

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

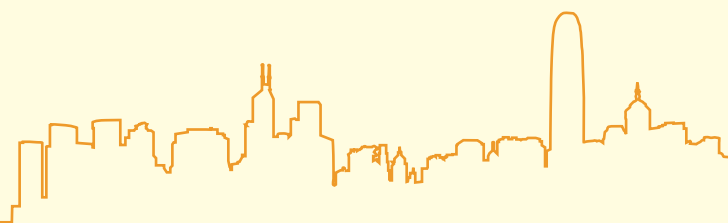
# Annual Report 2014-2015



## HONG KONG DEPOSIT PROTECTION BOARD

The Hong Kong Deposit Protection Board (the Board) is a statutory body established under the Deposit Protection Scheme Ordinance to oversee the operation of the Deposit Protection Scheme. The Scheme is designed to protect depositors and to help maintain the stability of Hong Kong's banking system.

The Board's mission is to maintain an efficient and effective deposit insurance scheme in accordance with the Ordinance and in line with international best practice.



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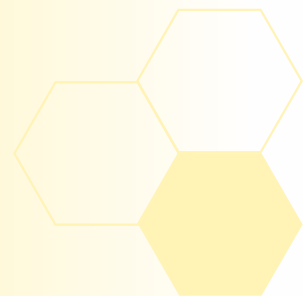
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## DEPOSIT PROTECTION SCHEME AT A GLANCE



- The Deposit Protection Scheme (DPS) is a statutory scheme established to protect bank depositors. All licensed banks, unless otherwise exempted by the Board, are required to participate in the DPS as a Scheme member. All Scheme members prominently display a membership sign at their places of business.
- The DPS protects deposits up to a limit of HK\$500,000 per depositor per Scheme member.
- Eligible deposits held with Scheme members are automatically protected by the DPS. Depositors are not required to apply or pay for protection or compensation.
- Deposits denominated in Hong Kong dollar, renminbi or any other currencies are protected.
- The DPS does not protect term deposits with a maturity longer than five years, structured deposits, bearer instruments, offshore deposits and non-deposit products such as bonds, stocks, warrants, mutual funds, unit trusts and insurance policies.
- A depositor's entitlement to compensation will be calculated on a net basis, that is, the liability of the depositor to a Scheme member will be deducted from the protected deposits he or she maintains with the Scheme member in determining compensation. Subject to completion of the legislative process, the compensation basis will be changed to a gross basis.
- Following implementation of the gross payout approach and other payout process enhancements, the target for making full compensation payments to depositors will be within seven days.
- A Deposit Protection Scheme Fund (DPS Fund) is being built up through collecting contributions from Scheme members. The target fund size is 0.25% of the total amount of protected deposits held with all Scheme members, or approximately HK\$4.3 billion.
- Contributions payable by Scheme members for building up the DPS Fund are assessed on a differential premium basis. Assessment is made annually with reference to the supervisory rating of each Scheme member.







## MAJOR ACHIEVEMENTS IN 2014–2015

### Better Deposit Protection

- Assisted the Government in preparing the gross payout approach and other enhancements to enable faster payouts. These measures received broad support from the public consultation.
- Contributed to the design of an effective local resolution regime to provide more comprehensive protection to depositors.

### Readiness for Payouts

- Ensured Scheme members' implementation of the enhanced deposit information submission requirements to enable a speedier and more accurate payout process and launched a new programme to monitor their compliance.
- Established detailed co-operative arrangements with the Hong Kong Monetary Authority under the early warning system and enhanced related internal procedures to maximise payout efficiency.
- Improved the payout system and internal preparedness (including the appointed professionals) to support early preparation to cater for different banking crisis scenarios.

### Increasing Public Awareness and Confidence

- Mounted comprehensive publicity and community education activities to keep the public informed of the role and coverage of the DPS.
- Sustained a high level of public awareness of the DPS, which helped strengthen public confidence in the banking system.

### Sufficient Funding and Sound Investment

- Assessed and collected contributions totalling HK\$411 million from Scheme members, raising the DPS Fund's total assets to HK\$2.8 billion at the end of March 2015.
- Adhered to the DPS Fund's main investment objectives of capital preservation and abundant liquidity, and achieved a positive investment return despite continued low interest rates in an uncertain investment environment.

## MESSAGE FROM THE CHAIRPERSON



In keeping up with a fast-paced city such as Hong Kong, the Deposit Protection Scheme (DPS) vouches to meet its obligations to safeguard the interests of depositors and maintain financial stability as fully and as quickly as possible in the event of a bank failure. The Board resembles a professional athlete, always striving for the best record in time. In our case, this means the shortest possible compensation payout time we can achieve. We pursue optimum efficiency because of our concern and care for depositors, who, in many instances, face potential hardship and anxiety if their hard-earned money is held in a bank with financial problems.

To provide depositors with a well deserved sense of reassurance and motivation, our highest priority in the past few years has been to explore ways to reduce the payout time to as short as humanly possible. Following a review of the DPS by the Board and taking account of reforms in other jurisdictions, we concluded that adopting the gross payout approach would be a major step towards a much faster, simpler and more efficient system. In addition, the Board conducted in-depth studies to assess the viability of embracing more innovative technology to make payouts faster and more convenient for depositors. During the year, we consolidated these initiatives into fully-fledged proposals.

With the full support of the Government, the policy proposals to enhance the DPS through the adoption of the gross approach and some other technical improvements were released to the public and stakeholders for consultation. We were delighted to note that these proposals gained solid support and we shall assist the Government in the required legislative process to implement the improvements. We are soon to unfold a new era in reimbursing depositors by dramatically reducing the period for making full compensation from the existing six weeks to within seven days in most circumstances. Indeed, a faster payout is beneficial not just to depositors, but to the banking industry as a whole and Hong Kong's position as a prominent international financial centre.

In the meantime, every effort has been made to improve our payout readiness. This includes an early warning system established with the banking regulator, information readiness of Scheme members, and our payout system capability and versatility. These are the principal pillars of an effective DPS, and good progress was made in strengthening them during the year.

## MESSAGE FROM THE CHAIRPERSON

Apart from an efficient operation, a scheme has to be known, understood and trusted by the community to make it truly effective. We are delighted that the DPS has maintained a high level of public awareness at 78%. However, we must not be complacent and shall continue to explore and implement further initiatives to deepen the community's understanding of the functions of the DPS. In the coming year, our multi-media publicity campaigns highlighting deposit protection messages will be complemented with more targeted community outreach and education activities to better serve the diverse needs of different groups. We will also explore and embrace new opportunities to broaden coverage of communications in a cost-effective manner, including collaborating with organisations serving different sectors, and using social media platforms to build and sustain rapport with our stakeholders in a timely and interactive way.

The Board's pursuit of a speedy payout process has been akin to running a marathon and we are now just metres from the finish line. I appeal for your continued support and sound advice to bring this refinement exercise to a honey sweet fruition. As ever, I am indebted to the unreserved support and wise counsel I have received from my fellow members of the Board, the Advisory Panel on Communication and Public Education, the Consultative Committee on Deposit Protection Scheme, as well as the Government and the Hong Kong Monetary Authority, in guiding us through another momentous year. My particular gratitude goes to ex officio Board member, Miss Au King-chi, for her sterling contributions over the past six years before her retirement in December 2014. On behalf of the Board, I wish her retirement is as "golden as honey". Finally I would like to express my heartfelt thanks to our Chief Executive Officer, Meena, and her dedicated staff who unfailingly turn our plans into reality for continual improvement and help ensure the Scheme operates smoothly day after day.



**CHAN WONG Shui, Pamela, BBS, JP**  
Chairperson  
Hong Kong Deposit Protection Board

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



In my review of the Board's achievements in the previous issue of our Report, I mentioned a number of initiatives we were taking to consolidate our role in protecting the interests of depositors. I am pleased to report that these initiatives are coming to fruition, and will overhaul the way we operate our Deposit Protection Scheme (DPS). In the pursuit of our principal reform, we have been relying on the findings of internal and external reviews and have received strong support from the Government to introduce a more efficient and effective payout process. We have been working towards this goal for some time in a bid to strengthen the role of the DPS within the financial safety net of Hong Kong. During the past year, we also made good progress in increasing our preparedness for a range of contingencies, which is just as important as the successful operation of the DPS.

### Faster Payouts

Our constant efforts to initiate reforms were rewarded with the Government's package of proposals designed to accelerate the speed of

reimbursing depositors in a bank failure. The key initiative is the adoption of the gross payout approach to determine the DPS compensation. The proposals were released for public consultation and the response of the public was very positive. Meanwhile, we are encouraged by the Government's plan to introduce relevant amendments to the legislation to implement the proposals. Indeed, our focus now is on preparing various operational procedures that will be necessary to give effect to the changes. When these are promulgated, all deposits falling within the Scheme's protection limit will no longer be subject to set-off, thereby removing a major impediment to a speedy determination of compensation. This will result in depositors having quicker access to their funds. In addition, after implementing the proposed changes, the Board will be able to communicate electronically with depositors at the time of a payout, which will also open up opportunities to make payments via electronic means. The Board also fully supports, and will continue to collaborate with, the banking regulator to strengthen the effectiveness of the DPS within the safety net, and in the establishment of the resolution framework to cover banks of all sizes.

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

### A Heightened State of Payout Readiness

In September 2013, the Board issued the revised Information System Guideline to enhance the scope and quality of information provided by Scheme members, to enable speedier compensation calculations and payouts. These amendments also introduced a uniform data format for all depositor records from member banks for greater processing efficiency. Scheme members were given ample time until the end of 2014 to adjust their systems to meet with the new and more robust information regime. I am delighted that after a 15-month transition the new requirements were fully implemented in early 2015. To monitor the effectiveness of the revised guideline, a more stringent compliance programme has been launched to ensure that the information readiness of the banking industry supports the Board's objective of a fast payout.

As part of our efforts in strengthening payout readiness during the year, we completed a major revamp of the payout system to establish a more versatile compensation calculation starting at the preparatory stage of a payout. This would enable the computation process to be set in motion even before the main payout process begins. Particular emphasis was placed on this development in a series of interactive sessions for external payout agents. The sessions focused on various simulated situations and the agents were encouraged to test the procedures for potential weaknesses.

To take further advantage of an early notification by the banking regulator of a potential banking problem, the Board and the Hong Kong Monetary Authority refined the co-operative arrangements to establish more comprehensive procedures for coping with different strategic or resource planning needs to enable the fastest possible payout. This process included the development of extensive contingency plans covering various scenarios.

In addition, the Board continues to test the capability of the Scheme to prevent a bank failure from becoming a catastrophe and instead is an event that has the minimum impact on depositors and the economy as a whole. In the coming year, we will stage a payout rehearsal to determine the effectiveness of our recent refinements. This will involve working together with an extensive network of payout agents to handle a simulated payout, both to ensure readiness and to uncover any remaining deficiencies. We will also keep in view the development of electronic payment channels to capitalise on their use in achieving faster payouts bearing in mind the high expectations of the public on security and data privacy.

### Raising Awareness

A key effort in our bid to maximise the effectiveness of the DPS is to ensure the public has a solid understanding of the Scheme's role and coverage. On the publicity front, we

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

introduced new TV and radio commercials to arouse and sustain public awareness and understanding of the DPS, with synergy created through advertising in print, on digital channels and out-of-home media incorporating innovative elements to drive home the messages. The new campaign, centred on an interesting yet very meaningful question, "Where is the best place to keep my money?", demonstrated the security of bank deposits under the DPS. This is just part of our concerted publicity efforts to build on the already very strong public recognition of the Scheme.

Indeed, the Board is committed to maintaining and, where possible, reinforcing public confidence in the protection provided to depositors by the Scheme. A diversity of creative programmes and activities will be launched to engage people from all walks of life in our numerous community involvement promotions. We will also continue to gauge the public's perception and understanding of the DPS and monitor the impact of our publicity and community education programmes to ensure the effectiveness of our message.

### Words of Thanks

I cannot let this opportunity pass without paying tribute to the Chairperson and all members of the Board for their valuable insights and guidance, with my special thanks and personal best wishes for a happy retirement to ex officio Board Member Miss Au King-chi. I would also like to express my sincere gratitude for the staunch support of the Advisory Panel on Communication and Public Education, and the Consultative Committee on Deposit Protection Scheme. Finally, I am truly grateful for the dedication and commitment of my colleagues in their tireless efforts to ensure the success of the DPS. We will continue to contribute our best to the well-being of Scheme members and to those who deposit money with them.

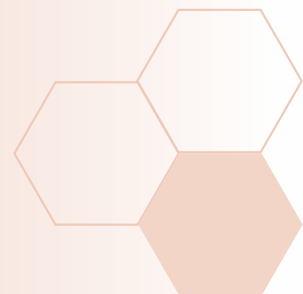


**DATWANI Meena, JP**

Chief Executive Officer  
Hong Kong Deposit Protection Board



# ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD



## Introduction

The Board is a statutory body established under section 3 of the DPS Ordinance (DPSO) to oversee the operation of the DPS. Launched in September 2006, the DPS is a key building block in Hong Kong's financial safety net. Through the provision of a measure of protection to depositors, the DPS contributes to the stability of the banking system.

The Board is also a member of the International Association of Deposit Insurers (IADI) and joins the efforts of IADI in promoting effective deposit insurance systems.

## Mission and Functions of the Board

The Board's mission is to maintain an efficient and effective DPS in accordance with the DPSO and in line with international best practice. Under section 5 of the DPSO, the Board's functions include the following:

- Assessing and collecting contributions payable by Scheme members
- Managing the DPS Fund
- Making payments to depositors in the event of a failure of a Scheme member
- Recovering payments made to depositors from the assets of the failed Scheme member.

## Composition of the Board

Members of the Board are appointed by the Financial Secretary (FS), with the power delegated from the Chief Executive of the HKSAR (CE/HKSAR). They come from different professions such as accounting, banking, consumer protection, legal (insolvency), investment, information technology and public administration, and have rich experience in public service.

The Board currently comprises nine members including two ex officio members representing the Hong Kong Monetary Authority (HKMA) and the Secretary for Financial Services and the Treasury.

## Performance of Functions through the Hong Kong Monetary Authority

Pursuant to section 6 of the DPSO, the Board shall perform its functions through the HKMA unless indicated otherwise by the FS. This means the HKMA will act as an executive arm of the Board in administering the DPS.

The HKMA has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources and information technology. Detailed arrangements regarding the extent of support provided by the HKMA are set out in a Memorandum of Understanding (MoU) between the two organisations.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Members of the Board

#### Chairperson



**Mrs CHAN WONG Shui, Pamela, BBS, JP**

Former Chief Executive  
The Consumer Council of Hong Kong

#### Members



**Professor CHAN Ngai-hang**

Choh-Ming Li Chair Professor of Statistics  
Director of Graduate Studies  
Risk Management Science Program  
Department of Statistics  
The Chinese University of Hong Kong



**Miss CHAN Wai-hing, Annie**

Managing Director  
Mazars Corporate Recovery &  
Forensic Services Limited



**Professor CHIN Yuk-lun, Francis**

Taikoo Professor of Engineering and  
Chair of Computer Science  
Department of Computer Science  
The University of Hong Kong



**Ms CHING Kim-wai, Kerry**

Managing Director, Asia  
AMP Capital Asia Limited

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD



**Mr HO Eugene**

Former Chief Executive  
ICBC International Holdings Limited



**Mr KIDD David**

Partner  
Linklaters



**Mr YUEN Kwok-hang, Arthur, JP**

Deputy Chief Executive,  
Hong Kong Monetary Authority

*Ex officio member of the Board  
representing the Monetary Authority*



**Mr WONG Ho-yuen, Andrew, JP  
(since December 2014)**

Permanent Secretary for Financial Services  
and the Treasury (Financial Services)

*Ex officio member of the Board  
representing the Secretary for  
Financial Services and the Treasury*



**Miss AU King-chi, GBS, JP  
(until December 2014)**

Permanent Secretary for Financial Services  
and the Treasury (Financial Services)

*Ex officio member of the Board  
representing the Secretary for  
Financial Services and the Treasury*

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Investment Committee of the Board

The Investment Committee is established in accordance with section 7 of Schedule 2 to the DPSO. It consists of the following members:

#### Chairperson

**Ms CHING Kim-wai, Kerry**

Managing Director, Asia  
AMP Capital Investors (Hong Kong) Limited

#### Members

**Professor CHAN Ngai-hang**

Choh-Ming Li Chair Professor of Statistics,  
Director of Graduate Studies Risk Management  
Science Program, Department of Statistics  
The Chinese University of Hong Kong

**Miss CHAN Wai-hing, Annie**

Managing Director  
Mazars Corporate Recovery &  
Forensic Services Limited

**Mr CHU Siu-chuen, Francis, JP**

Executive Director (Reserves Management)  
Hong Kong Monetary Authority

### Terms of Reference

- to make recommendations on the investment policy and strategy in respect of the DPS Fund
- to monitor the investment performance of the DPS Fund and to establish proper risk management controls for the investment activities of the Board
- to deal with any other matters as determined from time to time by the Board.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Advisory Panel on Communication and Public Education

The Advisory Panel on Communication and Public Education was established in August 2011 in accordance with section 7 of the DPSO to advise the Board on matters relating to the development of the communication and public education strategy and its implementation by the Board on an ongoing basis. It consists of the following members:

#### Chairperson

Mrs CHAN WONG Shui, Pamela, BBS, JP

#### Members

Ms CHAN Kwok-fai, Jenny (since January 2015)

Mr NG Shui-lai, BBS, MBE, JP

Mr WONG Koon-shing

Mr FONG King-sang, Quentin  
(until December 2014)

### Deposit Protection Appeals Tribunal

Under the DPSO, certain decisions of the Board and the MA can be the subject of an appeal to the Deposit Protection Appeals Tribunal. These include:

- the Board's decisions on whether a foreign bank branch can be exempted from participation in the DPS
- the amount of contribution payable by a Scheme member
- the amount of compensation payable to a depositor
- the MA's decision to impose an asset maintenance requirement on a Scheme member.

In accordance with section 40 of the DPSO, the CE/HKSAR has made the following appointments to the Tribunal for the period from 14 January 2014 to 13 January 2017.

#### Chairman

Mr WRIGHT Alan Raymond, SBS

### Panel of Persons Who May Be Appointed to be Members of the Tribunal

Ms ISMAIL Roxanne, SC

Professor LAM Kit-chun

Ms XUEREB Maria

Sittings of the Tribunal are convened when required and members of the Tribunal will be appointed by the FS from the above Panel.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Consultative Committee on Deposit Protection Scheme

To keep the industry informed of the development of the DPS, the Board has established a Consultative Committee comprising 13 representatives from the banking industry. The Committee serves as a useful forum for the Board and the banking industry to exchange views on issues of common interest. Members of the Committee are:

**Mr CHOW Chak-chee**

Bank of China (Hong Kong) Limited

**Mr TONG Hon-shing**

The Bank of East Asia Limited

**Ms SO Yammie**

BNP Paribas, Hong Kong Branch

**Ms MAN Rita**

China CITIC Bank International Limited

**Mr WONG Kevin**

Dah Sing Bank Limited

**Mr TANG Stephen**

DBS Bank (Hong Kong) Limited

**Mr CHOW Arnold**

Hang Seng Bank Limited

**Ms LAI Elaine**

The Hongkong and Shanghai Banking Corporation Limited

**Mr CHAN Jimmy**

Industrial and Commercial Bank of China (Asia) Limited

**Ms TSUI Jackeline and Mr KWONG Herbert**

JP Morgan Chase Bank, Hong Kong Branch

**Ms CHEUNG Maggie**

Mizuho Bank Limited, Hong Kong Branch

**Mr HUI Peter**

Nanyang Commercial Bank Limited

**Mr WONG Teddy**

Standard Chartered Bank (Hong Kong) Limited

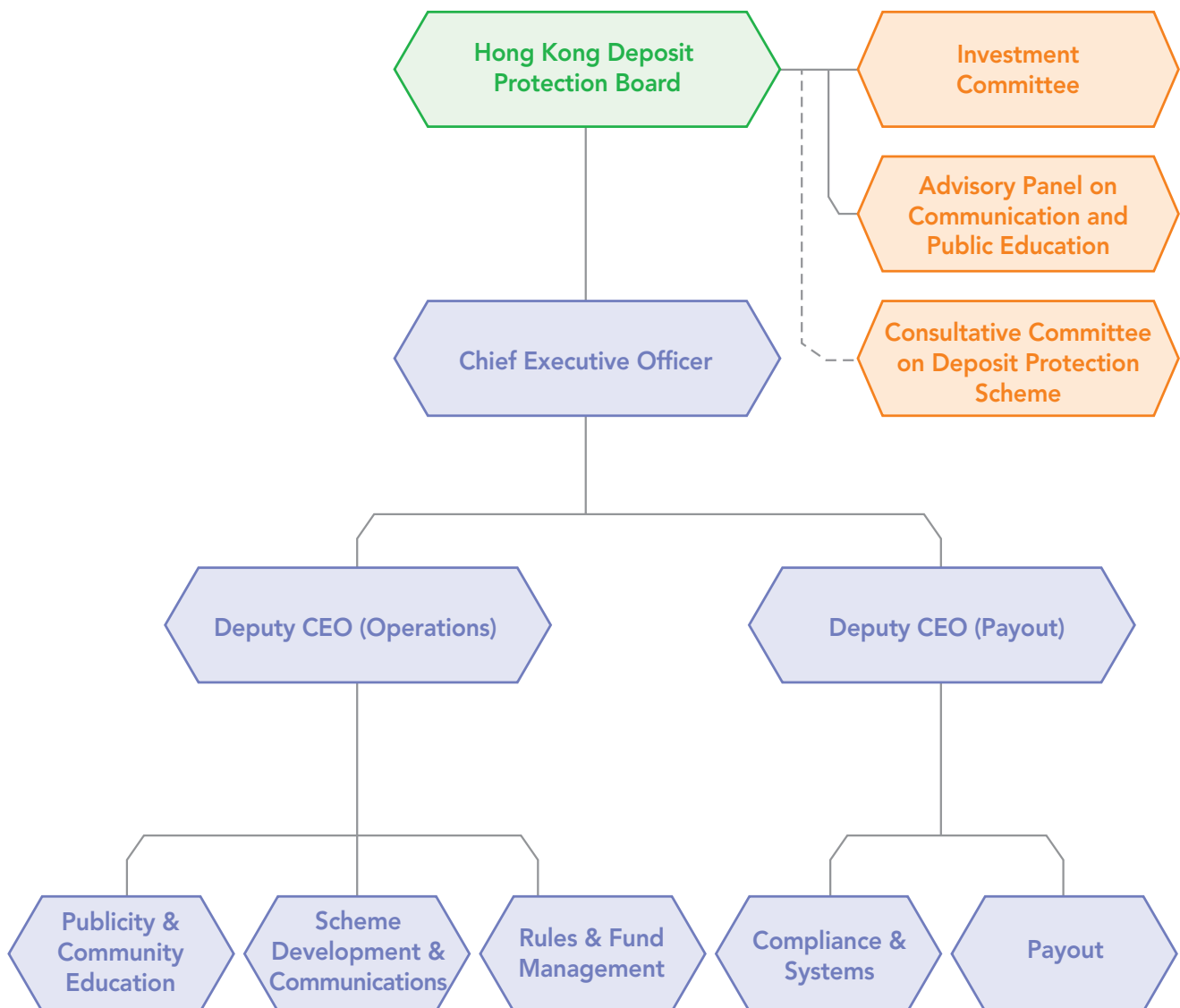
### Terms of Reference

- to advise the Board on the formulation of the approach and strategy in relation to the development of the DPS
- to consider and give comments on specific policy and operational initiatives proposed by the Board that may have an impact on the banking industry
- to assist the Board in maintaining effective communication with the banking industry.



## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Organisational Structure





## CORPORATE GOVERNANCE

A strong and sound corporate governance framework is critical to the effectiveness of a DPS as a means to provide protection to depositors and to promote general banking stability. Therefore, apart from putting in place an efficient payout infrastructure and engendering a high level of public awareness and understanding of the DPS, the Board is fully committed to subscribing to sound corporate governance practices when administering the DPS, which in turn helps instil public confidence in the ability of the DPS to honour its commitments when a bank fails.

Given the nature of the Board and the functions of the DPS, the corporate governance structure of the Board incorporates the characteristics of both a public organisation and a deposit insurer. The key elements of the Board's corporate governance structure interact and reinforce each other in supporting sound governance and are discussed in detail below.

### Board Governance

The Board is an independent statutory body formed under the DPSO. It is subject to the oversight of the FS who is responsible for approving the Board's annual budget and tabling the Board's annual report to the Legislative Council.

The functions and composition of the Board are set out in the DPSO which provides that the Board shall comprise between six to nine members, all of whom are non-executive

members. Except for the two ex officio members, all other members are appointed for a fixed renewable term, but for not more than six years in normal circumstances. These members are appointed mainly because they possess professional or occupational experience relevant to the operation of the DPS and are committed to serving the public.

The proceedings of the Board are governed by the relevant provisions in the DPSO. The Board meets three to four times every year to deliberate policy issues crucial to the operation and development of the DPS. In 2014-2015, the Board met four times. On average, nearly 90% of members were present at each meeting.

Under the DPSO, the Board may appoint committees and advisory panels to assist it in performing its functions. Currently, an Investment Committee comprising members with experience and expertise in banking and investment matters has been formed to advise the Board on the investment of the DPS Fund. The Chairperson and a majority of the members of the Committee are also members of the Board.

The Advisory Panel on Communication and Public Education was formed to advise the Board in developing its communication and public education strategy and implementation plan, and in monitoring the effectiveness and quality of the related activities. The Advisory Panel consists of the Chairperson of the Board and experts with extensive experience in public relations, communication and community education strategies.

### Executive Management

Pursuant to section 6 of the DPSO, the Board shall perform its functions through the HKMA unless otherwise directed by the FS.

The HKMA has assigned a team of staff to assist the Board in discharging its functions, headed by an Executive Director of the HKMA who is designated as the Chief Executive Officer of the Board. The costs incurred by the HKMA for such purpose are reimbursed by the Board on a cost recovery basis in accordance with the provisions set out in the DPSO.

The powers that can be exercised by the Board in administering the DPS are specified in the DPSO. The Board has established clear guidelines on the division of responsibilities between the Board, the Management Team and other supporting divisions of the HKMA, and between the posts of the Chairperson and the Chief Executive Officer, which have been devised in line with good corporate governance practice. In general, strategic decisions relating to the operation and development of the DPS and those decisions requiring an exercise of the Board's powers under the DPSO have to be taken by the Board. The Management Team, on the other hand, is responsible for the day-to-day operation of the DPS according to the principles and policies endorsed by the Board.

### Risk Management and Audits

The Board ensures that appropriate and prudent risk management systems for managing the risks in operating the DPS have been implemented and reviewed regularly. The Internal Audit

Division (IAD) of the HKMA, which is a division independent of the departments in the HKMA, performs periodic assessment of the risks inherent in various operational areas of the Board, and evaluates whether appropriate controls are put in place by the Management Team to safeguard the Board against the potential risks identified. Regular audit reviews of the operation of the DPS are conducted to ensure that the various internal control procedures of the Board have been properly adhered to, especially in relation to activities posing a relatively high level of risk to the Board. The findings of the risk assessment also form part of the basis of the IAD in formulating its plan for auditing the operation of the DPS.

The IAD reports its findings and recommendations directly to the Board to ensure independence of communication of its review results.

The appointment of the external auditor of the DPS Fund requires the approval of the FS. The external auditor is responsible for auditing the annual statement of accounts of the DPS Fund prepared by the Board. The external auditor reports its findings directly to the Board.

The external auditor for the year under review was PricewaterhouseCoopers (PwC). Apart from auditing the statement of accounts for 2014–2015, PwC, through a team independent of the audit engagement, was also engaged by the Board to provide advisory services for enhancing the efficiency of payout procedures and is eligible for appointment as a project co-ordinator for managing payout services.

To avoid conflicts of interest, the Board has put in place an arrangement that preserves the independence of the financial audit undertaken by PwC.

### Standards of Behaviour and Ethics

In line with the good corporate governance standards applicable to deposit insurers, the Government and the HKMA representatives account for only a minority of the members of the Board. This allows the Government and the banking supervisor to contribute to the operation of the DPS from the public administration and financial regulatory perspectives, but prevents the Board from overly exposing itself to the influence of the Government and other financial safety net players. The Management Team assigned by the HKMA to assist the Board is not responsible for prudential supervisory matters. The operation of the Board is insulated from the influence of the banking industry as no employees or directors of banks and banks' related companies can be appointed as a Board member.

The Board has established clear guidelines and procedures for declaration of interests and avoiding conflicts of interest. The relevant guidelines and procedures are set out in the DPSO and the Codes of Conduct for members and staff of the Board. Board members are required to declare in writing their personal interests when they first join the Board or its committees, and annually thereafter, to the secretary of the Board. The register of Members' interests is kept by the secretary and is available for public inspection. Senior staff members of the Board are required to make a declaration to the Chairperson of the Board annually. Specific procedures are available on how members and staff of the Board should report their interests and be excused from a decision making process.

### Communications and Transparency

The Board is committed to open communication with the public and other stakeholders. It has set up an enquiry hotline to answer questions from the public, and maintains a website to facilitate access to information on different aspects of the DPS operations. The Board also makes its annual report publicly available. To keep the banking industry informed of the developments of the DPS, the Board consults the banking industry through the Consultative Committee on the DPS and the industry associations on policies and initiatives relating to the operation of the DPS that may have an impact on the industry.

### Appeal Mechanism

Certain decisions made by the Board and the HKMA under the DPSO can be the subject of an appeal to the Deposit Protection Appeals Tribunal. The Tribunal is chaired by a High Court judge appointed by the CE/HKSAR. Members of the Tribunal are appointed by the FS from a panel of three people appointed by the CE/HKSAR. In the year under review, no case was required to be reviewed by the Tribunal.

## CORPORATE GOVERNANCE

### Review of the Corporate Governance Structure

The Board has a policy of reviewing its corporate governance structure regularly to ensure that it continues to adhere to sound corporate governance standards, despite any expansion or change in the scope of the Board's operations as a result of the development of the DPS. Refinements are made between individual reviews, as and when necessary, to facilitate the Board in keeping up with local and international best practices.

## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014–2015



### Economic Situation

Hong Kong's economic growth momentum softened in 2014, with real GDP growth slowing to 2.5% from 3.1% in 2013. This was largely attributed to a weaker domestic demand with sluggish growth in private consumption expenditure and a slight decline in investment expenditure. The external trade performance and export of services (mainly weighted by a decline in tourist spending) remained lacklustre. Nevertheless, labour market conditions remained generally stable in 2014 and the seasonally adjusted unemployment rate stayed low at 3.3%.

The local stock market was volatile in 2014. Following a soft start, the Hang Seng Index rallied from the second quarter underpinned by the announcement of the Shanghai-Hong Kong Stock Connect pilot programme, improved global economic growth and the US Federal Reserve's ongoing accommodative monetary stance. It reached a six-year high in early September, then lost ground amid increased fluctuations in global financial markets with renewed concerns over a slowdown in global economic recovery, the oil price slump and heightened geopolitical tensions. The Hang Seng Index managed to close the year just 1.3% higher than at the end of 2013. The residential property market was quiet in the first quarter of 2014, but revived in the remaining months of the year in terms of both transaction volume and prices. This upward trend was also broadly reflected in the commercial and industrial property market. Underlying inflation retreated to 3.5% in 2014 from 4.0% a year earlier, primarily reflecting a moderation in domestic and imported price pressures with an easing global commodity price environment.

### Hong Kong Banking Environment

The local banking sector remained resilient in 2014 despite the economic slowdown in some major economies and the uncertainties in the timing and pace of a hike in US interest rates following the end of its quantitative easing programme. The asset quality of retail banks continued to be robust. The classified loan ratio declined mildly to 0.45% at the end of 2014 from 0.48% the previous year. All locally incorporated authorized institutions remained well capitalised. Their consolidated capital adequacy ratio increased to 16.8% at the end of 2014 compared with 15.9% the previous year, which was well above the international minimum standard of 8%. The liquidity position of retail banks remained sound with the average liquidity ratio increasing to 41.1% in the last quarter of 2014 from 39.6% at the same time in 2013, standing firmly above the statutory minimum of 25%.

The Regulatory Consistency Assessment Programme review of Hong Kong was carried out by the Basel Committee in 2014 and the overall results of Hong Kong's capital and liquidity regulations were assessed as compliant with the relevant Basel standards. At the beginning of 2015, Hong Kong implemented the second phase of the Basel III capital standards and the Basel III Liquidity Coverage Ratio.

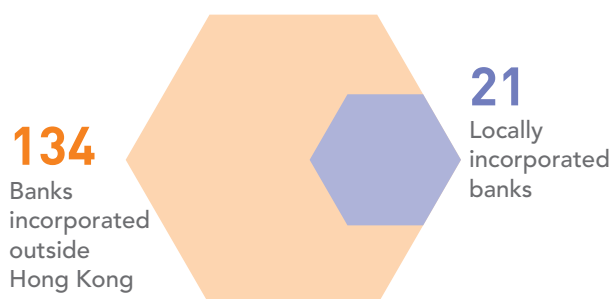


## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

### Scheme Members' Profile

The Scheme had 155 members at the end of March 2015, slightly lower than the 156 members a year ago. One new member joined the Scheme as a result of an upgrade to a licensed bank from a restricted licence bank, while two memberships were revoked because of group restructuring. Twenty-one of the Scheme members were locally incorporated banks and 134 were banks incorporated outside Hong Kong. This was largely in line with the number of retail and wholesale banks in Hong Kong.

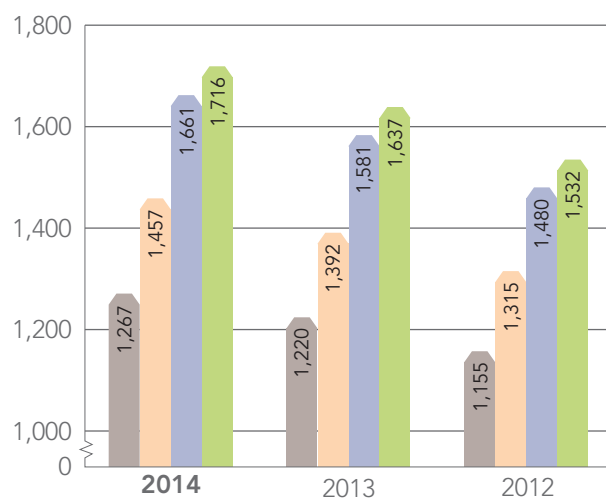
#### Number of Scheme Members at 31 March 2015



Based on the returns submitted by Scheme members, the aggregate amount of their relevant deposits grew by 5% to HK\$1,716 billion during 2014, compared with HK\$1,637 billion in 2013. The distribution of relevant deposits among Scheme members remained similar to that of the previous year. The top 20 Scheme members (all of which were retail banks) held 97% of the industry's aggregate relevant deposits. Wholesale banks held the remaining 3%.

### Relevant Deposits Held with Scheme Members

(HK\$ billion)



% of total	2014	2013	2012
Top 5	74%	75%	75%
Top 10	85%	85%	86%
Top 20	97%	97%	97%
Total	100%	100%	100%

### Relevant Deposits Held with Retail Banks and Wholesale Banks

(HK\$ billion)

	2014	2013
Retail banks	1,666	1,585
Wholesale banks	50	52

### Contributing to Better Deposit Protection

During the year, the Board thoroughly analysed the feasibility of adopting the gross payout approach and other enhancements to the Scheme to make faster payouts. The analysis took into account the suggestions in a report issued by the International Monetary Fund under the Financial Sector Assessment Programme, and the results of the Board's own internal review. The final proposals were presented by the Government in a three-month public consultation exercise launched in September 2014 on enhancing the effectiveness of the DPS. Bolstered by public support for the proposals during the consultation process, the Board began the necessary planning and preparation for implementing the faster and more efficient gross payout approach, subject to the completion of the required legislative amendments. This approach, with its simpler and more easily understood method to determine compensation, will strengthen depositor confidence in the DPS and improve its function as part of the safety net for maintaining banking stability in Hong Kong.

The effectiveness of resolving banking problems and depositor protection depends on a robust financial safety net. Therefore, a seamless interface between the DPS and the resolution regime for financial institutions being developed by the Government together with the financial regulators is essential in facilitating an effective functioning of the financial safety net framework.

Through its role in protecting depositors, the Board contributed to the design of the local regime such that the DPS would work with the resolution system in a co-ordinated and efficient manner.

### Ensuring Payout Readiness of the DPS

#### Information Readiness of Scheme Members

In early 2015, all Scheme members completed the implementation of the new requirements under the Information System Guideline issued in 2013. The computer systems and operations of Scheme members are now ready to provide depositor records in a much reduced timeframe, and in a standardised data format. This has greatly improved the quality of the data and the timeliness of members' submissions necessary for determining compensation in the event of a payout.

To better ensure continuous compliance with the Guideline, amid the ever-changing systems and business operation environment, a reinforced compliance surveillance programme was introduced to gauge the effectiveness of Scheme members in meeting the Guideline's requirements. Under the new programme, Scheme members are required to return annually a self-declaration of compliance status and a questionnaire on depositor statistics and major system changes made in the reporting year. Two briefing sessions were held to assist Scheme members in preparing their first return. In

## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

addition, selected Scheme members were required to commission independent auditors to assess their readiness to submit the required information to the Board upon request.



*Briefing for Scheme members on the self-declaration of compliance with information submission requirements*

In compliance reviews during the year, six simulation tests were conducted with payout agents using customer records in the new standardised format submitted by Scheme members.

### Early Preparation for a Potential Payout

To ensure an expeditious payout, it is imperative that early preparations are made for a possible trigger of the DPS. Based on the established early warning system, more detailed co-operative arrangements were agreed between the Board and the HKMA (the banking regulator) to facilitate the required strategic and resources planning, data verification and other essential preparatory work before any payout. At the same time, more elaborate procedures, under different scenarios, were developed to enable payout agents to perform their tasks more efficiently during the pre-payout stage. With these pre-payout procedures in place, the Board is better equipped to reimburse depositors as quickly as possible in the event the DPS is triggered.

### Payout System Revamp

System efficiency is crucial for the processing and analysis of a large volume of bank records, particularly in a stressed timeframe. Following the implementation of the revised Information System Guideline, the efficiency of the payout system was improved and new features were introduced to make full use of the more comprehensive information provided by Scheme members. The revamp of the payout system also enabled commencement of some payout processes well ahead of a payout.

### Gearing Up for Payout Reform

It was equally important to ensure that payout agents were fully conversant with the Scheme's latest reforms for the smooth completion of the time-critical payout processes. Therefore, training sessions were held to familiarise the agents with the payout procedures and new system features to instil a high level of readiness. The sessions focused principally on a detailed walk-through of the work to be undertaken for early preparation after receiving advance notice of a likely bank failure.



*A walk-through conducted with payout agents*

## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014–2015

### Payout Reform

#### Contingency Planning

Established a more comprehensive contingency plan setting out responses to a banking crisis involving different scenarios

#### Early Preparation for a Potential Payout

Formalised a co-operative agreement with the HKMA to implement an early warning system

Developed elaborate procedures for early preparation of a payout in the event of a potential bank failure

#### Readiness of Scheme Members

Enhanced information submission requirements to enable speedy submission of depositor records when there is a bank failure

Launched new measures to ascertain and monitor the overall compliance level of Scheme members

#### Readiness of Payout Agents

Expanded the pool of external payout agents to support a payout

Ensured payout agents are ready to act effectively during a payout

#### Revamped Infrastructure and System

Upgraded infrastructure to support more complex or larger scale payouts

Completed system revamp to make full use of more comprehensive information provided by Scheme members and for higher efficiency

### Exploration of Electronic Payment Channels

An external consultant was engaged to undertake research on existing and emerging payment channels. The study included consultation with the major retail banks and leading industry operators of payment networks making reference to the best and latest practices of overseas deposit insurers. After careful deliberation, and taking into account the possible fragile depositor sentiment at the time of a bank failure, the study concluded that electronic methods for making compensation payment, if used, must be robust and well known to the public. In view of the continuing development of electronic payment channels and the gradual rise in their usage, suitable electronic means will be adopted to supplement paper cheques to speed up depositors' access to payment as and when appropriate.

### Sufficient Funding

Once a DPS payout is triggered, the Board is committed to compensating the relevant depositors as soon as practicable. To this end, the Board has always maintained adequate resources through maintaining a highly liquid portfolio of assets and a robust standby credit facility of up to HK\$120 billion from the Exchange Fund.

## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014–2015

### Building up the DPS Fund

#### Composition of the DPS Fund

The DPS Fund mainly consists of two components, annual contributions to the Board by Scheme members, and the returns generated by the Fund's investments. The amount of relevant deposits reported by Scheme members, together with the supervisory rating provided by the HKMA, serves as the basis for determining their contributions for the coming year.

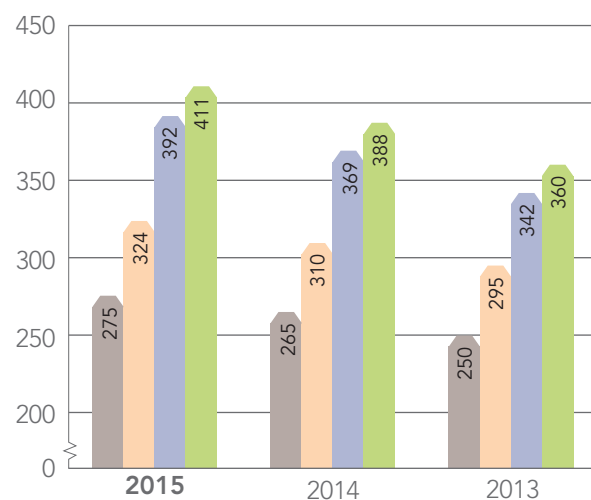
#### Assessment and Collection of Contributions

The contributions collected from Scheme members during the year amounted to HK\$411 million, an increase of 6% from the previous year. All contributions were paid during the first quarter of 2015. Similar to the distribution of relevant deposits, the amount of contributions collected from the top 20 Scheme members accounted for 95% of the total. To ensure that the deposit data reported by Scheme members is accurate, the Board, since 2007, has requested Scheme members to conduct regular audit reviews of their Returns of Relevant Deposits in accordance with the policy for reviewing returns. Following a review of the policy during the year, it was decided that to alleviate the reporting burden of small Scheme members, no member with HK\$90 million or less in relevant deposits would be subject to regular

audit review requirements. The review results for the year were satisfactory, and no reporting error was noted. All applicable Scheme members had completed the first round of audit review under the current reporting basis. This gave added confidence to the Board on the accuracy of the total amount of contributions payable by the industry.

#### Contributions Paid by Scheme Members

(HK\$ million)



#### By Relevant Deposits Held

% of total	2015	2014	2013
Top 5	67%	68%	70%
Top 10	79%	80%	82%
Top 20	95%	95%	95%
Total	100%	100%	100%



## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014–2015

### Investments of the DPS Fund

With the uncertainties surrounding global financial markets, and the primary investment objective of the DPS Fund being capital preservation, the Board continued to exercise extra caution by adopting a conservative investment strategy to guard against possible losses arising from any sharp market fluctuations. Investments were made in strict compliance with the DPS Ordinance and the investment control policies of the DPS Fund, which set out clear guidelines on risk assessment and control measures, and the segregation of duties required for investment activities.

At the end of March 2015, the DPS Fund's assets were predominantly held as deposits and almost all were denominated in Hong Kong dollars, with a minimal balance in US dollars. Despite the low interest-rate and uncertain investment environment, the DPS Fund achieved a positive investment return of 0.17% for the year.

### The DPS Fund's Mix of Cash and Investments (at 31 March)

(HK\$ million)	2015	2014
Cash and deposit balance	<b>2,766</b>	2,425
Investment securities	<b>0</b>	0
Total	<b>2,766</b>	2,425

### The DPS Fund's Currency Mix of Cash and Investments (at 31 March)

(HK\$ million)	2015	2014
Hong Kong dollars	<b>2,765</b>	2,424
US dollars	<b>1</b>	1
Total	<b>2,766</b>	2,425

## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

### Enhancing Public Awareness and Understanding

High level recognition of the DPS supports depositor confidence in the banking system. It was encouraging to note a rising trend in the public awareness and understanding of the Scheme during the year. Given its significance, the Board continued to place great emphasis on conducting various publicity programmes through multi-communication platforms, and organising tailored community education activities to enable depositors to better understand the Board's role and the DPS coverage. With regular evaluation of public opinion survey results and other feedback, the Board adjusts its publicity and community education strategies to improve the effectiveness of different initiatives designed for Hong Kong depositors.

### Mass Publicity Campaigns

#### Television and Radio

Sustaining the momentum of the popular series based on the "Bao Bao Bao" theme, a new TV and radio campaign adopting the same advertising jingle was launched in September 2014. To achieve greater resonance with target audiences, the new campaign featured the storyline and principal characters from the long-running radio drama "18/F Block C". The campaign began with the question, "Where is the best place to keep my money?", and rhyming dialogue was used to highlight the deposit protection messages in a humorous yet easy-to-remember way.

#### Digital and Print Media

In addition to the TV and radio campaign, the Board publicised the Scheme's key messages



New TV and radio campaign features characters from the long-running "18/F Block C" radio drama



Online news channel video



Newsletter advertorial

## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

online, including an online news channel to capture the attention of audiences from other media sources, such as young people and housewives.

In addition, advertorials and informative articles were published in newsletters of different target readership groups, such as blue-collar workers, teachers and senior citizens.

### *Out-of-home Publicity*

The Board also utilised a comprehensive range of out-of-home channels with new creative elements echoing the advertising theme.

Advertisements, both static and through infotainment systems, were shown on public transport, such as MTR trains, buses and in fast food outlets to catch the attention of passengers, diners and people on the move.

Publicity materials were also displayed and distributed at public housing estates, public hospitals, Integrated Family Service Centres, The Link shopping centres and the arrival hall at the Lo Wu Control Point. The use of these different platforms enabled the Board to reach target audiences in a cost-effective manner.



*Spreading the DPS messages across Hong Kong*



## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

### Community Education Activities

#### *Community Engagement Campaigns*

To provide easy access to DPS information in densely populated neighbourhoods, the Board operated, on a rotational basis, an interactive digital game booth at shopping malls in different areas, and distributed publicity materials on Sundays at public housing estates and near old tenement buildings. Another promotional initiative at district level was held in selected outlets of a restaurant group around Hong Kong where diners participated in a scratch-card game imbedded with key DPS messages.



DPS game booth at a shopping mall

#### *DPS Senior Ambassadors*

To better connect with senior citizens, the Board sought the assistance of established brigades of active volunteers from non-government organisations. In particular, it collaborated with the Caritas Cheng Shing Fung District Elderly Centre (Sham Shui Po) and the Mong Kok Kai Fong Association Chan Hing Social Service Centre to engage the enthusiasts as DPS Senior Ambassadors. These ambassadors promote the DPS to their contemporaries, low income families and new immigrants through regular home visits and other community activities.



DPS Senior Ambassadors



Board Chairperson, Mrs Pamela Chan (centre), invites diners to play the DPS game

## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

### *DPS Features in Bun-making Classes*

Building on the momentum established by the previous “Ensure your Protection, Save with Confidence” bun-making campaign, and the popularity of the bun-making videos on the Board’s website, the Board hosted a series of bun-making classes for housewives during the year. The Tung Wah Group of Hospitals Jockey Club Tin Shui Wai Integrated Service Centre and the Hong Kong Young Women’s Christian Association Sham Shui Po Integrated Social Service Centre were partners in the series. The participants enjoyed the innovative DPS video featuring the Chairperson and a celebrity chef. The bun-making classes were interspersed with messages about the DPS.



*DPS bun-making classes*



## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

### *DPS Talks*

Throughout the year, the Board continued to hold tailor-made talks about relevant aspects of the DPS for different audience groups, including the elderly, housewives and students. In addition, the Board partnered with the Investor Education Centre and The Hong Kong Association of Banks to incorporate key features of the DPS in their financial education workshops

for students of the Elder Academy and low income families respectively. Information about the DPS was also passed on to secondary students at public education seminars held by the HKMA and talks to members of the Women's Club of The Family Planning Association of Hong Kong.



*Interactive community education programmes target different audience groups*

## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

### Consumer Shows

Consumer shows in areas attracting high pedestrian flows were once again a feature of the Board's approach to closely engage with members of the public. Senior citizens and their carers were welcomed at an interactive DPS information booth at the Hong Kong Retiree and Senior Fair in July 2014. The Board also participated in the North District Flower, Bird, Insect and Fish Show in December. In addition to the distribution of publicity materials and the information panel display, a series of DPS videos was shown to reinforce public knowledge and understanding of the Scheme's main features.

### Effectiveness of Publicity Campaigns

There has been an encouraging rise in the levels of awareness and understanding of the DPS. According to the findings of independent public opinion surveys, the awareness level remained at a high level of 78% in 2014. Of those respondents aware of the Scheme, nearly 80% knew about the HK\$500,000 protection limit, an increase of almost five percentage points over the 2013 survey, and just over 80% knew the protection provided by the DPS was covered by

law, a rise of some four percentage points. While these upward trends are welcome, the Board will continue to explore new opportunities to effectively build confidence in the DPS protection.

### Compliance with Representation Rules

The Representation Rules govern representations made by Scheme members about their DPS membership and the protection status of the financial products offered by them.

To monitor their compliance with the representation requirements, Scheme members were asked to conduct a self-assessment review covering the period from 1 July 2013 to 30 June 2014. In addition, on-site examinations continued to be undertaken to ascertain in greater detail the level of Scheme members' compliance with the Representation Rules. The Board reviewed the self-assessment reports and on-site examination findings to determine appropriate follow-up action. The results indicated that the overall compliance level was satisfactory in general, and no non-compliance cases with a systemic impact were identified.



Board booths at the Hong Kong Retiree and Senior Fair (left) and the North District Flower, Bird, Insect and Fish Show

### Relationships with Other Safety Net Players

#### Co-operation with the Hong Kong Monetary Authority

The Board and the HKMA are both financial safety net players, sharing the common objective of promoting the stability of the banking system. To accomplish this, the two parties have signed an MoU that sets out how they co-operate in the performance of their respective functions. In addition, since the Board is required by the DPSO to perform functions through the HKMA, the Board and the HKMA have agreed on the extent of the support provided by the HKMA to the Board on a day-to-day basis. The Board also has in place a standby facility from the Exchange Fund to provide the liquidity required to pay compensation in the event of a bank failure. During the year, the Board and the HKMA also formalised an early warning system to enable faster payouts and set out the necessary co-operative arrangements.

#### Relationship with the Securities and Futures Commission and Investor Compensation Company

In the event of a bank failure, the funds of a depositor or a portion of those funds may, in certain circumstances, be covered by both the DPS and the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance to compensate securities or futures investors. To ensure that no person receives double compensation, the Board and the Securities and Futures Commission (SFC) have agreed on a set of arrangements to co-ordinate

and exchange information between them. These have been documented in an MoU between the Board, the SFC and the Investor Compensation Company, the company established by the SFC to administer the ICF. The MoU recognises that the DPS will normally pay the depositors first in the event of a bank failure, and that the parties will avoid double compensation by exchanging relevant information.

#### International Co-operation

As a member of the International Association of Deposit Insurers (IADI), the Board actively participates in its conferences and seminars and other events organised by member deposit insurers and international organisations, and exchanges knowledge and views on issues relevant to deposit protection in international forums. This is particularly important for keeping up to date with international developments, and for sharing experience about the effectiveness of overseas reform measures that may provide insights and impetus for changes to ensure the robustness of Hong Kong's DPS.

In 2014–2015, the Board's personnel took part in a number of international meetings, including:

- The IADI Asia-Pacific Regional Committee 12th Annual Meeting and International Conference in Kyoto, Japan
- The IADI Asia-Pacific Regional Committee's Technical Seminar on "Navigating Too Big to Fail: Strengthening Cross-border Co-operation and Implementing Effective Recovery and Resolution Planning" in Kuala Lumpur, Malaysia



## REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

- The 2014 IADI Executive Training Seminar on "Deposit Insurance Funding: Key Questions, Diverse Approaches" in Washington, D.C., USA
- The Joint Financial Stability Institute-IADI Seminar: Bank Resolution, Crisis management and Deposit Insurance Issues in Basel, Switzerland
- The 13th IADI Annual General Meeting and 2014 Annual Conference in Port of Spain, Republic of Trinidad and Tobago.

To foster information sharing and co-operation on cross-border issues, the Board signed an MoU with the Central Deposit Insurance Corporation, Taiwan in August 2014.



*MoU signing between the Board and Taiwan's Central Deposit Insurance Corporation*



*The IADI Asia-Pacific Regional Committee 12th Annual Meeting and International Conference (Kyoto)*



## PLANS FOR 2015–2016

### The Economic Outlook

The Hong Kong economy is projected to sustain moderate growth momentum in 2015. However, the local economic outlook is clouded by the variation in monetary policies and the diverse economic performance of major economies, in addition to uncertainties in global fund flows, exchange rates, interest rates, asset prices and liquidity conditions.

The Hong Kong banking sector remains in good shape, characterised by favourable liquidity conditions, strong capital positions by international standards and sound asset quality. Nevertheless, banks are expected to remain alert to potential risks as the uncertainties in the external environment may trigger corrections in asset markets and funding volatilities. At the same time, significant steps have been taken to strengthen Hong Kong's financial safety net to provide further protection for depositors and consolidate banking stability. Indeed, legislative proposals to enhance the payout efficiency of the DPS and establish a cross-sectoral resolution regime for financial institutions in Hong Kong are expected to be introduced into the Legislative Council in 2015.

### Business Plan and Key Initiatives

#### DPS Enhancements

We look forward to an amendment bill to put into effect the proposals designed to achieve a faster payout to depositors in the event of a bank failure. Coupled with this will be the implementation of the reforms once the required legislative approval has been obtained. These will not only involve the Board in revising systems and operational procedures, but also the banking industry in making the necessary adjustments to capitalise on the full impact of the DPS improvements enabling depositors' quick access to their deposits upon a bank failure.

The Board will continue to keep in view the latest developments of the resolution regime, and co-ordinate with the relevant authorities to maximise DPS functions within the regime, taking into account international principles and best practices.

### Enhancing Payout Readiness

The payout readiness of Scheme members will be improved through the strengthened compliance programme for the information submission requirements. After evaluating the self-declaration results of all Scheme members and the comprehensive assessment reports by independent auditors from selected Scheme members, the Board will identify areas that can be further enhanced to raise the quality and timeliness of the information provided. A database repository capturing Scheme members' depositor statistics and banking product information provided in their annual returns will also be developed to assist in payout preparations.

A payout rehearsal is scheduled for later this year to verify the overall robustness and effectiveness of the reformed payout operational model, in particular the benefits of undertaking an advance payout preparation under the early warning system established with the HKMA. In the rehearsal, an extensive network of payout agents will be engaged to test whether they can respond swiftly, co-ordinate effectively and arrange work priorities flexibly to handle different scenarios during the evolution of a bank crisis. Payout walk-throughs and simulation tests will continue to be performed regularly to maintain payout readiness and explore every opportunity for improvement.

With the potential of electronic payment channels affirmed as a supplement to paper cheques for disbursing payment to depositors, the Board will keep in view the development of these channels and, when conditions are right, formulate a plan and define operational, technical and security requirements for implementation.

### Compliance of Scheme Members and Ensuring Effective DPS Coverage

All Scheme members will continue to be subject to an annual self-assessment review to assess their compliance with the Representation Rules. This will help to ensure that their disclosures to the public about their status and the protection of deposit products are appropriate. With the HKMA's assistance, the Board will also continue to conduct on-site examinations to supplement the self-assessment review, and investigate any potential non-compliance issues that it identifies.

The regular survey for monitoring the implications of the popularity of structured deposits, which are outside the protection net under the ambit of the DPS, will be conducted in the second half of 2015.

### Reinforcing Public Awareness and Understanding

The Board will continue to attach great importance to the coverage and effectiveness of its publicity and community education efforts. The Board will complement multi-media advertising campaigns with other targeted initiatives designed to help the public better understand the key features of the DPS.

In order to generate greater synergy and maximise the benefit from extending the reach of the DPS messages, the Board will continue to follow an integrated approach in carrying out its multi-channel publicity and community education activities. Taking advantage of the tools provided by social media platforms to connect with people, the Board will endeavour to use them more widely for interacting with new and existing audiences. To reinforce the overall public understanding of the DPS messages and to further reach out to different groups, the Board will organise a new Hong Kong-wide interactive promotional campaign and step up its neighbourhood outreach and educational efforts. Capitalising on the successful co-operative experience with other organisations sharing the common objective of equipping the public with financial knowledge, the Board will explore new opportunities to meet the demand of different community segments.

The Board is conscious of the need to continually improve public awareness and understanding of the Scheme as this will help contribute to greater public confidence in the banking system. To monitor the effectiveness of our publicity and community education drives, and to devise informed longer-term plans, the Board will continue to track the general public's perception and understanding of the DPS.

### Maintaining Administrative Efficiency and Effectiveness

The Board will assess and collect contributions by Scheme members for 2016 under the well-established mechanism based on their returns of relevant deposits and the supervisory ratings assigned to them by the HKMA. The accuracy of these returns will remain subject to monitoring by the Board through reviews of their audit reports.



## INDEPENDENT AUDITOR'S REPORT

### To the Hong Kong Deposit Protection Board

We have audited the statement of accounts of the Deposit Protection Scheme Fund (the "Fund") established under section 14 of the Deposit Protection Scheme Ordinance (the "Ordinance") set out on pages 41 to 60, which comprises the balance sheet as at 31 March 2015, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### The Board's Responsibility for the Statement of Accounts

The Ordinance requires the Hong Kong Deposit Protection Board (the "Board") to keep and maintain proper accounts and records of all transactions of the Fund. The Board is responsible for the preparation of the statement of accounts that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the Board determine is necessary to enable the preparation of the statement of accounts that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the statement of accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 19 of the Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement of accounts is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement of accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the statement of accounts that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the statement of accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT

### Opinion

In our opinion, the statement of accounts gives a true and fair view of the financial position of the Fund's affairs as at 31 March 2015, and of the surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and has been properly prepared in accordance with the Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 23 June 2015



## DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2015

	Note	2015 HK\$	2014 HK\$
<b>Income</b>			
Contributions		394,068,212	367,145,351
Interest income from cash and balances with banks and the Exchange Fund	9	4,057,207	5,124,513
Exchange losses		(483)	(897)
Other income		65,000	60,000
		<b>398,189,936</b>	<b>372,328,967</b>
<b>Expenditure</b>			
Staff costs	5	9,828,616	8,628,988
Premises costs		5,802,045	5,900,537
Depreciation and amortisation		3,596,994	4,113,601
Office supplies		183,556	115,998
Overseas travel		240,874	189,412
Transport and travelling		1,860	5,456
Operating expenses reimbursable to the HKMA	9	24,690,126	24,698,673
Hire of services		7,841,614	11,352,360
Communications		148,425	83,177
Publicity and printing		13,892,079	13,825,776
Other expenses		4,690,385	4,108,745
		<b>70,916,574</b>	<b>73,022,723</b>
Surplus for the year		<b>327,273,362</b>	<b>299,306,244</b>
Total comprehensive income for the year		<b>327,273,362</b>	<b>299,306,244</b>

The notes on pages 45 to 60 form part of this statement of accounts.





## DEPOSIT PROTECTION SCHEME FUND — BALANCE SHEET

As at 31 March 2015

	Note	2015 HK\$	2014 HK\$
Non-current assets			
Fixed assets	6	4,924,645	5,617,904
Intangible assets	7	8,304,160	5,452,849
		13,228,805	11,070,753
Current assets			
Other receivables	8	2,195,746	2,201,618
Cash and balances with banks and the Exchange Fund	9	2,766,008,750	2,424,501,601
		2,768,204,496	2,426,703,219
Current liabilities			
Contributions received in advance		308,630,196	291,157,122
Other payables	10	28,206,946	29,294,053
		336,837,142	320,451,175
Net current assets		2,431,367,354	2,106,252,044
Net assets		2,444,596,159	2,117,322,797
Represented by			
Accumulated surplus		2,444,596,159	2,117,322,797
		2,444,596,159	2,117,322,797

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 23 June 2015

**Mrs Chan Wong Shui, Pamela**, BBS, JP  
Chairperson

The notes on pages 45 to 60 form part of this statement of accounts.





## DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2015

	2015 HK\$	2014 HK\$
Fund balance as at 1 April	2,117,322,797	1,818,016,553
Surplus for the year	327,273,362	299,306,244
Fund balance as at 31 March	2,444,596,159	2,117,322,797

The notes on pages 45 to 60 form part of this statement of accounts.



## DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CASH FLOWS

For the year ended 31 March 2015

	2015 HK\$	2014 HK\$
Operating activities		
Surplus for the year	327,273,362	299,306,244
Interest income	(4,057,207)	(5,124,513)
Exchange losses	483	897
Depreciation and amortisation	3,596,994	4,113,601
Cash inflow from operating surplus before changes in operating assets and liabilities	326,813,632	298,296,229
Changes in operating assets and liabilities		
Decrease/(increase) in other receivables	76,954	(718,385)
Increase in contributions received in advance	17,473,074	20,990,667
(Decrease)/increase in other payables	(1,087,107)	210,812
Net cash inflow from operating activities	343,276,553	318,779,323
Investing activities		
Purchase of intangible assets	(4,786,070)	(1,795,425)
Purchase of fixed assets	(968,976)	(174,052)
Interest received	3,985,642	5,076,308
Net cash (outflow)/inflow from investing activities	(1,769,404)	3,106,831
Net increase in cash and cash equivalents	341,507,149	321,886,154
Cash and cash equivalents at 1 April	2,424,501,601	2,102,615,447
Cash and cash equivalents at 31 March	2,766,008,750	2,424,501,601
Analysis of balance of cash and cash equivalents		
Cash and balances with banks and the Exchange Fund	2,766,008,750	2,424,501,601

The notes on pages 45 to 60 form part of this statement of accounts.



# DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

## 1 Purpose and Activities

The Deposit Protection Scheme Fund (the “Fund”) is established under the Deposit Protection Scheme Ordinance (the “Ordinance”) for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks that are members of the Deposit Protection Scheme (the “Scheme” or the “DPS”). Currently, the protection limit is set at HK\$500,000 per depositor per bank. The Hong Kong Deposit Protection Board (the “Board”) manages the Fund in accordance with the provisions of the Ordinance. The Fund mainly consists of contributions collected from Scheme members and returns on investments of the Fund. Expenditure incurred in the establishment and maintenance of the Scheme, as well as the management and administration of the Fund are paid from the Fund.

## 2 Significant Accounting Policies

### (a) Basis of preparation

The statement of accounts of the Fund has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs” is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong. The statement of accounts has been prepared under the historical cost convention.

The preparation of statement of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund’s accounting policies.

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions made in the preparation of these accounts do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### (i) *New and amended standards adopted by the Fund*

There are no HKFRS or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning 1 April 2014 that would be expected to have a material impact on the Fund.

## 2 Significant Accounting Policies *(continued)*

### (a) Basis of preparation *(continued)*

- (ii) *New and amended standards have been issued but are not effective for the financial year beginning 1 April 2014 and have not been early adopted.*

The Fund has chosen not to early adopt the following new and revised HKFRSs which have been issued but are not yet effective.

- Amendments to HKAS 19, Defined benefit plans: Employee Contributions
- HKFRS 9, Financial Instruments

- (iii) *Up to the date of issue of the statement of accounts, the HKICPA has issued a number of amendments and interpretations which are not yet effective for the year ended 31 March 2015 and which have not been adopted in the statement of accounts.*

The Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

### (b) Revenue recognition

Revenue is recognised in the statement of comprehensive income when it is probable that economic benefits will flow to the Fund and the revenue can be measured reliably.

Contributions and exemption fees are collected from Scheme members as specified in Schedule 4 to the Ordinance. They are accounted for on an accrual basis.

Contributions are calculated based on the amount of relevant deposits and the respective supervisory rating of each non-exempted bank applicable at a specified date. Contributions are collected annually in advance for each calendar year.

Interest income is recognised in the statement of comprehensive income using the effective interest method.

## 2 Significant Accounting Policies *(continued)*

### (b) Revenue recognition *(continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### (c) Expenses

All expenses are recognised in the statement of comprehensive income on an accrual basis.

### (d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

	Years
Computer hardware/software costs:	
• Servers	5
• Others, e.g. personal computers, printers and accessories	3
Office furniture, equipment and fixtures	5

## 2 Significant Accounting Policies *(continued)*

### (d) Fixed assets *(continued)*

Only items costing HK\$10,000 or more are capitalised. Gains or losses arising from the disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income in the month of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's net selling price and value in use.

### (e) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Fund has no intention of trading.

### (f) Intangible assets

Costs that are directly associated with the development of identifiable and unique systems controlled and used by the Fund, and that will probably generate economic benefit exceeding costs beyond one year, are recognised as intangible assets. Intangible assets include expenditures on development of the Payout System. Such expenditure is capitalised if the systems are technically and commercially feasible. The expenditure capitalised includes the direct labour and costs of materials. Intangible assets are stated at cost less accumulated amortisation and any impairment losses.

Amortisation of intangible assets with definite life is charged to the statement of comprehensive income on a straight-line basis over the assets' estimated useful life of 5 years.

## 2 Significant Accounting Policies *(continued)*

### (g) Impairment of financial assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

If any such evidence exists for loans and receivables, an impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income.

If any such evidence exists for available-for-sale securities, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of comprehensive income, is removed from reserve and recognised in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt security classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

### (h) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of transaction including: cash at bank and on hand, demand deposits with banks, other financial institutions and the Monetary Authority ("MA") for the account of the Exchange Fund, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### (i) Other payables

Other payables are initially recognised at fair value and thereafter stated at amortised cost.

## 2 Significant Accounting Policies *(continued)*

### (j) Translation of foreign currencies

#### (i) *Functional and presentation currency*

Items included in the statement of accounts are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The statement of accounts is presented in Hong Kong dollars, which is the Fund's functional and presentation currency.

#### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

### (k) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.



## 2 Significant Accounting Policies *(continued)*

### (l) Provisions and contingent liabilities

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events where it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (m) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are recognised when the absence occurs.

#### (ii) *Pension obligations*

The Fund offers a mandatory provident fund scheme, the assets of which are generally held in separate trustee — administered funds. These pension plans are generally funded by payments from employees and by the Fund. The Fund's contributions to the mandatory provident fund scheme are expensed as incurred.

### (n) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

### 3 Risk Management

#### (a) Governance

The Fund is established under the Ordinance for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks which are members of the Scheme. Under Part 4 of the Ordinance, the Fund is to consist of:

- contributions and late payment fees collected from Scheme members;
- money recovered by the Board from, or out of the assets of, failed Scheme members;
- returns on investments;
- money borrowed by the Board for the purpose of performing its functions; and
- any other money lawfully paid into the Fund.

The Board established an Investment Committee and delegated its power to the Committee to place, or invest, money of the Fund that is not immediately required by the Board for the performance of its functions. In particular, the Investment Committee:

- makes recommendations on the investment policy and strategy in respect of the Fund;
- monitors the investment performance of the Fund and establishes proper risk management controls for the investment activities of the Board; and
- works on any other matters as determined from time to time by the Board.

Operating within the requirements under the Ordinance and policies endorsed by the Investment Committee, the Board's staff conduct the day-to-day investment management and risk management of the Fund.

### 3 Risk Management *(continued)*

#### (b) Investment management and control

Under section 21 of the Ordinance, the Fund or any part of it may be invested in the following investment instruments:

- deposits with the MA for the account of the Exchange Fund;
- Exchange Fund Bills;
- US Treasury Bills; and
- any other investment approved by the Financial Secretary.

In December 2008, the Financial Secretary approved an expansion of the investment scope of the Fund to cover Exchange Fund Notes and US Treasury Notes with remaining term to maturity of not more than 2 years, and Hong Kong dollar and US dollar deposits of up to 3 months in tenor with financial institutions.

Investment activities of the Fund are conducted in accordance with the requirements set out in the Ordinance and the policies endorsed by the Investment Committee to ensure the investment objectives of capital preservation and maintaining sufficient liquidity are met.

The Board's Management Team is responsible for the day-to-day investment management of the Fund. Investment reports showing the latest market values, rate of return, maturity profile, types of financial instruments held and limit exposures are regularly submitted to the Investment Committee for control purpose.

### 3 Risk Management *(continued)*

#### (c) Financial risk management

##### *Market risk*

Market risk is the risk that changes in market variables such as interest rates, equity prices and exchange rates which may affect the fair value or cash flows of a financial instrument. Market risk to the Fund mainly comprises interest rate risk and currency risk.

##### *(i) Interest rate risk*

Interest rate risk refers to the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Since the majority of the financial assets represent the cash balances with bank and the Exchange Fund, the impact of interest rate fluctuations on the Fund is considered minimal.

##### *(ii) Currency risk*

Currency risk is the risk of loss arising from changes in foreign exchange rates. The investments held by the Fund are denominated either in Hong Kong dollars or US dollars. Because of the linked exchange rate with the US dollar, the exchange risk to the Fund is considered minimal.

##### *Liquidity risk*

Liquidity risk refers to the risk that the Fund may not have sufficient funds available to meet its liabilities as they fall due. In addition, the Fund may not be able to liquidate its financial assets at a price close to the fair value within a short period of time.

Given that the Fund can only make deposits with the MA for the account of the Exchange Fund or with financial institutions approved by the Investment Committee or invest in the highly liquid Exchange Fund Bills and Notes and US Treasury Bills and Notes, the liquidity of the Fund is maintained at a high level at all times.

### 3 Risk Management *(continued)*

#### (c) Financial risk management *(continued)*

##### *Credit risk*

The Fund is exposed to credit risk as a borrower or a counterparty may not be able or willing to perform its contractual obligations in full when due. The credit risk of the Fund can be broken into (i) counterparty risk from placement activities; (ii) counterparty risk from investment transactions; (iii) issuer risk arising from debt securities holdings; and (iv) country risk.

Counterparty credit exposures arise mainly from the Fund's deposit placements with the MA for the account of the Exchange Fund and financial institutions approved by the Investment Committee and securities transactions with financial institutions. In this respect, the Fund will only conduct securities transactions with counterparties approved by the Investment Committee. Issuer risk arises from investments in debt securities. The types of investment securities of the Fund are limited to Exchange Fund Bills and Notes and US Treasury Bills and Notes, both with minimal default risk. In addition to the counterparty and issuer risks, the Fund is exposed to country risk, which is confined to the sovereign risk of Hong Kong and the US and the country risk of financial institutions approved by the Investment Committee given the Fund's limited types of investments. The Fund's credit exposures are reported regularly to the Investment Committee based on its delegated authority from the Board.

##### *Fair value of financial assets and financial liabilities*

The fair value of the financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the current bid price. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, with inputs based on market conditions existing at the balance sheet date.

The fair values of financial assets and liabilities not presented on the Fund's balance sheet at their fair value are estimated as follows:

##### *(i) Bank balances and balances with the Exchange Fund*

The fair values of bank balances and balances with the Exchange Fund are their carrying amounts.

## DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

### 3 Risk Management *(continued)*

#### (c) Financial risk management *(continued)*

##### (ii) Other receivables

The estimated fair value of other receivables, which are non-interest bearing balances, is their carrying value.

##### (iii) Other payables

The estimated fair value of other payables, which are non-interest bearing balances, is their carrying value.

### 4 Taxation

No provision for Hong Kong Profits Tax has been made as the Board is exempt from Hong Kong Profits Tax pursuant to section 10 of the Ordinance.

### 5 Staff Costs

	2015 HK\$	2014 HK\$
Salaries	8,556,820	7,540,413
Gratuity	247,147	362,467
Other employee benefits	1,024,649	726,108
	<b>9,828,616</b>	<b>8,628,988</b>

## DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

### 6 Fixed Assets

	Office equipment, furniture and fixtures HK\$	Computer hardware/ software HK\$	Total HK\$
<b>Cost</b>			
As at 1 April 2014	1,506,184	15,536,886	17,043,070
Additions	83,008	885,968	968,976
As at 31 March 2015	1,589,192	16,422,854	18,012,046
<b>Accumulated depreciation</b>			
As at 1 April 2014	1,158,081	10,267,085	11,425,166
Charge for the year	98,145	1,564,090	1,662,235
As at 31 March 2015	1,256,226	11,831,175	13,087,401
<b>Net book value</b>			
As at 31 March 2015	332,966	4,591,679	4,924,645
As at 31 March 2014	348,103	5,269,801	5,617,904

## DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

### 7 Intangible Assets

	Development costs of Payout System HK\$
<b>Cost</b>	
As at 1 April 2014	25,359,748
Additions	4,786,070
As at 31 March 2015	30,145,818
<b>Accumulated amortisation</b>	
As at 1 April 2014	19,906,899
Charge for the year	1,934,759
As at 31 March 2015	21,841,658
<b>Net book value</b>	
As at 31 March 2015	8,304,160
As at 31 March 2014	5,452,849

### 8 Other Receivables

	2015 HK\$	2014 HK\$
Prepayment	1,899,968	1,976,922
Interest receivables	233,278	162,196
Others	62,500	62,500
	2,195,746	2,201,618



## DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

### 9 Material Related Party Transactions

Pursuant to section 6 of the Ordinance, the Board shall perform its functions through the MA unless indicated otherwise by the Financial Secretary. The Hong Kong Monetary Authority ("HKMA") has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources, and information technology.

The related party transactions with the HKMA are as follows:

	Note	2015 HK\$	2014 HK\$
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund	(a)	2,371,503,564	2,027,679,431
Transactions during the year			
Interest income from balances with the Exchange Fund	(a)	1,401,312	2,450,116
Operating expenses reimbursed to the HKMA	(b)	24,690,126	24,698,673

- (a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$2,371,503,564 (2014: HK\$2,027,679,431) and earned interest amounting to HK\$1,401,312 (2014: HK\$2,450,116) at a rate which is referenced to the market interest rates.
- (b) Certain operating expenses are reimbursed to the HKMA on a cost recovery basis in accordance with the provisions set out in the Ordinance. The expenses include the cost of staff and supporting services incurred by the HKMA for assisting the Board in carrying out its functions.
- (c) During the year, the HKMA provided the Board a standby facility from the Exchange Fund for meeting the necessary liquidity required for payment of compensation in the event of a bank failure. The maximum amount which may be drawn under the facility is HK\$120 billion (2014: HK\$120 billion) of which nil (2014: nil) was drawn during the year.

## DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

### 10 Other Payables

	Note	2015 HK\$	2014 HK\$
Hire of services	(a)	26,243,730	27,781,080
Staff expenses		858,142	915,461
Others		1,105,074	597,512
		<b>28,206,946</b>	<b>29,294,053</b>

(a) This amount includes operating expenses reimbursed to the HKMA HK\$24,690,126 (2014: HK\$24,698,673), services fee for payout rehearsal HK\$234,500 (2014: HK\$1,257,625) and fees for other hire of services HK\$1,319,104 (2014: HK\$1,824,782).

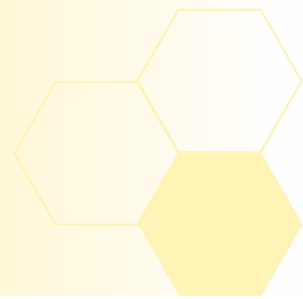
### 11 Operating Lease Commitments

The future minimum lease payments under non-cancellable operating leases contracted for at the balance sheet date, but not recognised as liabilities, are as follows:

	2015 HK\$	2014 HK\$
No later than 1 year	2,778,548	5,168,100
Later than 1 year and no later than 5 years	—	2,778,548
	<b>2,778,548</b>	<b>7,946,648</b>

### 12 Approval of Statement of Accounts

The statement of accounts was approved by the Board on 23 June 2015.



## ANNEX 1 NAMES OF SCHEME MEMBERS AT 31 MARCH 2015

ABN AMRO BANK N.V.	BARCLAYS BANK PLC
AGRICULTURAL BANK OF CHINA LIMITED	BDO UNIBANK, INC.
ALLAHABAD BANK	BNP PARIBAS
AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	BNP PARIBAS SECURITIES SERVICES
AXIS BANK LIMITED	BNP PARIBAS WEALTH MANAGEMENT
BANCA MONTE DEI PASCHI DI SIENA S.P.A.	BSI LTD
BANCO BILBAO VIZCAYA ARGENTARIA S.A.	CANADIAN IMPERIAL BANK OF COMMERCE
BANCO SANTANDER, S.A.	CANARA BANK
BANGKOK BANK PUBLIC COMPANY LIMITED	CATHAY BANK
BANK J. SAFRA SARASIN AG	CATHAY UNITED BANK COMPANY, LIMITED
BANK JULIUS BAER & CO. LTD.	CHANG HWA COMMERCIAL BANK, LTD.
BANK OF AMERICA, NATIONAL ASSOCIATION	CHIBA BANK, LTD (THE)
BANK OF BARODA	CHINA CITIC BANK INTERNATIONAL LIMITED
BANK OF CHINA (HONG KONG) LIMITED	CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
BANK OF CHINA LIMITED	CHINA CONSTRUCTION BANK CORPORATION
BANK OF COMMUNICATIONS CO., LTD.	CHINA DEVELOPMENT BANK CORPORATION
BANK OF EAST ASIA, LIMITED (THE)	CHINA EVERBRIGHT BANK CO., LTD.
BANK OF INDIA	CHINA MERCHANTS BANK CO., LTD.
BANK OF MONTREAL	CHINA MINSHENG BANKING CORP., LTD.
BANK OF NEW YORK MELLON (THE)	CHIYU BANKING CORPORATION LIMITED
BANK OF NOVA SCOTIA (THE)	CHONG HING BANK LIMITED
BANK OF SINGAPORE LIMITED	CHUGOKU BANK, LTD (THE)
BANK OF TAIWAN	CIMB BANK BERHAD
BANK OF TOKYO-MITSUBISHI UFJ, LTD. (THE)	CITIBANK (HONG KONG) LIMITED
BANK SINOPAC	CITIBANK, N.A.

## ANNEX 1 NAMES OF SCHEME MEMBERS AT 31 MARCH 2015

COMMONWEALTH BANK OF AUSTRALIA

COOPERATIEVE CENTRALE RAIFFEISEN-  
BOERENLEENBANK B.A.

COUTTS & CO AG

CREDIT AGRICOLE (SUISSE) SA

CREDIT AGRICOLE CORPORATE AND  
INVESTMENT BANK

CREDIT SUISSE AG

CTBC BANK CO., LTD.

DAH SING BANK, LIMITED

DBS BANK (HONG KONG) LIMITED

DBS BANK LTD.

DZ BANK AG DEUTSCHE ZENTRAL-  
GENOSSENSCHAFTSBANK,  
FRANKFURT AM MAIN

E. SUN COMMERCIAL BANK, LTD.

EAST WEST BANK

EDMOND DE ROTHSCHILD (SUISSE) S.A.

EFG BANK LTD

ERSTE GROUP BANK AG

FALCON PRIVATE BANK LTD.

FAR EASTERN INTERNATIONAL BANK

FIRST COMMERCIAL BANK, LTD.

FUBON BANK (HONG KONG) LIMITED

HACHIJUNI BANK, LTD. (THE)

HANA BANK

HANG SENG BANK, LIMITED

HDFC BANK LIMITED

HONG LEONG BANK BERHAD

HONGKONG AND SHANGHAI BANKING  
CORPORATION LIMITED (THE)

HSBC BANK INTERNATIONAL LIMITED

HSBC BANK PLC

HSBC BANK USA, NATIONAL ASSOCIATION

HSBC PRIVATE BANK (SUISSE) SA

HUA NAN COMMERCIAL BANK, LTD.

ICICI BANK LIMITED

INDIAN OVERSEAS BANK

INDUSTRIAL AND COMMERCIAL BANK  
OF CHINA (ASIA) LIMITED

INDUSTRIAL AND COMMERCIAL BANK  
OF CHINA LIMITED (THE)

INDUSTRIAL BANK CO., LTD.

INDUSTRIAL BANK OF KOREA

INDUSTRIAL BANK OF TAIWAN CO., LTD.

ING BANK N.V.

INTESA SANPAOLO SPA

IYO BANK, LTD. (THE)

JPMORGAN CHASE BANK, NATIONAL  
ASSOCIATION

KBC BANK N.V.

KOREA EXCHANGE BANK

LAND BANK OF TAIWAN CO., LTD.

LGT BANK AG

## ANNEX 1 NAMES OF SCHEME MEMBERS AT 31 MARCH 2015

MACQUARIE BANK LIMITED	ROYAL BANK OF SCOTLAND PUBLIC LIMITED COMPANY (THE)
MALAYAN BANKING BERHAD	SHANGHAI COMMERCIAL & SAVINGS BANK, LTD. (THE)
MASHREQ BANK — PUBLIC SHAREHOLDING COMPANY	SHANGHAI COMMERCIAL BANK LIMITED
MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.	SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
MELLI BANK PLC	SHIGA BANK LIMITED (THE)
MITSUBISHI UFJ TRUST AND BANKING CORPORATION	SHINHAN BANK
MIZUHO BANK, LTD.	SHIZUOKA BANK, LTD. (THE)
NANYANG COMMERCIAL BANK, LIMITED	SKANDINAVISKA ENSKILDA BANKEN AB
NATIONAL AUSTRALIA BANK, LIMITED	SOCIETE GENERALE
NATIONAL BANK OF ABU DHABI	SOCIETE GENERALE BANK & TRUST
NATIONAL BANK OF PAKISTAN	STANDARD BANK PLC
NATIXIS	STANDARD CHARTERED BANK
OCBC WING HANG BANK LIMITED	STANDARD CHARTERED BANK (HONG KONG) LIMITED
OVERSEA-CHINESE BANKING CORPORATION LTD.	STATE BANK OF INDIA
PHILIPPINE NATIONAL BANK	STATE STREET BANK AND TRUST COMPANY
PICTET & CIE (EUROPE) S.A.	SUMITOMO MITSUI BANKING CORPORATION
PORTIGON AG	SUMITOMO MITSUI TRUST BANK, LIMITED
PT. BANK NEGARA INDONESIA (PERSERO) TBK.	SVENSKA HANDELSBANKEN AB (PUBL)
PUBLIC BANK (HONG KONG) LIMITED	TA CHONG BANK, LTD.
PUNJAB NATIONAL BANK	TAI SANG BANK LTD.
RAIFFEISEN BANK INTERNATIONAL AG	TAI YAU BANK, LIMITED
ROYAL BANK OF CANADA	TAIPEI FUBON COMMERCIAL BANK CO., LTD.
ROYAL BANK OF SCOTLAND N.V. (THE)	TAISHIN INTERNATIONAL BANK CO., LTD

## ANNEX 1 NAMES OF SCHEME MEMBERS AT 31 MARCH 2015

TAIWAN BUSINESS BANK

TAIWAN COOPERATIVE BANK, LTD.

TAIWAN SHIN KONG COMMERCIAL BANK  
CO., LTD

TORONTO-DOMINION BANK

UBS AG

UCO BANK

UNICREDIT BANK AG

UNION BANK OF INDIA

UNITED OVERSEAS BANK LTD.

WELLS FARGO BANK, NATIONAL ASSOCIATION

WESTPAC BANKING CORPORATION

WING LUNG BANK LIMITED

WOORI BANK

## ANNEX 2 LIST OF MAJOR PUBLICITY AND COMMUNITY EDUCATION ACTIVITIES IN 2014–2015

### Multi-media Publicity Campaigns

- Continued to broadcast the popular Bao Bao Bao-themed advertisement to audiences through TV, radio, and the infotainment systems on buses and the MTR (April – June 2014)
- Launched a new round of multi-media advertising with the theme, “Where is the best place to keep my money?”, featuring the storyline and principal characters from the long-running radio drama, “18/F Block C”. The campaign was broadcast on TV and radio, online and on infotainment systems in buses, MTR trains and in designated fast-food chain outlets of the Café de Coral Group (September 2014 – March 2015)
- Displayed key DPS messages on the exterior of buses and trains (September – November 2014), and on the back of bus seats (April – June 2014)
- Disseminated a range of publicity materials at public housing estates, public hospitals, Integrated Family Service Centres, The Link shopping centres and the arrival hall at the Lo Wu Control Point (throughout the year)
- Published advertorials and informative articles in newsletters with target readership groups covering blue-collar workers, teachers and senior citizens (December 2014 – March 2015)

### Neighbourhood Outreach Campaigns

- Mounted promotional campaigns featuring the interactive DPS digital games in selected residential shopping malls of Fortune REIT to reach out to residents in various districts around Hong Kong (August – September 2014)
- Engaged with customers in selected Red Seasons Restaurants of the Gayety Group to test their understanding of key DPS features through a DPS-themed campaign (November – December 2014)
- Established information booths at the Hong Kong Retiree and Senior Fair (July 2014) and the North District Flower, Bird, Insect and Fish Show (December 2014) to promote the DPS
- Distributed publicity materials at public housing estates and near old tenement buildings on Sundays to reach out to a wider community group (February – March 2015)

## ANNEX 2 LIST OF MAJOR PUBLICITY AND COMMUNITY EDUCATION ACTIVITIES IN 2014-2015

### Community Education Programmes

- Introduced the DPS to members of elderly centres and secondary students visiting the HKMA Information Centre (throughout the year)
- Appointed active elderly volunteers as DPS Senior Ambassadors to discuss basic features of the DPS with fellow senior citizens, low income families and new immigrants through regular home visits and other community activities. Collaborated with the Caritas Cheng Shing Fung District Elderly Centre (Sham Shui Po) (April 2014) and the Mong Kok Kai Fong Association Chan Hing Social Service Centre (November 2014) to initiate the programme
- Partnered with the Investor Education Centre to introduce key features of the DPS to students of the Elder Academy (October 2014)
- Disseminated DPS information at Financial Education Workshops organised by The Hong Kong Association of Banks at community centres (throughout the year) and at HKMA Public Education Seminars for secondary students (November 2014), and updated members of the Women's Club of The Family Planning Association of Hong Kong on DPS developments (March 2015)
- Organised bun-making classes for housewives, bringing participants hands-on bun-making experience and, at the same time, knowledge of deposit protection. These popular classes were conducted in partnership with the Tung Wah Group of Hospitals Jockey Club Tin Shui Wai Integrated Service Centre and the Hong Kong Young Women's Christian Association Sham Shui Po Integrated Social Service Centre (throughout the year)

We wish to thank all the partners in our campaigns mentioned above.