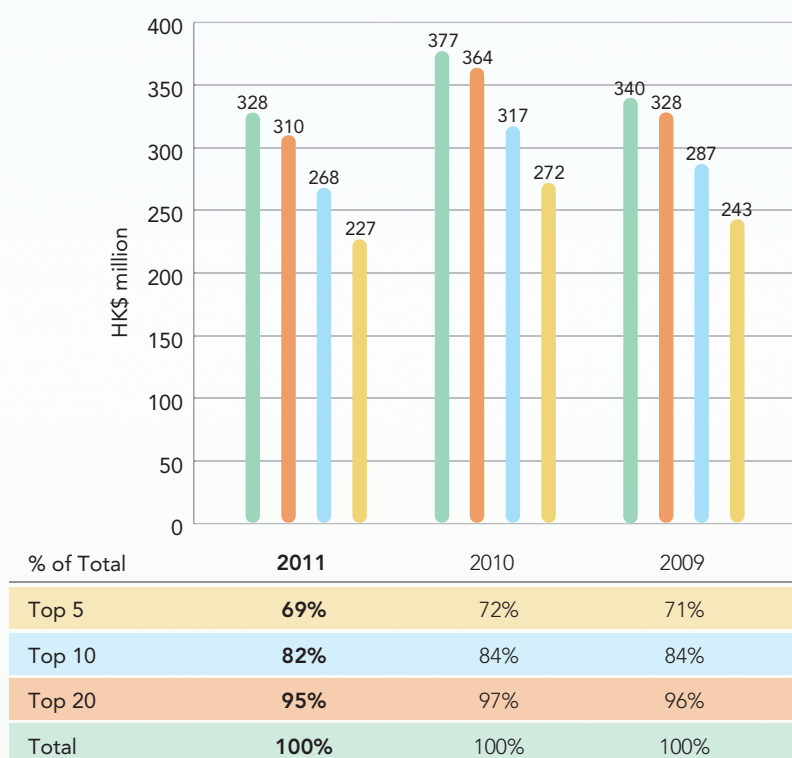
Scheme members are required to report the amount of relevant deposits held with them in the fourth quarter each year and the reported figure, together with the supervisory rating provided by the HKMA, serves as the basis for determination of the amount of contribution payable by a Scheme member in the 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



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.



REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

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



REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

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



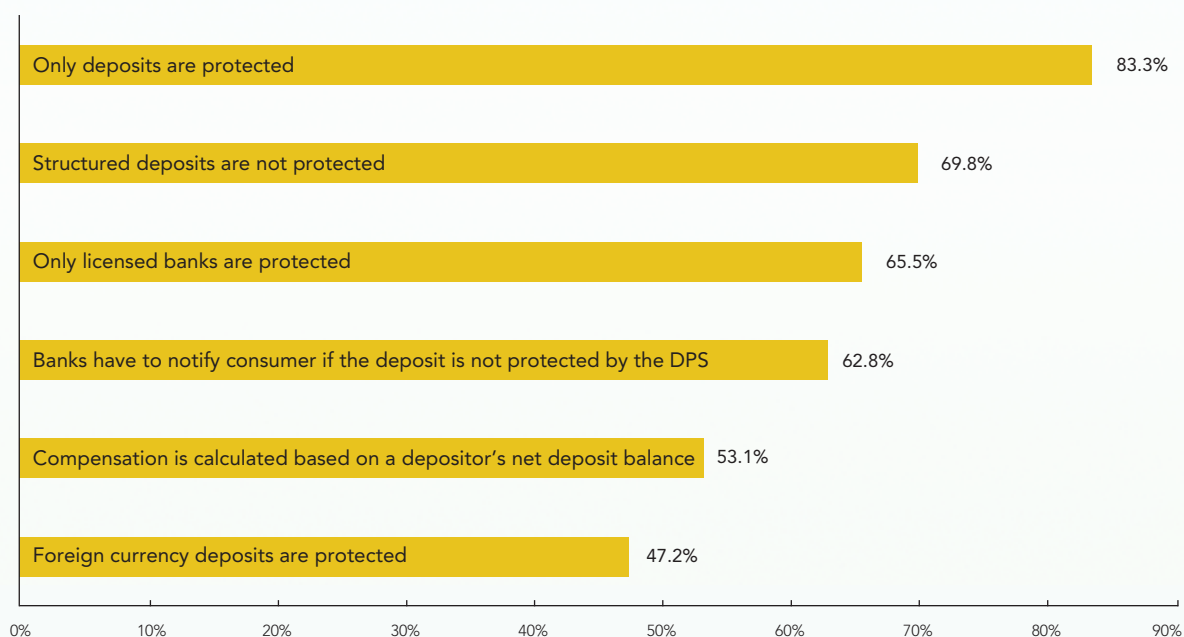
REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

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.



REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2010-2011

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



PLANS FOR 2011–2012

THE OUTLOOK

The economic prospect for the coming year is still full of risks and challenges, stemming mainly from the concern over whether the advanced economies can emerge out of the shadow cast by the global financial crisis and the uncertainties regarding the timing and the pace of unwinding the extraordinary monetary and fiscal stimulus measures and their potential impact on the global and local financial markets. European sovereign debt problems appear likely to continue, posing risks to the system until there is a more comprehensive solution to the fiscal imbalances of the highly indebted economies in the euro zone. As the Asian markets are likely to continue to outpace the advanced economies, due to the unprecedented economic expansion, the general economic outlook of Hong Kong remains positive. However, the banking industry should remain vigilant of possible global financial market adjustments and increasing risk of inflation and asset market bubble.

After the commencement of the enhanced DPS in 2011, the top priority of the Board in the coming year is to concentrate on consolidating the existing system for operating the enhanced Scheme and streamlining the newly established mechanisms to ensure an efficient and effective payout in the event of a bank failure. Promoting public awareness on the protection of the DPS and deepening depositors' understanding of the key features will be another focus of the Board in the year ahead.

BUSINESS PLAN WITH KEY INITIATIVES

Ensuring adequacy of coverage of the DPS

With the increase in the protection limit of the DPS to HK\$500,000 at the beginning of 2011, 90% of the depositors in Hong Kong have become fully protected by the DPS. While it is not expected that the percentage of depositors fully covered will have any noticeable change in the near future, the Board will continue to closely monitor the adequacy of the DPS coverage by analysing statistics collected from regular simulation tests with Scheme members and keeping a close watch on relevant market developments.

While secured deposits became protected by the DPS with effective from 2011, structured deposits remain outside the protection net. The regular survey established to monitor the implication of the popularity of structured deposits will continue and the next survey will take place in 2012.

Since many countries in other parts of the world are still reviewing the actual experience from operating their deposit insurance system during the financial crisis and undergoing reforms to further strengthen their deposit insurance arrangements, the Board will also keep abreast of these international developments and draw relevant lessons to make the necessary changes to the DPS in Hong Kong in order to render it more effective in contributing to banking stability. In particular, the Board, in collaboration with the HKMA, will participate in a thematic peer review of deposit insurance systems conducted by the Financial Stability Board. It is envisaged that the core features of the DPS will be assessed with reference to the Core Principles for Effective Deposit Insurance System issued by the Basel Committee on Banking Supervision and the IADI. This exercise can help the Board benchmark its operation against international best practices and further excel where appropriate.



Ensuring high public awareness and understanding of DPS

The Board attaches much importance to the coverage and effectiveness of the publicity activities that it launches. After the expiry of the FDG and the implementation of the enhanced DPS, the Board will continue to focus on promoting public awareness and understanding of the new protection limit and other key protection features in order to maintain the public confidence and the effectiveness of the DPS in contributing to the financial stability in Hong Kong. Massive publicity campaigns, mainly through innovative and educational TV, radio and print advertisements, will be carried out to disseminate the DPS messages widely to general depositors in the territory. In addition, the Board will broaden the spectrum of audience by conducting outreach activities at the community level to enable more direct and interactive contacts with the public and developing customised public education programmes for specific groups.

To facilitate the Board's monitoring of compliance by Scheme members with the requirements of the enhanced Representation for Rules, all Scheme members will complete conducting self-assessment review by the end of September 2011 assessing their compliance with the Rules. With the assistance of the HKMA, the Board will also conduct on-site compliance checks to support the self-assessment exercise and investigate any potential non-compliance cases identified in the self-assessment review.

Ensuring efficient and effective administration of the DPS

The Board will continue to assess and collect contributions from Scheme members for 2012 under the well-established mechanism, with reference to the returns of relevant deposits submitted by Scheme members and their supervisory ratings provided by the HKMA. As a result of the change in the deposit profile of the Scheme members under the new protection limit and the basis for reporting the amount of relevant deposits, the Board will re-examine the policy on review of returns of relevant deposits and update it where appropriate, to ensure that it continues to serve as an appropriate basis for commissioning audit reviews to verify the correctness of the compilation of the returns.

Ensuring the readiness of payout systems and processes are ready

Looking ahead, the Board will continue to develop processes, procedures and systems to implement the Board's enhanced powers alongside with the amended features of the DPS. The Board will consult the industry on the guidance notes regarding how the Board will exercise its powers to make reasonable estimate of values relevant for compensation determination. Taking into account the comments from the industry, the related principles, approaches and the defined processes will be incorporated into the Board's policies and procedure manual for guiding the Board's payout operation in a transparent and accountable manner.

The Board will also continue to conduct simulation tests concurrently with compliance reviews of Scheme members to ensure readiness of Scheme members' systems and the Board's payout system. Two subject-specific rehearsals are planned for 2012 which will drill on specified payout scenarios to promote coordination effectiveness of payout agents and to address special issues on compensation determination. These targeted rehearsals will give the Board an opportunity to assess the extent of work that will be required during a payout when dealing with complex issues. All these activities are essential measures for the Board to ensure its payout readiness.



PLANS FOR 2011–2012

Maintaining the transparency and credibility of the Board

In 2011, the Financial Stability Board (FSB), an international financial standards setting and advising body established to promote effective regulatory and supervisory policies, will conduct a thematic review to assess the latest position of FSB member jurisdictions in reforming their deposit insurance schemes in line with the practices recommended in the Core Principles for Effective Deposit Insurance Systems. The Board will take this opportunity to further review the design of the DPS and evaluate whether any international reform experiences in the aftermath of the financial crisis may be useful for improving the effectiveness of the DPS in future.

The perception of the public and other stakeholders about the integrity and credibility of the Board is also crucial to the confidence of the public in the DPS. In 2008, the Board conducted the first review of its corporate governance structure against the best practices applicable in Hong Kong and other relevant international standards. The Board has committed to perform regular reviews once every three years to ensure the maintenance of a strong governance structure. In accordance with the schedule, the Board is currently conducting another corporate governance review which will be completed in the latter part of 2011 to keep track of the latest best practices adopted by deposit insurers around the world.



INDEPENDENT AUDITOR'S REPORT

TO THE HONG KONG DEPOSIT PROTECTION BOARD

We have audited the statement of accounts of the Deposit Protection Scheme Fund (the "Fund") established under section 14 of the Deposit Protection Scheme Ordinance (the "Ordinance") set out on pages 43 to 62, which comprises the balance sheet as at 31 March 2011, and the income and expenditure account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

THE BOARD'S RESPONSIBILITY FOR THE STATEMENT OF ACCOUNTS

The Ordinance requires the Hong Kong Deposit Protection Board (the "Board") to keep and maintain proper accounts and records of all transactions of the Fund. The Board is responsible for the preparation of the statement of accounts that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for the internal control where the Board considers necessary to enable the preparation of the statement of accounts that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the statement of accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 19 of the Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement of accounts is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement of accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the statement of accounts that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the statement of accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the statement of accounts gives a true and fair view of the state of the Fund's affairs as at 31 March 2011, and of the surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and has been properly prepared in accordance with the Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 June 2011



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

	Note	2011	2010
Income			
Contributions		\$ 364,747,541	\$ 349,009,372
Interest income from cash and balances with bank and the Exchange Fund		566,890	129,221
Interest income from available-for-sale securities		4,538,535	4,055,271
Exchange gains		3,781,251	1,173,808
Realised gains from the disposal of available-for-sale securities		287,111	—
Other income		62,268	60,000
		\$ 373,983,596	\$ 354,427,672
Expenditure			
Staff costs	5	\$ 5,385,949	\$ 5,756,941
Premises costs		3,442,548	2,748,909
Depreciation and amortisation		5,629,275	5,066,164
Office supplies		76,364	70,751
Overseas travel		91,761	190,565
Transport and travelling		2,751	2,961
Operating expenses reimbursable to the HKMA		16,044,004	18,188,716
Hire of services		9,296,743	11,111,009
Communications		93,971	94,990
Printing and publicity		27,985,866	19,209,647
Other expenses		3,309,492	3,077,655
		\$ 71,358,724	\$ 65,518,308
Surplus for the year		\$ 302,624,872	\$ 288,909,364



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

	2011	2010
Surplus for the year	\$ 302,624,872	\$ 288,909,364
Other comprehensive income		
Change in fair value of available-for-sale securities	–	(36,345)
Disposal of available-for-sale securities	(42,610)	–
Total comprehensive income for the year	<u>\$ 302,582,262</u>	<u>\$ 288,873,019</u>



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

BALANCE SHEET

as at 31 March 2011
(Expressed in Hong Kong dollars)

	Note	2011	2010
Non-current assets			
Fixed assets	6	\$ 3,257,517	\$ 5,089,008
Intangible assets	7	7,889,721	10,218,095
		<hr/>	<hr/>
		\$ 11,147,238	\$ 15,307,103
Current assets			
Other receivables	8	\$ 1,131,276	\$ 1,284,186
Available-for-sale securities	9	–	782,565,686
Cash and balances with bank and the Exchange Fund	11	1,535,871,789	484,736,196
		<hr/>	<hr/>
		\$1,537,003,065	\$ 1,268,586,068
Current liabilities			
Contributions received in advance		\$ 245,957,023	\$ 282,639,918
Other payables	10	20,486,363	22,128,598
		<hr/>	<hr/>
		\$ 266,443,386	\$ 304,768,516
Net current assets		<hr/>	<hr/>
		\$1,270,559,679	\$ 963,817,552
Net assets		<hr/>	<hr/>
		\$1,281,706,917	\$ 979,124,655
Represented by			
Accumulated surplus		\$1,281,706,917	\$ 979,082,045
Investment revaluation reserve		–	42,610
		<hr/>	<hr/>
		\$1,281,706,917	\$ 979,124,655

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 20 June 2011.

Mrs Pamela Chan Wong Shui, BBS, JP
Chairperson



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

	2011	2010
Fund balance as at 1 April	\$ 979,124,655	\$ 690,251,636
Surplus for the year	302,624,872	288,909,364
Change in fair value of available-for-sale securities	–	(36,345)
Disposal of available-for-sale securities	(42,610)	–
Fund balance as at 31 March	<u>\$1,281,706,917</u>	<u>\$ 979,124,655</u>



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

CASH FLOW STATEMENT

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

	2011	2010
Operating activities		
Surplus for the year	\$ 302,624,872	\$ 288,909,364
Interest income	(5,105,425)	(4,184,492)
Exchange gains	(3,781,251)	(1,173,808)
Net realised gains	(287,111)	–
Depreciation and amortisation	5,629,275	5,066,164
Cash inflow from operating surplus before changes in operating assets and liabilities	\$ 299,080,360	\$ 288,617,228
Changes in operating assets and liabilities		
Increase/(Decrease) in other receivables	\$ 152,910	\$ (408,223)
(Decrease)/Increase in contributions received in advance	(36,682,895)	27,874,861
Decrease in other payables	(1,642,235)	(458,095,700)
Net cash inflow/(outflow) from operating activities	\$ 260,908,140	\$ (142,011,834)
Investing activities		
Purchase of intangible assets	\$ (1,424,320)	\$ (2,612,000)
Purchase of fixed assets	(45,090)	(650,341)
Interest received	566,890	129,221
Purchase of available-for-sale securities	(1,103,871,358)	(826,574,218)
Proceeds from disposal and redemption of available-for-sale securities	1,895,001,331	824,931,333
Net cash inflow/(outflow) from investing activities	\$ 790,227,453	\$ (4,776,005)
Net increase/(decrease) in cash and cash equivalents	\$1,051,135,593	\$ (146,787,839)
Cash and cash equivalents at 1 April	484,736,196	631,524,035
Cash and cash equivalents at 31 March	\$1,535,871,789	\$ 484,736,196
Analysis of balance of cash and cash equivalents		
Cash and balances with bank and the Exchange Fund	\$1,535,871,789	\$ 484,736,196



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

1 PURPOSE AND ACTIVITIES

The Deposit Protection Scheme Fund (the "Fund") is established under the Deposit Protection Scheme Ordinance (the "Ordinance") for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks that are members of the Deposit Protection Scheme (the "Scheme" or the "DPS"). The Hong Kong Deposit Protection Board (the "Board") manages the Fund in accordance with the provisions of the Ordinance. The Fund mainly consists of contributions collected from Scheme members and returns on investments of the Fund. Expenditure incurred in the establishment and maintenance of the Scheme, as well as the management and administration of the Fund are paid from the Fund.

During the year, all the necessary legislative amendments were completed for giving effect to the recommendations as concluded from the review of the DPS in 2009. The enhanced DPS providing a higher protection limit of HK\$500,000 per depositor per bank and expanding the coverage to include deposits pledged as security for banking services came into operation on 1 January 2011. In respect of the amount of relevant deposits for contribution assessment purposes, the Scheme members were allowed to report on a net deposit basis (i.e. after deducting the liabilities of depositors to Scheme members from their relevant deposits) and the annual contribution rates of Scheme members were cut by 65% across the board.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The statement of accounts of the Fund has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs" is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The statement of accounts has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities.

The preparation of statement of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies.

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions made in the preparation of these accounts do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.



2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

(i) Standards, amendments and interpretations effective in 2010 which are relevant to the Fund

HKAS 1 (Amendment) "Presentation of financial statements" and
HKAS 38 (Amendment) "Intangible Assets"

These amendments and revisions result in additional disclosures and revisions on presentation of financial statements. They do not otherwise have any impact on the Fund's statement of accounts.

(ii) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Fund

The Fund has chosen not to early adopt the following new and revised HKFRSs which have been issued but are not yet effective. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

HKAS 24 (Revised) "Related party disclosures" and
HKFRS 9 "Financial instruments"

Other new accounting standards, amendments and interpretations to existing standards have been published that are not yet effective and interpretations are either not relevant to the Fund's operations or are not expected to have material effect on the Fund's accounting policies and disclosure.

(b) Revenue recognition

Revenue is recognised in the income and expenditure account when it is probable that economic benefits will flow to the Fund and the revenue can be measured reliably.

Contributions and exemption fees are collected from Scheme members as specified in Schedule 4 to the Ordinance. They are accounted for on an accrual basis.

Contributions are calculated based on the amount of relevant deposits and the respective supervisory rating of each non-exempted bank applicable at a specified date. Contributions are collected annually in advance for each calendar year.

Interest income is recognised in the income and expenditure account using the effective interest method.



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Revenue recognition *(continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(c) Expenses

All expenses are recognised in the income and expenditure account on an accrual basis.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

	Years
Computer hardware/software costs:	
• Servers	5
• Others, e.g. personal computers, printers and accessories	3
Office furniture, equipment and fixtures	5

Only items costing HK\$10,000 or more are capitalised. Gains or losses arising from the disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income and expenditure account in the month of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's net selling price and value in use.



2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Financial assets

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Fund has no intention of trading.

(ii) Available-for-sale securities

The Fund classifies its investments in debt securities as available-for-sale securities. Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices.

Purchases and disposal of available-for-sale securities are recognised on the trade-date – the date on which the Fund commits to purchase or dispose of the securities. They are initially recognised at fair value plus transaction costs and subsequently held at fair value.

Unrealised gains and losses arising from changes in the fair value are recognised directly in reserve, until the available-for-sale securities are derecognised or impaired at which time the cumulative gain or loss previously recognised in the reserve should be recognised in the income and expenditure account. However, interest calculated using the effective interest method is recognised in the income and expenditure account.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in the income and expenditure account. Other changes in the carrying amount are recognized in reserve.

When the available-for-sale securities are disposed, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the reserve are treated as gains or losses on disposal in the income and expenditure account.



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Fair value measurement principles

The fair value of quoted investments in active markets is based on current bid prices. If the market for a financial asset is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants.

(g) Intangible assets

Costs that are directly associated with the development of identifiable and unique systems controlled and used by the Fund, and that will probably generate economic benefit exceeding costs beyond one year, are recognised as intangible assets. Intangible assets include expenditures on development of the payout system. Such expenditure is capitalised if the systems are technically and commercially feasible. The expenditure capitalised includes the direct labour and costs of materials. Intangible assets are stated at cost less accumulated amortisation and any impairment losses.

Amortisation of intangible assets with definite life is charged to the income and expenditure account on a straight-line basis over the assets' estimated useful life of 5 years.

(h) Impairment of financial assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

If any such evidence exists for loans and receivables, an impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income and expenditure account.

If any such evidence exists for available-for-sale securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income and expenditure account – is removed from reserve and recognised in the income and expenditure account. If, in a subsequent period, the fair value of a debt securities classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income and expenditure account, the impairment loss is reversed through the income and expenditure account.



2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of transaction including: cash at bank and on hand, demand deposits with banks, other financial institutions and the Monetary Authority ("MA") for the account of the Exchange Fund, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Other payables

Other payables are initially recognised at fair value and thereafter stated at amortised cost.

(k) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the statement of accounts are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The statement of accounts is presented in Hong Kong dollars, which is the Fund's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure account.

(l) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income and expenditure account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Provisions and contingent liabilities

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events where it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are recognised when the absence occurs.

(ii) Pension obligations

The Fund offers a mandatory provident fund scheme, the assets of which are generally held in separate trustee – administered funds. These pension plans are generally funded by payments from employees and by the Fund. The Fund's contributions to the mandatory provident fund scheme are expensed as incurred.

(o) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.



3 RISK MANAGEMENT

(a) Governance

The Fund is established under the Ordinance for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks which are members of the Scheme. Under Part 4 of the Ordinance, the Fund is to consist of:

- contributions and late payment fees collected from Scheme members;
- money recovered by the Board from, or out of the assets of, failed Scheme members;
- returns on investments;
- money borrowed by the Board for the purpose of performing its functions; and
- any other money lawfully paid into the Fund.

The Board established an Investment Committee and delegated its power to the Committee to place, or invest, money of the Fund that is not immediately required by the Board for the performance of its functions. In particular, the Investment Committee:

- makes recommendations on the investment policy and strategy in respect of the Fund;
- monitors the investment performance of the Fund and establishes proper risk management controls for the investment activities of the Board; and
- works on any other matters as determined from time to time by the Board.

Operating within the requirements under the Ordinance and policies endorsed by the Investment Committee, the Board's staff conduct the day-to-day investment management and risk management of the Fund.

(b) Investment management and control

Under section 21 of the Ordinance, the Fund or any part of it may be invested in the following investment instruments:

- deposits with the MA for the account of the Exchange Fund;
- Exchange Fund Bills;
- US Treasury Bills; and
- any other investment approved by the Financial Secretary.



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

3 RISK MANAGEMENT *(continued)*

(b) Investment management and control *(continued)*

In December 2008, the Financial Secretary approved an expansion of the investment scope of the Fund to cover Exchange Fund Notes and US Treasury Notes with remaining term to maturity of not more than 2 years, and Hong Kong dollar and US dollar deposits of up to 3 months in tenor with financial institutions.

Investment activities of the Fund are conducted in accordance with the requirements set out in the Ordinance and the policies endorsed by the Investment Committee to ensure the investment objectives of capital preservation and maintaining sufficient liquidity are met.

The Board's Management Team is responsible for the day-to-day investment management of the Fund. Investment reports showing the latest market values, rate of return, maturity profile, types of financial instruments held and limit exposures are regularly submitted to the Investment Committee for control purpose.

(c) Financial risk management

Market risk

Market risk is the risk that changes in market variables such as interest rates, equity prices and exchange rates which may affect the fair value or cash flows of a financial instrument. Market risk to the Fund mainly comprises interest rate risk and currency risk.

(i) Interest rate risk

Interest rate risk refers to the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Since the majority of the financial assets represent the cash balances with bank and the Exchange Fund, the impact of interest rate fluctuations on the Fund is considered minimal.

(ii) Currency risk

Currency risk is the risk of loss arising from changes in foreign exchange rates. The investments held by the Fund are denominated either in Hong Kong dollars or US dollars. Because of the linked exchange rate with the US dollar, the exchange risk to the Fund is considered minimal.



3 RISK MANAGEMENT *(continued)*

(c) Financial risk management *(continued)*

Liquidity risk

Liquidity risk refers to the risk that the Fund may not have sufficient funds available to meet its liabilities as they fall due. In addition, the Fund may not be able to liquidate its financial assets at a price close to the fair value within a short period of time.

Given that the Fund can only make deposits with the MA for the account of the Exchange Fund or with financial institutions approved by the Investment Committee or invest in the highly liquid Exchange Fund Bills and Notes and US Treasury Bills and Notes, the liquidity of the Fund is maintained at a high level at all times.

Credit risk

The Fund is exposed to credit risk as a borrower or a counterparty may not be able or willing to perform its contractual obligations in full when due. The credit risk of the Fund can be broken into (i) counterparty risk from placement activities; (ii) counterparty risk from investment transactions; (iii) issuer risk arising from debt securities holdings; and (iv) country risk.

Counterparty credit exposures arise mainly from the Fund's deposit placements with the MA for the account of the Exchange Fund and financial institutions approved by the Investment Committee and securities transactions with financial institutions. In this respect, the Fund will only conduct securities transactions with counterparties approved by the Investment Committee. Issuer risk arises from investments in debt securities. The types of investment securities of the Fund are limited to Exchange Fund Bills and Notes and US Treasury Bills and Notes, both with minimal default risk. In addition to the counterparty and issuer risks, the Fund is exposed to country risk, which is confined to the sovereign risk of Hong Kong and the US and the country risk of financial institutions approved by the Investment Committee given the Fund's limited types of investments. The Fund's credit exposures are reported regularly to the Investment Committee based on its delegated authority from the Board.

Fair value of financial assets and financial liabilities

The fair value of the financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the current bid price. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, with inputs based on market conditions existing at the balance sheet date.



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

3 RISK MANAGEMENT *(continued)*

(c) Financial risk management *(continued)*

Fair value of financial assets and financial liabilities *(continued)*

The fair values of financial assets and liabilities not presented on the Fund's balance sheet at their fair value are estimated as follows:

(i) Bank balances and balances with the Exchange Fund

The fair values of bank balances and balances with the Exchange Fund are their carrying amounts.

(ii) Other receivables

The estimated fair value of other receivables, which are non-interest bearing balances, is their carrying value.

(iii) Other payables

The estimated fair value of other payables, which are non-interest bearing balances, is their carrying value.

(iv) Fair value hierarchy

HKFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Available-for-sale securities are measured at fair values which are based on quoted market prices in active markets and therefore classified as Level 1 of the fair value hierarchy. The Fund has no financial instruments measured at fair value which are classified as Level 2 or Level 3 of the fair value hierarchy.



4 TAXATION

No provision for Hong Kong Profits Tax has been made as the Board is exempt from Hong Kong Profits Tax pursuant to section 10 of the Ordinance.

5 STAFF COSTS

	2011	2010
Salaries	\$ 4,968,960	\$ 5,109,474
Gratuity	71,612	428,927
Other employee benefits	345,377	218,540
	<u>\$ 5,385,949</u>	<u>\$ 5,756,941</u>

6 FIXED ASSETS

	Office equipment, furniture and fixtures	Computer hardware/ software	Total
Cost			
As at 1 April 2010	\$ 1,032,294	\$ 8,448,127	\$ 9,480,421
Additions	29,800	15,290	45,090
As at 31 March 2011	<u>\$ 1,062,094</u>	<u>\$ 8,463,417</u>	<u>\$ 9,525,511</u>
Accumulated depreciation			
As at 1 April 2010	\$ 676,602	\$ 3,714,811	\$ 4,391,413
Charge for the year	202,562	1,674,019	1,876,581
As at 31 March 2011	<u>\$ 879,164</u>	<u>\$ 5,388,830</u>	<u>\$ 6,267,994</u>
Net book value			
As at 31 March 2011	<u>\$ 182,930</u>	<u>\$ 3,074,587</u>	<u>\$ 3,257,517</u>
As at 31 March 2010	<u>\$ 355,692</u>	<u>\$ 4,733,316</u>	<u>\$ 5,089,008</u>



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

7 INTANGIBLE ASSETS

	Development costs of Payout System
Cost	
As at 1 April 2010	\$ 18,535,056
Additions	1,424,320
As at 31 March 2011	<u>\$ 19,959,376</u>
Accumulated amortization	
As at 1 April 2010	\$ 8,316,961
Charge for the year	3,752,694
As at 31 March 2011	<u>\$ 12,069,655</u>
Net book value	
As at 31 March 2011	<u>\$ 7,889,721</u>
As at 31 March 2010	<u>\$ 10,218,095</u>

8 OTHER RECEIVABLES

	2011	2010
Prepayment	\$ 1,056,497	\$ 1,230,864
Interest receivables	10,049	36,822
Others	64,730	16,500
	<u>\$ 1,131,276</u>	<u>\$ 1,284,186</u>

9 AVAILABLE-FOR-SALE SECURITIES

	2011	2010
Debt securities:		
– Unlisted US Treasury Bills	\$ –	\$ 782,565,686



10 OTHER PAYABLES

		2011	2010
Hire of services	(a)	\$ 18,847,606	\$ 20,621,810
Staff expenses		133,962	530,072
Others		1,504,795	976,716
		<u>\$ 20,486,363</u>	<u>\$ 22,128,598</u>

- (a) This amount includes operating expenses reimbursed to the HKMA HK\$16,044,004 (2010: HK\$18,188,716), services fee for payout rehearsal HK\$1,863,840 (2010: HK\$2,293,094) and fees for other hire of services HK\$939,762 (2010: HK\$140,000).

11 MATERIAL RELATED PARTY TRANSACTIONS

Pursuant to section 6 of the Ordinance, the Board shall perform its functions through the MA unless indicated otherwise by the Financial Secretary. The Hong Kong Monetary Authority ("HKMA") has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources, and information technology.

The related party transactions with the HKMA are as follows:

	Note	2011	2010
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund	(a)	\$1,528,322,621	\$ 121,014,292
Transactions during the year			
Interest income from balances with the Exchange Fund	(a)	558,493	91,908
Operating expenses reimbursed to the HKMA	(b)	\$ 16,044,004	\$ 18,188,716



STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

11 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

- (a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$1,528,322,621 (2010: HK\$121,014,292) and earned interest amounting to HK\$558,493 (2010: HK\$91,908) at a rate which is referenced to the market interest rates.
- (b) Certain operating expenses are reimbursed to the HKMA on a cost recovery basis in accordance with the provisions set out in the Ordinance.
- (c) During the year, the HKMA provided the Board a standby facility from the Exchange Fund for meeting the necessary liquidity required for payment of compensation in the event of a bank failure. The maximum amount which may be drawn under the facility is HK\$120 billion (2010: HK\$40 billion) of which nil (2010: nil) was drawn during the year.

12 APPROVAL OF STATEMENT OF ACCOUNTS

The statement of accounts was approved by the Board on 20 June 2011.



ANNEX 1: LIST OF SCHEME MEMBERS AS OF 31 MARCH 2011

ABN AMRO BANK N.V.	CHINA DEVELOPMENT BANK CORPORATION
AGRICULTURAL BANK OF CHINA LIMITED	CHINA MERCHANTS BANK CO., LTD.
ALLAHABAD BANK	CHINATRUST COMMERCIAL BANK, LIMITED
AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	CHIYU BANKING CORPORATION LIMITED
AXIS BANK LIMITED	CHONG HING BANK LIMITED
BANCA MONTE DEI PASCHI DI SIENA S.P.A.	CHUGOKU BANK, LTD (THE)
BANCO BILBAO VIZCAYA ARGENTARIA S.A.	CITIBANK (HONG KONG) LIMITED
BANCO DE ORO UNIBANK, INC.	CITIBANK, N.A.
BANCO SANTANDER, S.A.	CITIC BANK INTERNATIONAL LIMITED
BANGKOK BANK PUBLIC COMPANY LIMITED	COMMONWEALTH BANK OF AUSTRALIA
BANK JULIUS BAER & CO. LTD.	COOPERATIEVE CENTRALE RAIFFEISEN- BOERENLEENBANK B.A.
BANK OF AMERICA, NATIONAL ASSOCIATION	CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK
BANK OF BARODA	CREDIT AGRICOLE (SUISSE) SA
BANK OF CHINA (HONG KONG) LIMITED	CREDIT SUISSE AG
BANK OF CHINA LIMITED	DAH SING BANK, LIMITED
BANK OF COMMUNICATIONS CO., LTD.	DBS BANK (HONG KONG) LIMITED
BANK OF EAST ASIA, LIMITED (THE)	DBS BANK LTD.
BANK OF INDIA	DZ BANK AG DEUTSCHE ZENTRAL- GENOSSENSCHAFTSBANK, FRANKFURT AM MAIN
BANK OF MONTREAL	E.SUN COMMERCIAL BANK, LTD.
BANK OF NEW YORK MELLON (THE)	EAST WEST BANK
BANK OF NOVA SCOTIA (THE)	EFG BANK LTD
BANK OF SINGAPORE LIMITED	ERSTE GROUP BANK AG
BANK OF TAIWAN	FALCON PRIVATE BANK LTD.
BANK OF TOKYO-MITSUBISHI UFJ, LTD. (THE)	FAR EASTERN INTERNATIONAL BANK
BANK SARASIN & CIE AG	FIRST COMMERCIAL BANK, LTD.
BANK SINOPAC	FORTIS BANK
BARCLAYS BANK PLC	FUBON BANK (HONG KONG) LIMITED
BNP PARIBAS	HACHIJUNI BANK, LTD. (THE)
BNP PARIBAS SECURITIES SERVICES	HANA BANK
BNP PARIBAS WEALTH MANAGEMENT	HANG SENG BANK, LIMITED
CANADIAN IMPERIAL BANK OF COMMERCE	HDFC BANK LIMITED
CANARA BANK	HONG LEONG BANK BERHAD
CATHAY BANK	HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED (THE)
CATHAY UNITED BANK COMPANY, LIMITED	HSBC BANK INTERNATIONAL LIMITED
CHANG HWA COMMERCIAL BANK, LTD.	HSBC BANK PLC
CHIBA BANK, LTD (THE)	HSBC BANK USA, NATIONAL ASSOCIATION
CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED	HSBC PRIVATE BANK (SUISSE) SA
CHINA CONSTRUCTION BANK CORPORATION	



ANNEX 1: LIST OF SCHEME MEMBERS AS OF 31 MARCH 2011

HUA NAN COMMERCIAL BANK, LTD.	ROYAL BANK OF SCOTLAND N.V. (THE)
ICICI BANK LIMITED	ROYAL BANK OF SCOTLAND PUBLIC LIMITED
INDIAN OVERSEAS BANK	COMPANY (THE)
INDUSTRIAL AND COMMERCIAL BANK OF	SHANGHAI COMMERCIAL & SAVINGS BANK,
CHINA (ASIA) LIMITED	LTD. (THE)
INDUSTRIAL AND COMMERCIAL BANK OF	SHANGHAI COMMERCIAL BANK LIMITED
CHINA LIMITED (THE)	SHIGA BANK LIMITED (THE)
INDUSTRIAL BANK OF KOREA	SHINHAN BANK
INDUSTRIAL BANK OF TAIWAN CO., LTD.	SHIZUOKA BANK, LTD. (THE)
ING BANK N.V.	SOCIETE GENERALE
INTESA SANPAOLO SPA	SOCIETE GENERALE BANK & TRUST
IYO BANK, LTD. (THE)	STANDARD BANK ASIA LIMITED
JPMORGAN CHASE BANK, NATIONAL	STANDARD BANK PLC
ASSOCIATION	STANDARD CHARTERED BANK
KBC BANK N.V.	STANDARD CHARTERED BANK (HONG
KOREA EXCHANGE BANK	KONG) LIMITED
LAND BANK OF TAIWAN CO., LTD.	STATE BANK OF INDIA
LLOYDS TSB BANK PLC	STATE STREET BANK AND TRUST COMPANY
MALAYAN BANKING BERHAD	SUMITOMO MITSUI BANKING CORPORATION
MEGA INTERNATIONAL COMMERCIAL BANK	SVENSKA HANDELSBANKEN AB (PUBL)
CO., LTD.	TAI SANG BANK LTD.
MELLI BANK PLC	TAI YAU BANK, LIMITED
MEVAS BANK LIMITED	TAIPEI FUBON COMMERCIAL BANK CO., LTD.
MITSUBISHI UFJ TRUST AND BANKING	TAISHIN INTERNATIONAL BANK CO., LTD
CORPORATION	TAIWAN BUSINESS BANK
MIZUHO CORPORATE BANK, LTD	TAIWAN COOPERATIVE BANK, LTD.
NANYANG COMMERCIAL BANK, LIMITED	TAIWAN SHIN KONG COMMERCIAL BANK
NATIONAL AUSTRALIA BANK, LIMITED	CO., LTD
NATIONAL BANK OF ABU DHABI	TORONTO-DOMINION BANK
NATIONAL BANK OF PAKISTAN	UBS AG
NATIXIS	UCO BANK
NEWEDGE GROUP	UNICREDIT BANK AG
OVERSEA-CHINESE BANKING CORPORATION	UNION BANK OF INDIA
LTD.	UNITED OVERSEAS BANK LTD.
PHILIPPINE NATIONAL BANK	WELLS FARGO BANK, NATIONAL
PT. BANK NEGARA INDONESIA (PERSERO)	ASSOCIATION
TBK.	WESTLB AG
PUBLIC BANK (HONG KONG) LIMITED	WESTPAC BANKING CORPORATION
PUNJAB NATIONAL BANK	WING HANG BANK, LIMITED
RBS COUTTS BANK AG	WING LUNG BANK LIMITED
ROYAL BANK OF CANADA	WOORI BANK



ANNEX 2: LIST OF MAJOR PUBLIC EDUCATION AND PUBLICITY ACTIVITIES FOR YEAR 2010–2011

Commencement Date	Activities
3 April 2010	Launched the first phase of the DPS roving exhibition programme. A total of 30 roving exhibitions under the theme “Know Your DPS Day” were held to reach out to the general public between April and October 2010 at shopping malls of different housing estates.
9 April 2010	Issued a press release to announce the gazettal of the Bill in relation to the proposed legislative amendments to give effect to various DPS enhancements.
30 June 2010	Issued a press release to announce the passage of the Deposit Protection Scheme (Amendment) Ordinance 2010 by the Legislative Council.
9 July 2010	Issued a press release on the publication of the Annual Report for 2009-2010.
9 August 2010	<p>Hosted a press briefing and a media luncheon to introduce the key enhancements to be taken effect in 2011 and to announce the new series of the advertising campaigns to increase public awareness of the expiry of the FDG and the key enhanced features of the DPS.</p> <p>The first TV advertising campaign, lasting for 6 weeks, was launched on major channels to create awareness of the key transition from the FDG to the enhanced DPS. TV “Announcements in the Public Interest” (APIs) were also broadcasted to enhance the reach of the message.</p>
10 August 2010	The first print advertising campaign, lasting for 3 weeks, was launched in a majority of newspaper to generate a greater publicity synergy together with the TV advertisements.
30 August 2010	The first bus advertising campaign, lasting for 4 weeks, was launched. The advertisements were put in seat backs of buses running through the town.
2 September 2010	The first MTR network advertising campaign, lasting for 6 weeks, was launched in high-traffic MTR lines.
6 September 2010	The first radio advertising campaign and the first internet advertising campaign on mass-appeal portals, both lasting for 3 weeks, were launched. Radio APIs were also broadcasted in major radio channels.



ANNEX 2: LIST OF MAJOR PUBLIC EDUCATION AND PUBLICITY ACTIVITIES FOR YEAR 2010–2011

Commencement Date	Activities
20 September 2010	A 3-week TV advertisement on the enhanced DPS was placed in TVs in the MTR lines.
6 November 2010	Launched the second phase of the DPS roving exhibition programme and a total of 39 exhibitions were held between November 2010 and March 2011 at high-traffic MTR stations and shopping malls.
29 November 2010	<p>The second TV advertising campaign, lasting for 3 weeks in aggregate, was launched in major TV channels to remind the public about the expiry of the FDG by end 2010 and commencement of the enhanced DPS at the beginning of 2011.</p> <p>The second print advertising campaign, lasting for 4 weeks, was launched and the second radio advertising campaign, lasting for 4 weeks, began.</p>
28 December 2010	<p>The second internet advertising campaign, lasting for 3 weeks, was launched on mass-appeal portals.</p> <p>The second bus advertising campaign, lasting for 4 weeks, began with advertisements of the commencement of the enhanced DPS showing on double-decker bus bodies.</p>
30 December 2010	Issued a press release on the formal commencement of the enhanced DPS on 1 January 2011.
1 January 2011	The third TV advertising campaign was launched in major TV channels to further promote public awareness of the commencement of the enhanced DPS upon the end of the FDG. Infomercials were also aired to educate the public on the key features of the enhanced DPS. The whole campaign lasted for 6 weeks in aggregate.
10 January 2011	The second burst of MTR TV advertisement on the enhanced DPS was placed in TVs in trains and stations, lasting for 3 weeks. The TV advertisements highlighted the key features of the enhanced DPS starting from 2011.

