Deposit Protection will commence on 25 September 2006

(Hong Kong, 19 September 2006) The Hong Kong Deposit Protection Board (the "Board") announced today that the Deposit Protection Scheme (the "Scheme") will commence operation on 25 September 2006. Through the provision of deposit protection, the Scheme will help strengthen public confidence in the banking system and contribute to the maintenance of financial stability.

Enacted on 5 May 2004, the Deposit Protection Scheme Ordinance governs the setting up and operation of the Scheme. The Board was formed in July 2004 to establish and administer the Scheme. After two years of intensive preparation, the Scheme will start to provide deposit protection and collect contributions from Scheme members on 25 September 2006.

At the press conference announcing the launch of the Scheme, Chairman of the Board, Professor Andrew Chan Chi-fai, said, "We are pleased to see the deposit protection scheme become operational. It is an important milestone in the development of the financial safety net in Hong Kong."

The origin of the Scheme can be traced back to 1991 when the failure of Bank of Credit and Commerce Hong Kong Limited triggered a series of bank runs in Hong Kong. Subsequently, the Government conducted a public consultation on the establishment of a deposit protection scheme, but the proposal was rejected because of concerns about cost and moral hazard associated with deposit protection. After the Asian Financial Crisis, the Hong Kong Monetary Authority (HKMA) commissioned a consultancy study on ways to enhance deposit protection in Hong Kong in 2000. The extensive consultations conducted by the HKMA after the study showed that the public were generally in favour of the establishment of the Scheme.

The main features of the Scheme are as follows:-

- all licensed banks, unless otherwise exempted by the Board, are required to participate as Scheme members;
- the compensation limit is set at HK$100,000 per depositor per Scheme member;
- depositors are not required to apply for protection or compensation, eligible deposits held with Scheme members will automatically come under the protection of the Scheme;
- both Hong Kong dollar and foreign currency deposits are protected;
- the Scheme protects eligible deposits held in Scheme members, it does not protect term deposits with a maturity longer than 5 years, structured deposits, secured deposits, bearer instruments, off-shore deposits and non-deposit products such as bonds, stocks, warrants, mutual funds, unit trusts and insurance policies;

- a Deposit Protection Scheme Fund with a target fund size of 0.3% of the total amount of relevant deposits (translating into a fund size of approximately HK$1.3 billion) will be built through the collection of contributions from Scheme members; and
- differential contributions will be assessed based on the supervisory ratings of individual Scheme members.

Starting from 25 September 2006, Scheme members must display a membership sign prominently at their relevant places of business. Scheme members are also required to notify their customers if a financial product described as a deposit is not protected by the Scheme.

Mr Raymond Li, the Chief Executive Officer of the Board, added: "The Board has been working closely with the banking industry, as well as other relevant parties, over the past two years. All the essential rules and systems for the launch of the Scheme are now in place. However, the Scheme will be able to achieve its objective of enhancing public confidence in the banking sector only if members of the public know and understand the protection offered by the Scheme. The next important task of the Board is, therefore, to promote public awareness and understanding of the Scheme. To this end, the Board will launch a multi-faceted publicity campaign in the coming months."

The public can obtain information about the Scheme through the following channels:

- The Board's website at www.dps.org.hk and enquiry hotline at 1831 831
- Leaflets distributed through branch networks of Scheme members
- Exhibitions at selected shopping malls and MTR/KCRC stations
- TV and radio commercials

The Board will continuously monitor the effectiveness of the Scheme taking into account latest market developments. It will also review the relevant systems and processes with the aim of ensuring efficient handling of payouts in the event of a bank failure.

The Board also released today its annual report for the financial year ended 31st March 2006.

Enclosures

Enclosure 1: Chairman's remarks at the press conference (Chinese version only)
Enclosure 2: Presentation by the Chief Executive Officer at the press conference
Enclosure 3: Annual Report 2005-2006

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