

MESSAGE FROM
THE CHAIRMAN



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

Professor
Andrew Chan Chi-fai, SBS, JP
Chairman

“We are pleased to see
confidence in the Deposit
Protection Scheme
growing.”

The Deposit Protection Scheme celebrated its first anniversary in September 2007. During that first year, we witnessed the onset of global financial troubles on a scale rarely seen over the past decade. The sub-prime crisis, which began in the US in August 2007, sent a shockwave across international financial markets, resulting in a global liquidity and credit crunch that contributed to severe distress among financial institutions worldwide.

Fortunately, due to the limited exposure of most Hong Kong banks to sub-prime assets, the local banking system has been relatively less affected. Nevertheless, the speed at which the sub-prime crisis spread and the severity of its impact on other financial markets reminded us of the close integration between international and local markets, especially in an open economy like Hong Kong, and our susceptibility to developments overseas. It also highlighted the need to ensure that proper safeguards are in place to shelter local market participants from financial storms in the international marketplace. This is precisely one of the major reasons why we introduced the Deposit Protection Scheme in Hong Kong.

No doubt there were a host of economic and regulatory factors contributing to the US sub-prime crisis and the subsequent turmoil in other markets. A lack of understanding and confidence

in the ability of the financial safety net in weathering such market turbulence has certainly played a part in facilitating the rapid spread of the crisis. For example, a consultation paper issued by the UK authorities in response to a bank run last year reported that a majority of bank customers were not aware of the protection available to depositors under the UK scheme for compensating depositors.

The Board fully understands that public confidence is crucial to the effectiveness of the DPS in promoting banking stability in Hong Kong. After successfully launching the DPS in 2006, the Board has invested substantial time and effort in improving confidence in the DPS. Good progress was made in the first year and we are pleased to see confidence in the DPS growing.

According to the findings of two territory-wide opinion surveys conducted by the Board last year, a majority of Hong Kong residents are now aware of the DPS. This indicates the Board has met its communications objectives in its first year to bring the existence of the DPS to the public's attention. Supported by this high level of public awareness, we can now turn our attention to improving public understanding of how the DPS operates, especially those features crucial to fostering banking stability.

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Chairman (right) and CEO (left) of the Board at a ceremony to celebrate the first anniversary of the launch of the DPS

Of course, building confidence in the DPS does not simply mean making the public aware of the availability of the DPS and its key features. More importantly, the Board must be able to demonstrate that the operation of the DPS is governed by a credible framework, and in the hands of a trustworthy administrator. As you will see in this annual report, the Board has invested a great deal of effort in enhancing the effectiveness and efficiency of the DPS during the past year. The Board also undertook a review of its corporate governance structure to ensure it continues to adhere to sound governance practices in administering the DPS. Indeed, the experience gained in the past year has significantly reinforced the confidence of all of us in the Board's ability to live up to the public's expectations.

I am truly thankful to the diligence of the Management Team in meeting the challenges faced by the Board in the past year. The Board also continued to receive support from various government departments and public and private bodies, without which the smooth operation of the DPS would not have been possible. And, I would like to take this opportunity to express my heartiest gratitude to my fellow Board members and to those organisations that have extended their support to the Board.

Rome was not built in a day. Deposit protection remains a relatively new concept to the people of Hong Kong and there is certainly abundant room for improving the operation of the DPS and building confidence in it. I believe that the Board's accomplishments over the past 12 months have already laid a solid foundation for the DPS to contribute meaningfully to banking stability in Hong Kong.

A handwritten signature in black ink that reads "CF Chan". The letters are cursive and fluid.

Andrew Chan Chi-fai

Chairman