

PLANS FOR 2008-09

THE OUTLOOK

The near term risk profile of Hong Kong's banking sector should remain favourable as the US sub-prime crisis has had little effect on the sector; banks' financial positions are strong; and the outlook for the Hong Kong economy remains positive. However, there are uncertainties and risks over the longer term because of the difficulties in forecasting whether the sub-prime crisis will end soon or intensify and trigger further turbulence, which might have a more direct impact on Hong Kong's banking system. Of course, given the highly integrated nature of world financial markets, the banking sector may also be subject to other unexpected external shocks, for example, a sharper-than-expected slowdown in the US economy. The Board will closely monitor international market developments and assess their impact on the risk profile of the banking sector. The Board will also watch the progress of overseas authorities in reforming their financial regulatory and deposit insurance regimes to see if any measures can be usefully applied to the DPS in Hong Kong.

On the operation of the DPS, the Board will continue to increase the effectiveness and efficiency of the Scheme. Priorities will be given to implementing the various surveillance mechanisms introduced last year for monitoring Scheme members' compliance with DPS rules and guidelines, refining the payout systems and processes in the light of the experience of

simulation tests and payout rehearsals to further improve the readiness of the DPS to payout, and improving public understanding of the main features of the DPS.

ADMINISTRATION OF THE DPS

Based on the returns of relevant deposits to be submitted by Scheme members in relation to their positions on 20 October 2008 and the supervisory ratings to be supplied by the HKMA, the Board will assess and collect the contributions payable for 2009 in January of that year. A second batch of Scheme members will be required to submit an auditor's report certifying the correctness of their returns. After upgrading the contribution collection system last year, the Board will improve the contribution database to streamline the contribution rebate and refund processes in 2008-09.

The DPS Fund will continue to be invested in accordance with the Ordinance and the investment policy of the Board. The Board will also explore options for increasing the returns on the Fund.

To ensure compliance with the Representation Rules, the Board will share findings and common errors identified in the first self-assessment exercise with Scheme members to improve the overall compliance level of the industry. Members will be required to conduct another self-assessment and submit reports to the Board for review in the coming year.

MONITORING COVERAGE OF THE DPS

The Board will maintain its monitoring of DPS coverage through statistics collected in simulation tests. Based on observations from tests completed in 2007-08, the Board believes the percentage of depositors fully covered by the Scheme for the industry remains above 80%. However, as the customer profile of individual members may differ, it is possible the percentage observed for different banks in subsequent simulation tests may be higher or lower than 80%. The Board will study any anomalies and, where it is evident that the percentage for the industry as a whole will be lower than 80%, it will consider improving the protection offered by the DPS.

PAYOUT READINESS

Payout readiness involves a process of continuous improvement and preparation based on testing and experience. The Board will apply the lessons learnt from the rehearsal conducted in 2007 to enhance its payout policies, processes, procedures and tools. For 2008-09, this will involve:

- completing an upgrade of the Payout System to allow for flexible payout strategies and easier transformation of data
- undertaking additional improvements to the efficiency of Payout System functions relating to interest calculations, aggregation of customers' balances, and cheque and statement production
- incorporating suggestions from the rehearsal into streamlining the Payout Procedure Manual

This work will be completed in time for the next rehearsal scheduled by the Board for the fourth quarter of 2008. This rehearsal will include a number of payout agents not involved in the previous one so the Board can broaden its knowledge base for performing payouts across its agent network, and to maintain a solid foundation from the previous experience.

The Board will also review its payout agent requirements, particularly in the light of some contractual arrangements approaching expiry; the need to reassess existing payout agents to ensure they remain up to date with current changes that may affect the banking sector and techniques that may improve the efficiency of payout processes; and to expand the payout agents network, where appropriate, to mitigate any risks regarding resource availability.

The Board will issue an amended ISG together with an explanatory note to strengthen the understanding of Scheme members in fully complying with the guideline and ensure the Board is able to obtain information which it can promptly use for making a payout. This action follows completion of the consultation with the Consultative Committee on Deposit Protection Scheme in the second quarter of 2008. The Board will also begin formal reviews of Scheme members' compliance with the ISG in the second quarter of 2008. Concurrent with some of these reviews, the Board will continue to conduct simulation tests to assess the Payout System's capabilities in handling varying data structures and volumes and analyse specific issues that may be encountered in a payout.

PUBLIC AWARENESS AND EDUCATION

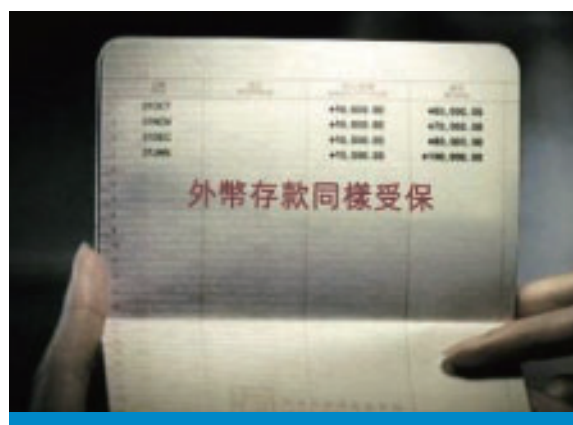
In the light of the findings of the opinion surveys conducted in 2007-08, the focus of the Board's publicity plan for the new year will be on increasing public understanding of the main features of the DPS, especially among small depositors whom the DPS aims to protect. Under the 2008-09 publicity plan, the Board will continue to use diversified and creative channels

to deliver DPS messages to the public. The scope of each promotional campaign will be structured to maximise its reach within the small depositor target group.

In measuring the effectiveness of the publicity campaigns in achieving their objectives, the Board will again conduct regular opinion surveys to monitor the level of public awareness and understanding of the DPS.



Practical souvenirs help promote the DPS



Highlighting the protection status of foreign currency deposits in a revamped TV campaign



Table-mat advertising campaign proposed for 2008-09



Extending the campaign to the East Rail Line