

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Ms DATWANI Meena, JP
Chief Executive Officer

The year 2011-12 marked the fifth anniversary of the DPS. Time has proven that we have now a robust financial safety net firmly in place that has given confidence to the public on the strength and stability of the Hong Kong banking sector and the protection afforded them by the new scheme. The massive preparatory work put in to ensure a smooth transition to the enhanced regime, we believe, made the difference.

There is however no room for complacency as we strive to consistently increase the effectiveness of the DPS particularly as it has never actually been triggered since its establishment. To this end, we have vastly expanded and strengthened external network of service providers, including legal, accounting and IT professionals, ready to be called into action, at a moment's notice. More importantly, with additional powers of the Board under the enhanced DPS, we have progressively streamlined the entire DPS infrastructure and system to ensure that should there be a bank failure, we will be in full readiness to compensation payout to depositors, efficiently and effectively.

I would like to highlight and share with you the progress we have made in the key operational areas during the year under review.

Building up Public Confidence through Raising Public Awareness of the DPS

The building up of public confidence in the DPS through publicity and educational programs continued to be our focus during the year. We made use of a wide diversity of mass communication media and channels to drive home our messages. The results of an opinion survey, conducted by an independent research agency in December 2011, were encouraging with over 75% of the respondents being aware of the enhanced DPS. Among them, more than 70% had knowledge of the increased protection limit to \$500,000. The awareness of the various key features of the new DPS was generally at high levels. This is very high by international standards. Nevertheless, the findings will provide useful pointers to guide our future communication and publicity strategies.

Increasingly, in a new initiative, we have endeavoured to outreach and interact with the public at large to broaden our reach at the community level. For this, we are very fortunate to have experts in the public education field joining our newly established Advisory Panel on Communication and Public Education to provide advice to the Board in the development of its strategy in publicity and outreach activities.

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Contributing to More Effective Deposit Insurance System

In a year of lingering concerns over the deepening Euro zone sovereign debt crisis and the sluggish fiscal recovery of advanced economies, the Board placed great importance on keeping abreast with the latest developments and reforms of deposit insurance systems overseas, to ensure a robust DPS in Hong Kong. The Board participated in a peer review organized by the Financial Stability Board (FSB), an international financial standard setting body. By joining the peer review, the Board contributed to collection of information and analysis on practices or reforms recently implemented by FSB members 24 jurisdictions to promote greater compliance with the Core Principles for Effective Deposit Insurance Systems (Core Principles) jointly issued by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers. The Board treasured the experience gained from the peer review exercise and has developed a concrete plan to thoroughly evaluate the DPS in Hong Kong with the latest international best practices in the coming year.

In Full Readiness to Payout

With the additional powers of the Board under the enhanced DPS, the payout policies and procedures have been considerably strengthened and new guidance notes were issued to further enhance the operational effectiveness and readiness to manage a payout in the event of a bank failure. We have vastly expanded our network of payout agents who are engaged under contractual arrangements to provide needed professional service when called upon. The whole payout infrastructure and system was tested during the year through two subject-specific rehearsals and no fewer than six simulation tests, which were all conducted to the satisfaction of the Board. Such exercises are essential to provide the Board, the management team and its payout agents with clear understanding of their roles and responsibilities, and the key processes involved on undertaking a payout. This will enable the Board to discharge its obligation to make compensation to affected depositors, as swiftly and accurately as practicable.

Sufficient Liquidity for Payout in a Bank Failure

The Board is in a sound financial position. During the year, the Board collected a total of HK\$330 million in contributions from Scheme members bringing the total assets of the DPS Fund to HK\$1.8 billion by the end of March 2012. For contribution assessment, the Board monitored the accuracy of the returns on relevant deposits compiled by Scheme members and discovered no material errors that would impact on the total contributions received. Capital preservation is the investment objective of the Fund to ensure sufficient liquidity to meet the Board's financial obligations. The Fund was able to achieve a positive investment return amid the volatile investment environment. The Fund continued to be strongly supported by a standby credit facility of HK\$120 billion, which the Board secured from the Exchange Fund under the management of the Hong Kong Monetary Authority (HKMA), to meet the liquidity needs of compensation payout in case of a bank failure.

Compliance with the Rules and Guidelines of the Deposit Protection Scheme

The Board conducted checks to ensure the compliance of Scheme members with the requirements under the Representation Rules which enable depositors to be better informed of the protection status of various deposit products. On the other hand, the Board carried out six compliance reviews in relation to the Information System Guidelines (ISG) to verify conformity of data maintenance - the format, completeness and accuracy to ensure that Scheme members can make available to the Board the essential information

required for determination of compensation where necessary. The level of compliance with the ISG was generally satisfactory; where variance was identified, the Board monitored the implementation of remedial actions required of the Scheme members.

Outlook and Plans for 2012 – 2013

The outlook for the global economy and financial markets in the year ahead is shrouded in uncertainty and fraught with downside risks. Therefore much will remain to be done. In planning for the way forward, we have identified a number of areas of priority. We will follow up on the findings of the FSB's peer review on deposit insurance system. In light of the findings, a thorough review of the design of the existing DPS will be undertaken to ensure compliance with the Core Principles and to identify potential areas for improvement. We must continually keep abreast of the latest global developments to be in line with international best practices.

In a turbulent economic and financial environment, we must stay vigilant and be prepared for any crisis situation. To this end, we will continue to adopt a forward-looking rehearsal approach that will enable the Board to anticipate and handle compensation payouts of different scales, and under different crisis scenarios.

We will continue to pursue the objective of engendering a high level of public awareness of the existence and features of the DPS. We will reach out to our targeted segments of the community to heighten their awareness and understanding of the protection available under the DPS. We will initiate more focused publicity activities in our new public education strategy. And to maintain the adequacy of transparency of DPS, we will continue to monitor Scheme members' performance through self-assessment exercises and compliance checks in respect of their compliance with the representation requirements.

A Vote of Thanks

It would hardly be possible for the Board to undertake and achieve such considerable amount of tasks without a good deal of outside help from a great many individuals and organizations. I would like to take this opportunity to express my most sincere appreciation, in particular, to the payout agents, the Scheme members, the HKMA and the government for their ready assistance and unfailing support in our work. My personal gratitude is reserved for the Chairperson and Members of the Board, its Committee and Advisory Panel, whose staunch support and invaluable guidance has set us on a course of continued progress from strength to strength. Last but not the least, I would like to thank my colleagues for helping to make every one of our endeavours achievable in the operation of DPS, with dedication and diligence.



DATWANI Meena
Chief Executive Officer