



Mr Raymond Li, JP
Chief Executive Officer

“The completion of the project of reviewing and enhancing the Deposit Protection Scheme has become the prime business objective of the Board.”

The deepening global financial crisis last year put considerable pressure on the operation of the DPS. Nevertheless, under the Board's guidance, the Management Team was able to meet fully the operational objectives set for the year. During the year, the Board embarked on a project of reviewing and enhancing the DPS, the completion of which has become the Board's prime business objective. Highlights of our achievements in 2008-2009 include:

ADMINISTRATION OF THE DPS

The collection of contributions from Scheme members was completed on schedule. The Board collected a total of HK\$340 million in contributions for 2009, which brought the total assets of the DPS Fund to HK\$963 million by the end of March 2009. The deepening global financial crisis triggered steep and rapid rate cuts by monetary authorities around the world and brought global interest rates down to nominal levels. Despite the highly volatile market conditions during the year, the DPS Fund was able to achieve a positive investment return of 0.8%.

The Board continued to monitor the accuracy of the returns filed by Scheme members for contribution assessment purposes by reviewing auditor's reports submitted by the members. The results were satisfactory and no reporting error with a significant impact on total contributions was noted.

ENSURING ADEQUACY OF THE COVERAGE OF THE DPS

In view of the experience gained from operating the DPS and overseas reforms of deposit insurance regime after the outbreak of the US sub-prime crisis, the Board decided in mid-2008 to conduct a review of the DPS. In accordance with its project plan formulated for the review, the Board commenced the review in the fourth quarter of 2008.

The first phase was completed as scheduled in the first quarter of 2009 and a consultation paper was published in April 2009. The recommendations concluded from the review mainly cover enhancements to the level and scope of the protection provided by the DPS.

MAINTAINING AND IMPROVING THE READINESS OF THE DPS TO PAYOUT

The Board implemented a compliance review programme for monitoring Scheme members' compliance with the requirements in a statutory guideline on how they should maintain customer information and provide such information to the Board in a payout. In accordance with the programme, six compliance reviews were conducted, three of which were held in conjunction with a simulation test. Based on the experience gained from the compliance reviews and simulation tests, and after consulting the industry, the Board refined the guideline to streamline its operation.

In the fourth quarter of 2008, the Board conducted its second payout rehearsal to test its payout procedures and systems, and the readiness of the network of service providers for assisting it in a payout. Based on the experience gained from the simulation tests and payout rehearsals, the Board identified and initiated refinements to its systems and processes to further improve payout readiness.

ENHANCING PUBLIC AWARENESS, UNDERSTANDING AND CONFIDENCE IN THE DPS

The Board continued to undertake on-going educational and promotional activities to maintain and enhance public awareness and understanding of the DPS. In the fourth quarter of 2008, the authorities introduced a number of pre-emptive measures to strengthen confidence in Hong Kong's banking system, including a blanket deposit guarantee, amid the rapidly worsening market sentiment following the failure of the US investment bank Lehman Brothers. In collaboration with the Hong Kong Monetary Authority (HKMA), the Board stepped up its publicity effort to help lift confidence in the deposit protection arrangements in place. A focused publicity campaign was launched in the first quarter of 2009 to clarify the coverage of the DPS.

The Board continued to review self-assessment reports submitted by Scheme members on their compliance with the requirements in a set of statutory rules on how they should disclose their membership status and the protection status of their financial products to customers. The reports indicated the compliance status of Scheme members was satisfactory.

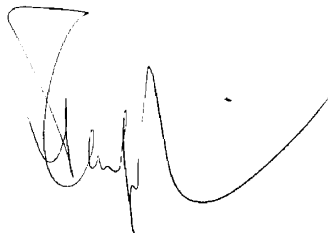
PLANS FOR 2009-10

In the coming year, the key objective of the Management Team is to assist the Board in completing the review of the DPS and to start the legislative process for effecting the enhancements concluded from the review. It is the intention of the Board to introduce the enhancements as soon as possible, preferably before the end of 2010, so the public will benefit from an enhanced DPS when the blanket deposit guarantee expires. We will also continue to assist the Board in ensuring a smooth and effective operation of the DPS under the existing framework.

The Board will work hand in hand with the HKMA to align the operation of the DPS with that of the blanket deposit guarantee to derive the greatest possible synergistic effect from the co-existence of the two deposit protection arrangements.

Though there have been signs of the global financial market stabilising, it remains uncertain whether the crisis will soon come to an end. Any signs of deterioration can trigger fresh public concerns about the security of their bank deposits and put new pressure on the operation of the DPS. The Management Team remains vigilant to the rapidly changing environment and stands ready to meet any new challenges.

Finally, I would like to take this opportunity to thank members of the Board for their support and advice over the past year, as well as my colleagues in the Board for their outstanding performance in assisting the Board in discharging its duties.

A handwritten signature in black ink, appearing to read 'Raymond Li', with a stylized flourish at the end.

Raymond Li
Chief Executive Officer