

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

Annual Report < 2015 2016



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 objectives of the Scheme are to protect depositors and to help maintain the stability of Hong Kong's banking system.

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

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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. It is a statutory requirement for all Scheme members to prominently display a membership sign at their places of business.



- The deposits of each depositor are protected up to a limit of HK\$500,000 per Scheme member.
- Deposits denominated in Hong Kong dollar, renminbi or any other currencies are covered by the Scheme.
- Eligible deposits held with Scheme members are legally protected by the DPS. Therefore, depositors are not required to apply or pay for protection or compensation.
- Ineligible deposits include 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.
- Compensation payable to depositors is based on their aggregate protected deposits held with a failed bank (up to HK\$500,000 per depositor), without the need to deduct the liabilities owed by those depositors to the bank concerned as a result of the adoption of the gross payout approach on 24 March 2016.
- The Scheme aims to make full compensation payments to depositors within seven days in most cases following the implementation of the gross payout approach and other payout process enhancements.
- A Deposit Protection Scheme Fund (DPS Fund) was established for keeping the contributions collected 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\$4.5 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 determined by the Hong Kong Monetary Authority (HKMA).

Enhanced Deposit Protection

- Enhanced the DPS through the implementation of the gross payout approach and other efficiency measures to improve the payout process from six weeks to within seven days in most cases, and to help strengthen banking stability.
- Incorporated temporary additional DPS coverage for deposits transferred from a failed bank to a healthy transferee bank under the proposed resolution regime for financial institutions.

Ensured Payout Readiness

- Successfully conducted a rehearsal using the enhanced payout model featuring an early warning signal from the banking supervisor.
- Implemented the new compliance monitoring programme to ensure Scheme members' readiness to provide depositor records in a timely manner.

Reinforced Public Understanding and Confidence

- Increased public awareness of DPS coverage through multifaceted publicity campaigns, which help strengthen depositor confidence.
- Mounted a series of outreach programmes to enhance understanding and interaction with the diverse community of Hong Kong.

Prudent Management of the DPS Fund

- Collected contributions totalling HK\$427 million from Scheme members, raising the DPS Fund's total assets to HK\$3.1 billion at the end of March 2016.
- Adhered to the objective of capital preservation and accomplished a satisfactory investment return despite a low interest rate and rather volatile investment environment.

◀ MESSAGE FROM THE CHAIRPERSON



On the eve of completing my six-year term as Chairperson of the Board at the end of June, I am proud to present our Annual Report for 2015-2016, which clearly demonstrates how our endless work and perseverance have brought about a much improved Deposit Protection Scheme (DPS) for Hong Kong.

A new chapter in the DPS unfolded on 24 March 2016 with the implementation of the gross payout approach (as compared with the previous net payout approach), which will substantially shorten the time required for compensation payments from the previous six weeks to within seven days under most circumstances. Various reform proposals have also been implemented to dramatically accelerate compensation payments to affected depositors in case of a bank failure. The enhanced Scheme represents a milestone for the Board and has significantly strengthened the protection of depositors — an essential element for Hong Kong as an international financial centre. For me personally, it is a timely parting gift to end my tenure on a strong note.

I still remember when I assumed the chair in 2010, the Board's top priority was to substantially increase the protection limit to \$500,000. This resulted in offering full protection to 90% of bank depositors

and remains so today. At that time, the awareness level of deposit protection was lower than it is now, prompting the Board to embark on a new direction in reaching out to the public. In 2011, we established an Advisory Panel on Communication and Public Education, comprising experts in the relevant fields and underpinned by a team of dedicated staff to spearhead our publicity and communication campaigns.

The objective is clear — to get our message across and keep it alive in the hearts and minds of the public — and the challenge is how to make it happen. Two massive advertising campaigns, “Bao Bao Bao” in 2012 and “Where is the best place to keep my money?” in 2014, were presented creatively through drama with a touch of humour, which helped us reach out to a wider group of audiences in Hong Kong. The messages were reinforced with a series of education and outreach activities involving face-to-face engagements and tailored programmes to target specific sectors of the community, including senior citizens, low income families, housewives and young people. We also made use of the Internet and social media to interact with our audiences more closely. Today, we are gratified to report that community awareness is at a high level of 77%.

MESSAGE FROM THE CHAIRPERSON

We believe that behind every bank deposit, no matter how large or small, there is a story. It is perhaps a dream or a goal to pursue in life — for education, a career, marriage, to acquire a property as permanent shelter, or very simply to prepare for the proverbial rainy days. With this in mind, we organised the Deposit Story Competition earlier this year, attracting over 2,000 entries contributed from different walks of life to share their stories. Such anecdotes form the fabric of our community and are relevant to all of us as they are a valuable testament to the importance of bank deposit protection and financial stability.

Indeed, I was filled with an overwhelming sense of attainment and fulfilment as I reflected on our efforts in bringing the Hong Kong DPS to the forefront of international practice in deposit protection. I owe this productive and fruitful outcome to, and cannot thank enough, all those stakeholders who gave the DPS their wise counsel and invaluable contributions so generously over the past six years. I have no doubt you will continue to give your valuable support to my successor.

I am deeply indebted to my fellow Board Members, in particular Miss Annie Chan, Professor Francis Chin, Mr Eugene Ho, Mr David Kidd and Mr Arthur Yuen, for serving on the Board for six years; the Advisory Panel on Communication and Public Education, the Consultative Committee on Deposit Protection Scheme, the Hong Kong Monetary Authority, the Financial Services and the Treasury Bureau and member banks of the Scheme. My most heartfelt gratitude goes to the former Chief Executive Officer, Ms Meena Datwani, for her outstanding service to the Board and the leadership she gave to her highly dedicated and professional staff over the past six years. Also, a warm welcome to the new CEO, Mr Li Shu-pui, who joined the team in February 2016. Once again, I am truly thankful for the opportunity to work in partnership with each of you.

Finally, best wishes to my successor, Professor Michael Hui — I am sure you will give him your strongest support as he leads the Board to new heights. I sincerely wish the Board every success in its future endeavours.



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



It is my honour and privilege to be able to serve as the Chief Executive Officer of the Hong Kong Deposit Protection Board (the Board), a post I recently assumed in February 2016. I still remember that at that point in time, the Board was going full steam ahead with the implementation of the enhanced Deposit Protection Scheme (DPS), which features the gross payout approach with an aim of significantly shortening the payout time frame. Given that this was a new milestone for the DPS, which forms an integral part of Hong Kong's financial safety net, I was glad to join the Board at the right moment, when I could get myself involved in and contribute to the process. I wish to express my gratitude to my colleagues of the Board, who put in many months of hard work to bring the plan into effect.

An Enhanced Deposit Protection Scheme

As I mentioned above, the past year saw an enormous amount of preparatory work to bring the gross payout approach and other improvements to fruition. From the very beginning, the Government gave its unreserved support to our efforts on various fronts, from concluding the consultation and promulgating the legislative proposal, to

introducing the amendment bill into the Legislative Council. On 24 March 2016, the DPS (Amendment) Ordinance came into operation, inaugurating a new chapter in depositor protection.

Under the new gross payout approach, in most circumstances depositors will be fully compensated in the event of a bank failure within seven days. This enhancement brings our DPS in line with counterparts around the world. By setting aside liabilities during the payout process, the new approach also simplifies the routine data maintenance and reporting requirements of Scheme members, and it ultimately reduces the time required for their submission of records to support an expedited payout process.

Heightened Payout Readiness

While the chance of the DPS being triggered continues to be slim, a sense of prudence suggests that we need to remain vigilant and be prepared at all times. The Board conducted regular payout rehearsals and simulation tests since the launch of the DPS in 2006 to test our systems and processes, verify the data quality of Scheme members, and ensure readiness and effectiveness of our co-ordination with external payout agents.

During the year, our payout rehearsal was built around the scenario of the failure of a retail bank, and it utilised the banking regulator's new early warning system to accelerate the payout preparation. An extensive network of our payout agents took part in the rehearsal, giving us a more accurate assessment of their readiness and the effectiveness of our co-ordination. In addition, the rehearsal highlighted some useful lessons for improving our preparedness and the efficiency of our payout mechanism in the transition to the new gross payout approach.

Should the DPS be triggered, the process of determining the amount of compensation and making actual payouts hinges on both the quality of bank records kept by Scheme members and their ability to provide these records to us in a timely manner. We therefore implemented a new programme during the year that monitors how well members comply with the DPS information submission requirements. The programme includes an annual self-declaration of compliance as well as a triennial independent assessment report indicating members' ability to respond to a request from the Board for any required information. The initial self-declaration results were satisfactory.

Following the implementation of the new gross payout approach, we will continue to look for ways to streamline its procedures and enhance the existing payout system. In addition, the Board plans to study the feasibility of adopting e-cheques in the payout toolkit given the newly established ability to communicate electronically with depositors during the faster payout process. Information security and data privacy will be taken into account when the feasibility study is conducted. Finally, we will continue our compliance monitoring programme.

Engaging and Educating the Community

On the publicity front, I am pleased to see that our myriad multimedia programmes, combined with our community outreach efforts, have resulted in a steadily increasing level of awareness and knowledge among the public. To keep this momentum going, during the year we developed and executed a consolidated mass publicity programme utilising TV, print and multimedia, covering public transport, direct mail, periodicals and online channels.

These more traditional campaigns were paired with a series of new, complementary interactive ventures geared towards specific audiences that fused digital outreach, games and storytelling. An interesting example of our synergistic publicity campaigns during the year included the Deposit Story Competition, which collected inspirational personal stories from members of the community. Selected anecdotes drawn from these personal stories will be turned into short videos to generate public appreciation of how people fulfil their aspirations with their hard-earned savings, and of the relevance of deposit protection in their daily lives. Another community initiative, the Moving Mirror Truck campaign, engaged different demographic groups through its eye-catching design and its slogan, “存程照住你”, which is Cantonese slang for “DPS looking after you all the way”. The truck, which was parked in busy business districts and residential areas, included an interactive, fun-filled instant photo-taking corner, question and answer games, and videos about the DPS.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

These multifaceted publicity and community outreach campaigns allowed us to maintain a healthy 77% level of public awareness of the DPS, as indicated in the independent public opinion surveys we commissioned. We are encouraged by this growing awareness and familiarity with the Scheme, and we will continue our efforts to refine our outreach and engagement strategies to better enable our diverse community to appreciate the benefits of deposit protection.

A Note of Appreciation

Needless to say, I am truly indebted to the able leadership and wise counsel of the retiring Chairperson of the Board, Mrs Pamela Chan. Her initial appointment in July 2010 came in the wake of the enactment of the DPS (Amendment) Ordinance 2010. In the six years since, the DPS has undergone a string of enhancements to grow in strength and vitality and become a fundamental element in Hong Kong's financial infrastructure. I would also like to thank my predecessor, Ms Meena Datwani. During her tenure, she provided the executive leadership needed to prepare for the DPS improvements, and her hard work has made my transition a pleasant and smooth one.

On behalf of the Board, I would like to express my appreciation for the support of the Government during the legislative process. And I would like to extend my special thanks to my colleagues for their admirable commitment and untiring efforts in maintaining depositor protection.

Finally, I would like to reiterate the Board's pledge to work together with Scheme members and other key stakeholders in honouring our commitment to protect the depositors who entrust their savings to Hong Kong's banking system. It is our hope that our efforts will encourage people throughout Hong Kong to save with confidence and continue to invest in their own future.



LI Shu-pui

Chief Executive Officer
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. The DPS has been a key building block in Hong Kong's financial safety net since its launch in September 2006. The provision of deposit protection has also contributed to the stability of the banking system.

The Board has become a member of the International Association of Deposit Insurers and joined the efforts of the Association in promoting effective deposit insurance systems since 2006.

Mission and Functions of the Board

The Board's mission is to ensure that an efficient and effective DPS is in place and 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:

- 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). Members are selected from different professions such as accounting, banking, consumer protection, legal (insolvency), investment, information technology and public administration, and all have rich experience in public service.

The Board currently comprises nine members including two ex officio members representing the HKMA and the Secretary for Financial Services and the Treasury.

Performance of Functions through the HKMA

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

Against this background, the HKMA has assigned a team of staff to assist the Board in discharging its functions. The team is headed by a senior officer of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also provides administrative support to the Board, including accounting, administration, human resources and information technology. Detailed arrangements 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 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
Emeritus Professor
Honorary Professor
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

Members



Mr HO Eugene
Former Chief Executive
ICBC International Holdings Limited



Mr KIDD David
Partner
Linklaters



Mr WONG Ho-yuen, Andrew, JP
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*



**Mr LEE Tat-chi, Howard, JP
(since February 2016)**
Senior Executive Director
Hong Kong Monetary Authority

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



**Mr YUEN Kwok-hang, Arthur, JP
(until February 2016)**
Deputy Chief Executive
Hong Kong Monetary Authority

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

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 over the investment activities of the Board
- to deal with any other matters as determined from time to time by the 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. The Advisory Panel advises the Board on matters relating to the development of the communication and public education strategy and its implementation by the Board on an on-going basis. It consists of the following members:

Chairperson

Mrs CHAN WONG Shui, Pamela, BBS, JP

Members

Ms CHAN Kwok-fai, Jenny

Mr NG Shui-lai, BBS, MBE, JP

Mr WONG Koon-shing

Deposit Protection Appeals Tribunal

Under the DPSO, certain decisions of the Board and the Monetary Authority 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 XUEREBA Maria

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

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

Ms CHAN Nichol

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

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

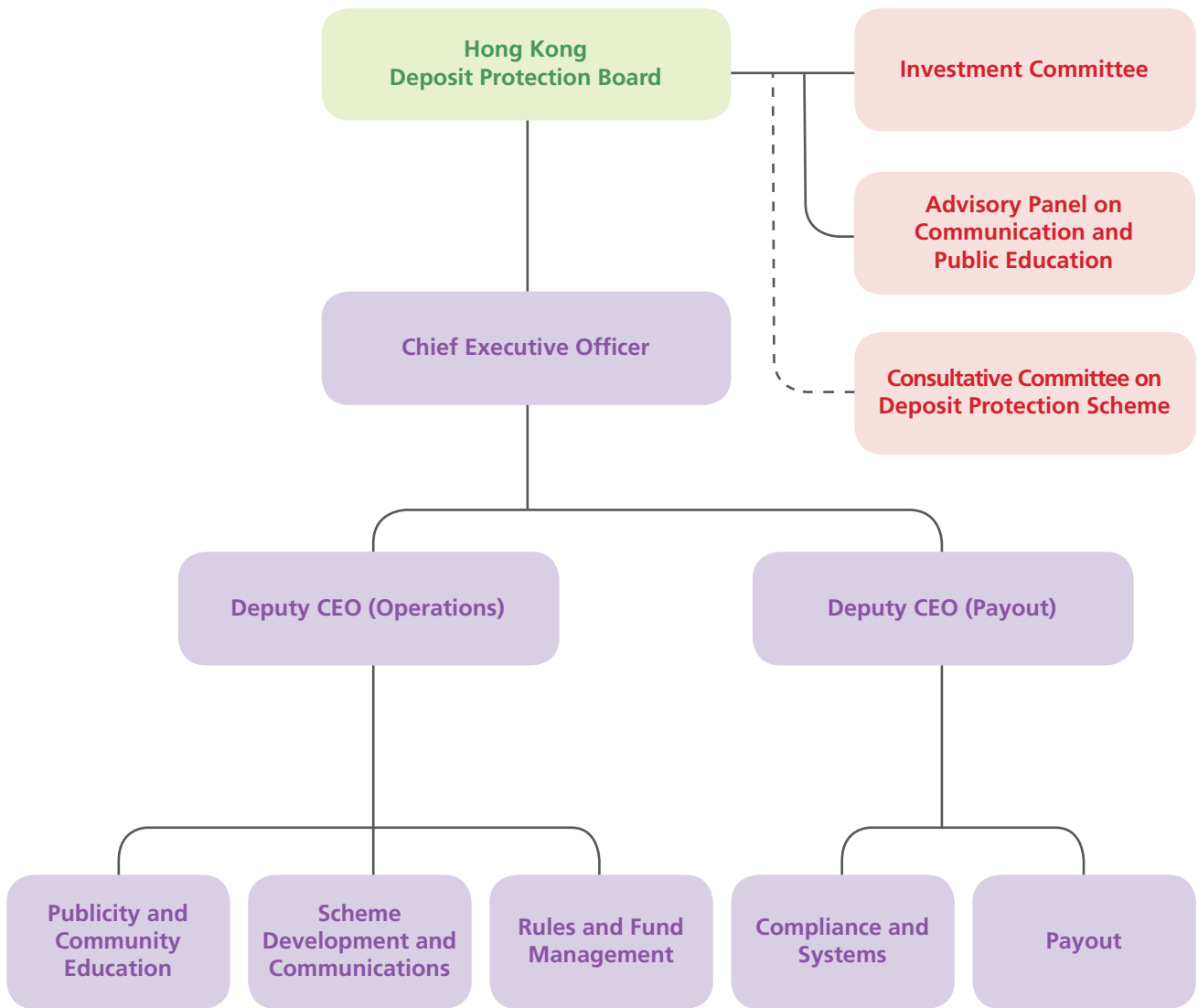
Mr FUNG Ryan

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.

Organisational Structure



A strong and sound corporate governance framework is crucial to ensure the effectiveness of the DPS. The Board is fully committed to establishing sound corporate governance practices for administering the DPS.

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 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 about three times every year to deliberate policy issues crucial to the operation and on-going developments of the DPS. In 2015-2016, the Board met three times. On average, over 80% 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 and an Advisory Panel on Communication and Public Education have been formed for this purpose.

The objective of the Investment Committee comprising members with experience and expertise in banking and investment matters is 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 objective of the Advisory Panel on Communication and Public Education is 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.

In this connection, the HKMA has assigned a number of professional and support staff to the Board to assist in discharging its functions. A senior officer of the HKMA is designated as the Chief Executive Officer of the Board to oversee all day-to-day functions of the Scheme. 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 among 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 are adequately implemented and reviewed regularly. The Internal Audit Division (IAD) of the HKMA performs periodic assessment of the risks inherent in various operational areas of the Board. The IAD also assesses whether appropriate controls are put in place by the Management Team to safeguard the Board against the potential risks identified. Regular audits of the operation of the DPS are conducted to ensure that the 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 results of the risk assessment are the basis for formulating the audit plan of the DPS.

The IAD reports its findings and recommendations directly to the Board to ensure the independence and effective communication of its results. In 2016, the IAD conducted a review of the operations and internal controls of the Board and no major weakness was identified from the review.

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 also reports the results and any findings directly to the Board.

The external auditor for the year under review was PricewaterhouseCoopers (PwC). To avoid conflicts of interest, the Board has a standing mechanism that preserves the independence of the financial audit undertaken by PwC if it is also engaged in non-financial audit engagements. Apart from auditing the statement of accounts for the financial year ended 31 March 2016, PwC, through a separate team of the audit engagement, was also engaged by the Board to provide advisory services for enhancing the payout processes and procedures. It is also on the panel list of the Board to provide project management and accounting services related to payouts.

Standards of Behaviour and Ethics

In line with the good corporate governance standards applicable to deposit insurers, only a minority of the members of the Board are from the Government and the HKMA. While such arrangement allows the Government and the banking supervisor to contribute to the management and operation of the DPS from the public administration and regulatory perspectives, it also enables valuable inputs from professionals outside the Government and avoids any undue influence exerted upon the Board by the Government and the HKMA. In addition, the Management Team assigned by the HKMA to assist the Board is not responsible for banking prudential supervisory matters. The operation of the Board is insulated from the influence of the banking industry as employees or directors of banks and banks' related companies are not eligible for appointment to the Board.

The Board has established clear guidelines and procedures for preventing any possible conflicts of interests, including the requirements of declaration of interests. 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 in place on members and staff of the Board with respect to the detailed reporting requirements of their interests, and when, where applicable, excuse themselves from the 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. Sittings of the Tribunal will be convened only on a need basis. The CE/HKSAR has appointed a panel of three persons who may be called upon as members of the Tribunal. So far, there has been no appeal case reported or reviewed by the Tribunal.

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 the sound corporate governance standards, despite any expansion or change in the scope of the Board's operations. Refinements are made between individual reviews, as and when necessary, to facilitate the Board in keeping up with local and international best practices.

Economic Situation

Hong Kong's economy grew modestly in 2015, with real GDP growth slowing to 2.4% from 2.7% in 2014, reflecting weaker domestic demand and a deteriorating export performance due to the austere external environment. While domestic demand remained the key engine of growth, net exports also played a part as total imports declined faster than total exports. The labour market remained largely stable in 2015, with the seasonally adjusted unemployment rate staying low at 3.3%.

The local stock market experienced large swings in 2015. Following a flat first quarter, the Hang Seng Index picked up, reaching a seven-year high in April, amid increased optimism in the Mainland A-share market and capital inflows. The growth trend reversed from late June and the Hang Seng Index hit a year-low in September against the backdrop of heightened volatility on financial and foreign exchange markets in the third quarter. The local stock market regained some ground in the final quarter when the global and Mainland financial markets stabilised, with the Hang Seng Index closing the year 7.2% lower than at the end of 2014. The residential property market started the year strongly, but softened after the announcement of the seventh round of countercyclical prudential measures on property mortgage in February, the downturn in the local stock market in summer, and growing concerns over an interest rate hike in the US. The commercial and industrial property markets moderated in the second half of the year, with both prices and rentals coming under pressure towards the end of the year. Underlying inflation eased further to 2.5% in 2015 from 3.5% a year earlier alongside the overall weakening in economic growth.

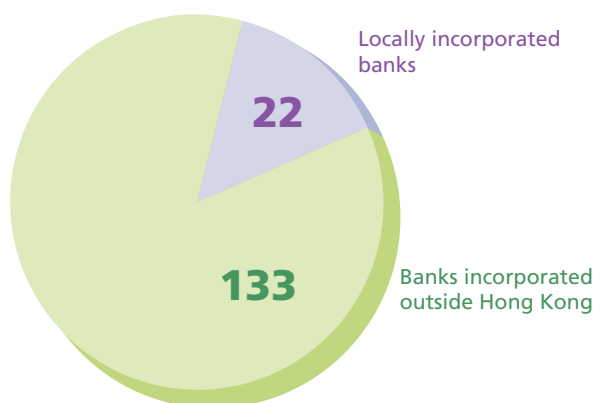
Hong Kong Banking Environment

The local banking sector remained resilient in 2015 despite further divergence in the monetary policies of advanced economies and the accumulating vulnerabilities in emerging market economies. The asset quality of retail banks deteriorated slightly during the year, but remained at a healthy level by historical standards. The classified loan ratio edged up to 0.70% at the end of 2015 from a very low level of 0.52% the previous year. All locally incorporated authorized institutions (AIs) remained well capitalised. Their consolidated capital adequacy ratio increased to 18.3% at the end of 2015 from 16.8% a year earlier, which was well above the international minimum standard of 8%. The Banking (Liquidity) Rules, which implement the Basel III's Liquidity Coverage Ratio (LCR) for AIs (designated as "category 1 institutions"), together with a local Liquidity Maintenance Ratio (LMR) for all other authorized institutions (category 2 institutions) became effective on 1 January 2015. In the fourth quarter of 2015, the average LCR of category 1 institutions was 142.9%, well above the statutory minimum requirement of 60% applicable for the year, and the average LMR of category 2 institutions was 53.9%, also well above the statutory minimum requirement of 25%.

Scheme Members' Profile

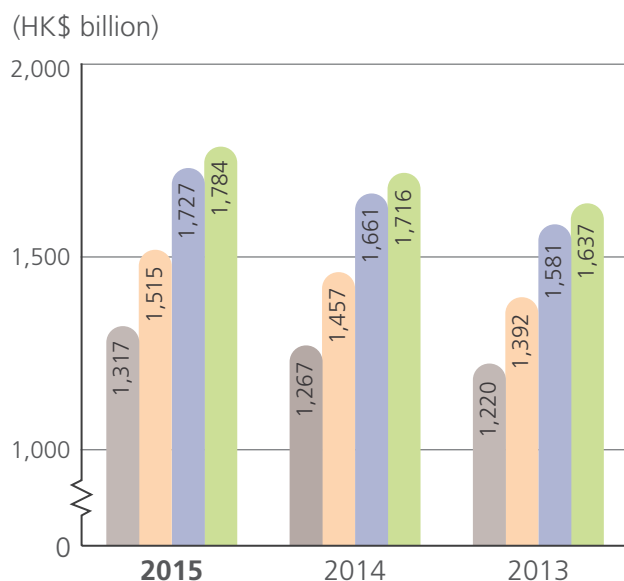
The Scheme had 155 members at the end of March 2016, the same as a year ago. Two newly licensed banks became members of the Scheme, while two memberships were revoked because of group restructuring. Twenty-two of the Scheme members were locally incorporated banks and 133 were banks incorporated outside 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 2016



Based on the returns submitted by Scheme members, the aggregate amount of their relevant deposits grew by 4% to HK\$1,784 billion during 2015, compared with HK\$1,716 billion in 2014. According to statistics provided by Scheme members, 90% of depositors were fully protected by the DPS. The distribution of relevant deposits among Scheme members remained similar to that of the previous year. The top 20 Scheme members (most of which were retail banks) held 97% of the industry's aggregate relevant deposits.

Relevant Deposits Held with Scheme Members



% of total	2015	2014	2013
Top 5	74%	74%	75%
Top 10	85%	85%	85%
Top 20	97%	97%	97%
Total	100%	100%	100%

Relevant Deposits Held by Retail Banks and Wholesale Banks

(HK\$ billion)	2015	2014
Retail banks	1,731	1,666
Wholesale banks	53	50

Enhancing the Scheme

The Deposit Protection Scheme amendment bill was introduced into the Legislative Council in November 2015 and passed on 17 March 2016. The Board provided full support to the Government throughout the public consultation and legislative process for the implementation of enhancements to the DPS. Upon implementation of the new legislation which enabled the adoption of the gross payout approach in compensation determination, the target payout time frame for making full compensation payments to depositors has been shortened to within seven days in most cases, as compared with the previous payout time frame of six weeks. Together with other new measures, such as empowering the Board's use of electronic communications to notify affected depositors, the enhanced DPS provides better protection to depositors and strengthens their confidence in the DPS as an integral part of Hong Kong's financial safety net. It also further contributes to banking stability and Hong Kong's status as an international financial centre.

During the year, the Board continued its collaboration with the HKMA in exploring possible synergy between the proposed resolution regime for financial institutions and the prevailing DPS, in particular the incorporation of temporary additional DPS coverage for deposits transferred from a failed bank to a healthy transferee bank under the proposed resolution regime.

Ensuring Payout Readiness of the DPS

Information Readiness of Scheme members

The calculation of compensation amounts payable to depositors relies heavily on the accuracy and completeness of depositor records provided by Scheme members. To ensure the quality of data and the timeliness of the information provided, a new policy of compliance surveillance was introduced during the year. Scheme members were required to submit an annual self-declaration and the results of 2015 in relation to their compliance with the information requirements were satisfactory. On top of the self-declaration, an independent assessment needs to be conducted by Scheme members once every three years. During the year, the Board scrutinised assessment reports submitted by 50 Scheme members and noted a few compliance issues reported by the assessors. In this connection, we required the Scheme members concerned to take prompt remedial action and to strengthen their internal processes. Also, two briefing sessions were held to raise Scheme members' awareness of common issues noted by the Board during the review process.



Briefing for Scheme members on compliance with information submission requirements

Separately, depositor statistics and banking product information are collected in the annual returns and are maintained in a central repository. The establishment of a central repository helps speed up the payout preparations, especially when there is a possible trigger of the DPS.

Payout Rehearsal

The Board places high emphasis on the Scheme's preparedness to respond quickly to a range of contingencies. Payout rehearsals are therefore conducted regularly to test the process and systems as well as the external payout agents to help ensure the Scheme's preparedness.

A payout rehearsal was conducted in 2015 involving an extensive network of payout agents. The rehearsal was based on a scenario of a retail bank failure as notified by the banking supervisor under the agreed co-operative arrangements. The payout agents had to activate their service within a very short notice as if they were going through a real banking crisis situation. The rehearsal was successfully completed, demonstrating the effective co-ordination between the Board and its payout agents in carrying out the payout process.



A rehearsal conducted with payout agents

Simulations

To help enhance the data handling process and procedures, six simulation tests were conducted alongside the compliance reviews using the full set of depositor records provided by the Scheme members. The scope of the tests was also expanded to cover the preparatory work before the DPS was triggered. Based on the simulation test results, new data quality checking procedures have been developed to improve the efficiency of identifying data which do not conform to the requirements.

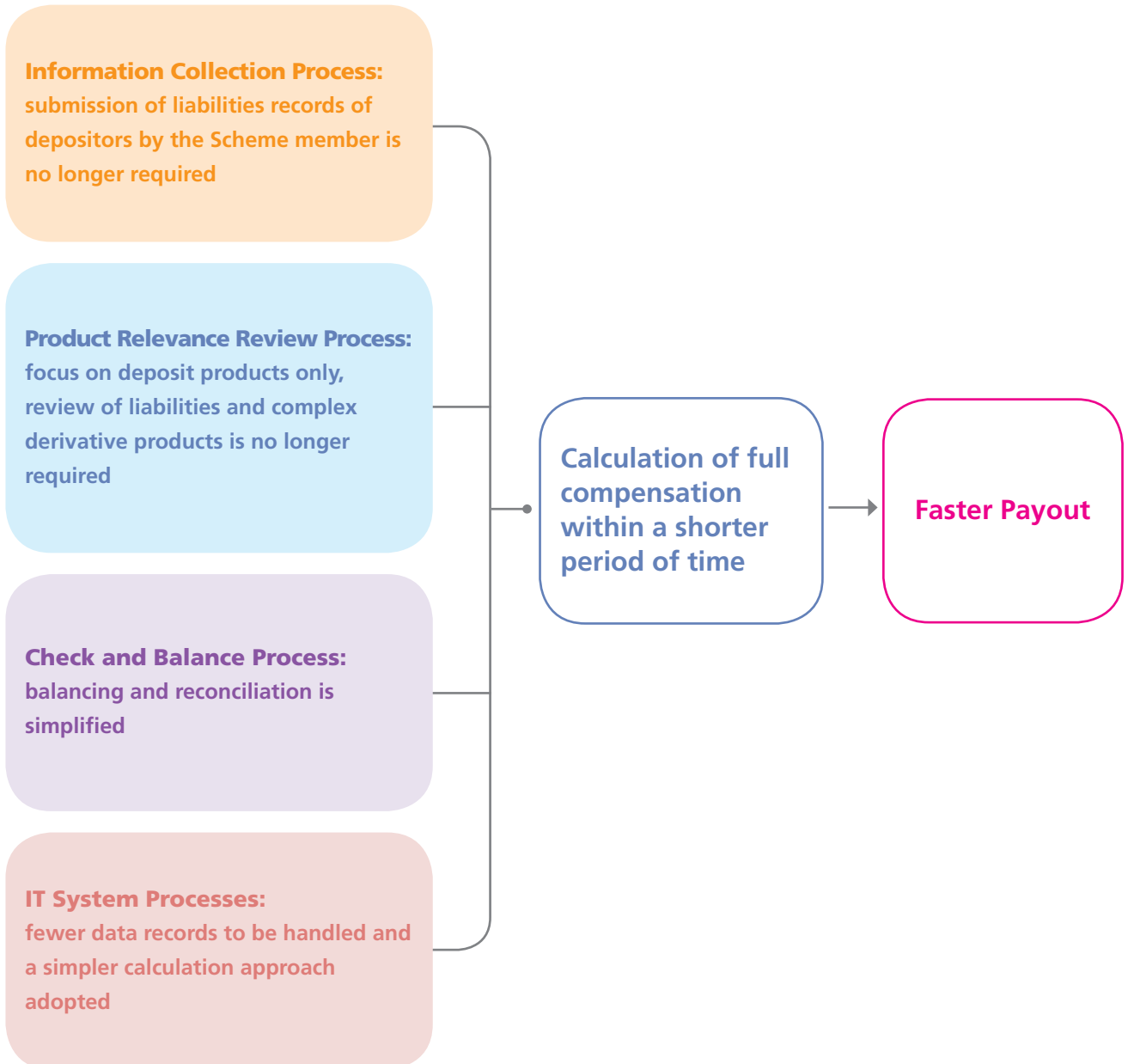
Gross Payout Readiness

To ensure smooth transition to the gross payout approach, amendments have been made to systems and event management procedures. Payout walk-throughs were held with the payout agents to get them familiar with the gross payout approach. The focus of the exercise was to shorten the payout time frame for making full compensation payments to depositors to within seven days in most cases, compared with the previous arrangement of releasing an interim payment within two weeks. The exercise also identified approaches for enhancing the management of depositors' expectation and public communication amid the shorter payout time frame.



Snapshot of a walk-through conducted with payout agents

Contributors to Faster Payout under the Gross Payout Approach



Building up the DPS Fund

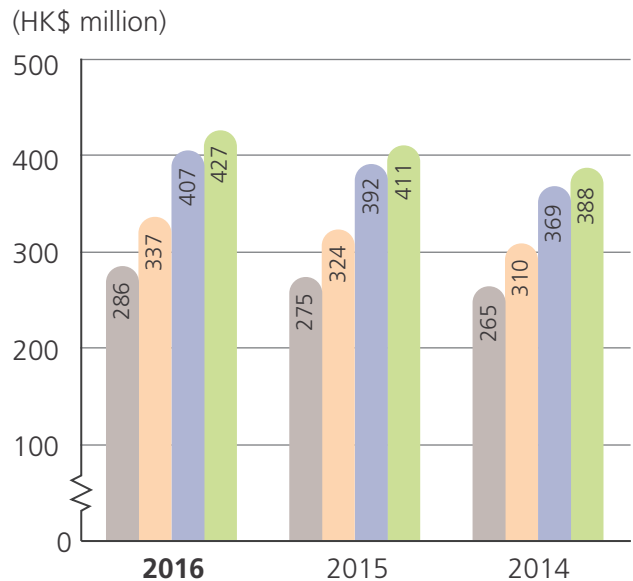
Composition of the Fund

The build up of the DPS Fund is mainly from two sources, namely annual contributions paid 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\$427 million, an increase of 4% from the previous year. All contributions were paid during the first quarter of 2016. Similar to the distribution of relevant deposits, the amount of contributions collected from the top 20 Scheme members accounted for more than 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. At the request of the Board, 15 Scheme members submitted an audit report on the accuracy of their returns in 2016. The review results were satisfactory, and no reporting error leading to a material impact on the amount of contributions collected by the Board was noted.

Contributions Paid by Scheme Members



By Relevant Deposits Held

% of Total	2016	2015	2014
Top 5	67%	67%	68%
Top 10	79%	79%	80%
Top 20	95%	95%	95%
Total	100%	100%	100%

The fact that all Scheme members subject to regular audit review requirements had completed their reviews under the current reporting basis increased the Board's confidence in the accuracy of the total amount of contributions payable by the industry. A regular survey for monitoring the popularity of structured deposits (which are excluded from the protection net under the ambit of the DPS) was conducted in the fourth quarter of 2015. The results showed that the number of depositors with structured deposits was not material. In view of this, the Board concluded that the non-protection status of structured deposits should remain unchanged.

DPS Fund Investments

Due to the volatility and uncertainties of global financial markets, the Board once again exercised extra caution by adopting a capital preservation and conservative investment strategy for the investment of the Fund. Investments were also 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 2016, the DPS Fund's assets were predominantly held as Hong Kong dollar deposits. Despite the low interest-rate and uncertain investment environment, the DPS Fund achieved an investment return of 0.57% for the year.

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

(HK\$ million)	2016	2015
Cash and deposit balance	3,138	2,766
Investment securities	0	0
Total	3,138	2,766

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

(HK\$ million)	2016	2015
Hong Kong dollars	3,138	2,765
US dollars	0	1
Total	3,138	2,766

Enhancing Public Awareness and Understanding of the Scheme

The Board continued to assign a high priority to increasing the public awareness and understanding of the DPS. An integrated approach has been adopted to reinforce the message and mission of the Scheme. As a result, mass publicity campaigns were conducted during the year through various communication channels, and were augmented with tailor-made engagement and education activities targeting Hong Kong’s diverse community.

Multimedia Publicity Campaigns

Television, Out-of-home and Digital Publicity

The campaign highlighting the important message, “Where is the best place to keep my money?”, was extended from advertisements on major television channels to the infotainment systems on buses and MTR trains, supplemented with wall posters at high-traffic MTR stations and on buses. To reach out to the ever-growing digital audience, online banners of the series were also displayed on mobile networks, websites and search engines.



In-bus digital advertising

Bus-back sticker

MTR wall poster

Online banner

Digital and out-of-home publicity campaigns reinforce the message of the TV advertisement

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2015-2016

Print Publicity

Key DPS messages with daily examples covering all walks of life were published in advertorials and informative articles in free newspapers, weekly magazines and newsletters. These covered a wide range of readership from the younger generation to working adults and senior citizens. During the year, the Board also launched a newly designed leaflet to present the key messages in a light-hearted manner.



DPS print material gets support from a range of organisations for wider distribution

Engaging and Educating the Public

Facebook Page

In September 2015, the Board entered a new phase in its publicity drive with the launch of a Facebook page titled "Save with confidence" (存得安心) to connect with a wider audience, particularly the younger generation. A month later, the Board organised its first Facebook engagement campaign "Treasure Hunt" to stimulate community-level interaction. During the campaign period, the DPS Facebook page mascot "Ah Chuen" (阿存) visited different parts of Hong Kong. The Facebook engagement continued with quizzes and games, in addition to sharing the DPS messages and interesting tips.

Deposit Story Campaign

In keeping with the old saying "every dollar counts" and the notion that there is a story behind every deposit, the Board launched a deposit story recruitment campaign during the year. More than 2,000 entries were received from a wide cross-section of the community. The campaign encouraged members of the public to share their deposit stories, and enabled a greater understanding of deposit protection. The winning entries will be shared with the wider community in 2016-2017.



DPS Facebook page mascot "Ah Chuen" meeting his fans

Neighbourhood Outreach

In reaching out to neighbourhoods, the Board introduced an eye-catching campaign from October to December 2015, involving a moving mirror truck with the slogan “存程照住你” (Cantonese slang for “DPS looking after you all the way”) stationed in high-traffic business districts and residential areas to promote the DPS messages. Passers-by were invited to take an instant photo with a “deposit dream” caption to share on the DPS Facebook page.

The weekend outreach campaign at public housing estates and near old tenement buildings continued during the year. And, the Board again participated in popular consumer shows, namely the Retiree and Senior Fair and the 50th Hong Kong Brands and Products Expo Fair, to reinforce the key DPS messages.



Board Chairperson Mrs Pamela Chan and DPS ambassadors at the “Mirror Truck” campaign



DPS booths prove a popular attraction at consumer shows

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2015-2016

DPS Board Game

A board game, "Around the World in \$80", was designed by the Board as an interactive and interesting community education tool to promote to younger people money management, the basic concept of DPS protection and the importance of saving. With the support of schools and parent volunteers, the game was introduced to junior-grade students in liberal studies lessons and extra-curricular activities, with the longer-term objective of encouraging players to save and learn more about the DPS. The game was also displayed at an exhibition at the Jao Tsung-I Academy.



Eager students playing the new DPS board game

DPS Mobile Training Application

Another initiative of the Board was the development of a new community education training tool, the DPS mobile application. The "app" facilitates interaction with the participants of the DPS talks and seminars mainly for secondary students, and helps arouse their interest in the Scheme. It comprises a brief introduction to the Scheme, a question and answer game to test users' DPS knowledge, as well as a savings-and-expenses tracker.



New DPS mobile "app"

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2015-2016

Bun-making and the DPS

Continuing with the success of the previous publicity campaign, the latest bun-making class for housewives involved The Family Planning Association of Hong Kong as partner. Apart from the hands-on bun-making experience, information about deposit protection was also delivered to the participants.



Hands-on bun makers learn about the DPS

DPS Talks

The Board continued to conduct tailor-made talks on major aspects of the DPS for different audience groups, including senior citizens and students. We also partnered with the Investor Education Centre and The Hong Kong Association of Banks to include key features of the DPS in their respective financial education workshops. Information about the DPS was also introduced to secondary school students participating in public education seminars held by the HKMA.



DPS community education programmes for the young and not-so-young

Effectiveness of Publicity Campaigns

The results of independent public opinion surveys conducted in 2015 showed that the level of awareness and understanding of the DPS continued to be impressive. The DPS awareness level remained high at 77%. Of those aware of the Scheme, the rising trend of understanding also continued, with 81% having knowledge of the HK\$500,000 protection limit, a rise of nearly two percentage points over the 2014 survey, and 87% knew the protection provided by the DPS was covered by law, recording an impressive rise of nearly seven percentage points. These findings, together with other public views, will be taken on board for fine-tuning the publicity and communication strategies.

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 2014 to 30 June 2015. 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 findings of the on-site examinations conducted by the HKMA to decide whether or not follow-up actions were required. The results indicated that the overall compliance level was satisfactory in general, and no non-compliance cases with a systemic impact were identified.

Relationships with Other Safety Net Players

Co-operation with the HKMA

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. In addition, there is a co-operative agreement between the Board and the HKMA on an early warning system of a potential bank failure to enable a faster DPS payout.

Relationship with the Securities and Futures Commission and the 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 involved 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 2015-2016, the Board's personnel took part in a number of international meetings, including:

- The IADI Asia-Pacific Regional Committee 13th Annual Meeting and International Conference in Taipei
- The 14th IADI Annual General Meeting and 2015 Annual Conference in Kuala Lumpur, Malaysia
- The IADI Research Conference, "Current Issues Facing Deposit Insurers", in Basel, Switzerland
- The Joint Financial Stability Institute-IADI Conference: Bank Resolution, Crisis Management and Deposit Insurance Issues in Basel, Switzerland
- The 9th DICJ Round Table, "Lessons learned from Respective Countries", organised by the Deposit Insurance Corporation of Japan.

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2015-2016



The IADI Asia-Pacific Regional Committee 13th Annual Meeting and International Conference (Taipei)



The 14th IADI Annual General Meeting and 2015 Annual Conference (Kuala Lumpur)

Business Plan and Key Initiatives

DPS Enhancements

Following the implementation of the legislation to enable a fast payout process in early 2016, the Board will continue to explore ways to gain better operational efficiency through the use of the latest payment technology, simplifying data requirements and the enhancements to the internal payout procedures. As the recently passed legislation empowers the Board to communicate with depositors by electronic means, it provides the opportunity for exploring the possibility of making an electronic payment and the issuance of an electronic notice to a depositor at the same time. After considering information security and data privacy, the Board will embark on a plan to study the feasibility of using e-cheques for payouts. In addition, the Board will work closely with Scheme members to further streamline the data requirements to take full advantage of the gross payout approach in speeding up the process. The existing payout procedures will be updated to ensure that the gross payout approach can function as efficiently and effectively as intended.

The Board will also continue to work with the HKMA to ensure a proper interface between the DPS and the resolution tools (e.g. deposit transfer) that may be deployed for handling a banking crisis under the proposed resolution regime for financial institutions.

Payout Readiness

To further improve the operational effectiveness and efficiency of payouts, the Board will conduct a review of the existing computer systems and infrastructure with the aim of enhancing and strengthening the resilience of the overall systems set-up. Payout walk-throughs and simulation tests will be performed to ensure that payout agents are fully conversant with the revised information requirements, and the enhanced payout policies and procedures. Given the importance of data quality in facilitating a fast payout process, the Board will continue to ensure the readiness of Scheme members in submitting the relevant information according to the prescribed format.

Ensuring Effective DPS Coverage and Compliance of Scheme Members

The effectiveness of the DPS hinges on its coverage of depositors and it is the Board's objective that most depositors are fully protected by the DPS protection limit. Against this background, the Board will conduct a survey to keep track of the latest coverage position of the DPS. In addition, to ensure that depositors are properly informed of the protection status of deposits held with Scheme members, the Board will continue to monitor the overall compliance with the Representation Rules through self-assessment reviews conducted by Scheme members and the HKMA's thematic on-site examinations regarding DPS representation requirements.

Reinforcing Public Awareness and Understanding

The Board will reinforce its efforts on publicity and community education to ensure that the public is aware of the protection available to their deposits and the scope of coverage. There will also be suitable updates to enable depositors to understand more about the newly implemented gross payout approach. Based on readings from the opinion surveys, the Board will continue to monitor the trend of awareness and understanding about the DPS and factor in any material findings in the formulation of the communication and public education plan.

As the DPS will mark its 10th Anniversary in September 2016, the Board will take the opportunity to engage with general depositors through tailored programmes. Among them, real stories will be gathered from people from different walks of life. The anecdotes based on their own experiences in savings and deposits will be shared with the public to instil a greater understanding of deposit protection. To allow a wider appreciation of these different aspects of Hong Kong people's lives, some of the stories will be produced as short videos for broadcast on multimedia channels.

Maintaining Administrative Efficiency and Effectiveness

The Board will collect contributions from Scheme members for 2017. A well-established mechanism is in place to assess the amount of contributions based on the Scheme members' returns of relevant deposits and the supervisory ratings assigned to them by the HKMA. The accuracy of these returns will be subject to the monitoring of the Board through reviews of the members' audit reports.

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 39 to 60, which comprises the balance sheet as at 31 March 2016, 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 determines 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 2016, 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, 16 June 2016

◀ DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Note	2016 HK\$	2015 HK\$
Income			
Contributions		415,283,153	394,068,212
Interest income from cash and balances with banks and the Exchange Fund	11	2,656,509	4,057,207
Interest income from available-for-sale securities	5	3,340,069	—
Net realised losses on disposal of available-for-sale securities	5	(428,832)	—
Exchange gains/(losses)	5	10,167,341	(483)
Other income		60,000	65,000
		431,078,240	398,189,936
Expenditure			
Staff costs	6	10,208,888	9,828,616
Premises costs		5,847,164	5,802,045
Depreciation and amortisation		4,008,740	3,596,994
Office supplies		53,480	183,556
Overseas travel		230,752	240,874
Transport and travelling		4,055	1,860
Operating expenses reimbursable to the HKMA	11	26,698,235	24,690,126
Hire of services		9,123,428	7,841,614
Communications		160,260	148,425
Publicity and printing		11,619,924	13,892,079
Other expenses		5,052,959	4,690,385
		73,007,885	70,916,574
Surplus for the year		358,070,355	327,273,362
Total comprehensive income for the year		358,070,355	327,273,362

The notes on pages 43 to 60 form part of this statement of accounts.

DEPOSIT PROTECTION SCHEME FUND — BALANCE SHEET

As at 31 March 2016

	Notes	2016 HK\$	2015 HK\$
Non-current assets			
Fixed assets	7	3,524,159	4,924,645
Intangible assets	8	6,533,138	8,304,160
		10,057,297	13,228,805
Current assets			
Other receivables	9	2,487,709	2,195,746
Cash and balances with banks and the Exchange Fund	11	3,140,759,803	2,766,008,750
		3,143,247,512	2,768,204,496
Current liabilities			
Contributions received in advance		320,313,602	308,630,196
Other payables	10	30,324,693	28,206,946
		350,638,295	336,837,142
Net current assets		2,792,609,217	2,431,367,354
Net assets		2,802,666,514	2,444,596,159
Represented by			
Accumulated surplus		2,802,666,514	2,444,596,159
		2,802,666,514	2,444,596,159

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 16 June 2016

Mrs Chan Wong Shui, Pamela, BBS, JP
Chairperson

The notes on pages 43 to 60 form part of this statement of accounts.

◀ DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	2016 HK\$	2015 HK\$
Fund balance as at 1 April	2,444,596,159	2,117,322,797
Surplus for the year	358,070,355	327,273,362
Fund balance as at 31 March	<u>2,802,666,514</u>	<u>2,444,596,159</u>

The notes on pages 43 to 60 form part of this statement of accounts.

DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

	2016 HK\$	2015 HK\$
Operating activities		
Surplus for the year	358,070,355	327,273,362
Interest income	(5,996,578)	(4,057,207)
Exchange (gains)/losses	(9,188,561)	483
Net realised losses on disposal of available-for-sale securities	428,832	—
Depreciation and amortisation	4,008,740	3,596,994
Cash from operating surplus before changes in operating assets and liabilities	347,322,788	326,813,632
Changes in operating assets and liabilities		
(Increase)/decrease in other receivables	(517,504)	76,954
Increase in contributions received in advance	11,683,406	17,473,074
Increase/(decrease) in other payables	2,117,747	(1,087,107)
Net cash from operating activities	360,606,437	343,276,553
Investing activities		
Purchase of intangible assets	(525,700)	(4,786,070)
Purchase of fixed assets	(311,532)	(968,976)
Interest received	2,882,050	3,985,642
Purchase of available-for-sale securities	(2,243,822,253)	—
Proceeds from disposal of available-for-sale securities	2,255,922,051	—
Net cash from/(used in) investing activities	14,144,616	(1,769,404)
Net increase in cash and cash equivalents	374,751,053	341,507,149
Cash and cash equivalents at 1 April	2,766,008,750	2,424,501,601
Cash and cash equivalents at 31 March	3,140,759,803	2,766,008,750
Analysis of balance of cash and cash equivalents		
Cash and balances with banks and the Exchange Fund	3,140,759,803	2,766,008,750

The notes on pages 43 to 60 form part of this 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.

2 Significant Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

(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 2015 that would be expected to have a material impact on the Fund.

(ii) *New and amended standards have been issued but are not effective for the financial year beginning 1 April 2015 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.

— 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 2016 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.

2 Significant Accounting Policies *(continued)*

(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.

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.

2 Significant Accounting Policies *(continued)*

(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

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) 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)*

(f) Financial assets

Classification

The Fund classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise "other receivables" and "cash and balances with banks and the Exchange Fund" in the balance sheet.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified in any of the other categories.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 Significant Accounting Policies *(continued)*

(f) Financial assets *(continued)*

Recognition and measurement (continued)

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income.

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

(h) 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.

2 Significant Accounting Policies *(continued)*

(h) Impairment of financial assets *(continued)*

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.

(i) 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.

(j) Other payables

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

(k) 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.

2 Significant Accounting Policies *(continued)*

(k) Translation of foreign currencies *(continued)*

(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.

Changes in the fair value of debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the surplus, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets are included in other comprehensive income.

(l) 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.

(m) 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.

2 Significant Accounting Policies *(continued)*

(m) Provisions and contingent liabilities *(continued)*

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.

(n) 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.

(o) 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.

DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

3 Risk Management *(continued)*

(c) Financial risk management *(continued)*

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.

(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 Purchase and Disposal of Available-for-sale Securities

During the year, the Fund purchased and disposed of the US Treasury Bills resulting in interest income of HK\$3,340,069, exchange gain of HK\$10,142,899 and net realised losses on disposal of available-for-sale securities of HK\$428,832 which have been separately disclosed in the statement of comprehensive income. Taking these three components together, the purchase and sale of the US Treasury Bills have generated a net income amounted to HK\$13,054,136 for the year.

DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

6 Staff Costs

	2016 HK\$	2015 HK\$
Salaries	8,943,548	8,556,820
Gratuity	261,294	247,147
Other employee benefits	1,004,046	1,024,649
	10,208,888	9,828,616

7 Fixed Assets

	Office equipment, furniture and fixtures HK\$	Computer hardware/ software HK\$	Total HK\$
Cost			
As at 1 April 2015	1,589,192	16,422,854	18,012,046
Additions	—	311,532	311,532
As at 31 March 2016	1,589,192	16,734,386	18,323,578
Accumulated depreciation			
As at 1 April 2015	1,256,226	11,831,175	13,087,401
Charge for the year	108,896	1,603,122	1,712,018
As at 31 March 2016	1,365,122	13,434,297	14,799,419
Net book value			
As at 31 March 2016	224,070	3,300,089	3,524,159
As at 31 March 2015	332,966	4,591,679	4,924,645

DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

8 Intangible Assets

	Development costs of Payout System HK\$
Cost	
As at 1 April 2015	30,145,818
Additions	525,700
As at 31 March 2016	<u>30,671,518</u>
Accumulated amortisation	
As at 1 April 2015	21,841,658
Charge for the year	2,296,722
As at 31 March 2016	<u>24,138,380</u>
Net book value	
As at 31 March 2016	<u>6,533,138</u>
As at 31 March 2015	<u>8,304,160</u>

9 Other Receivables

	2016 HK\$	2015 HK\$
Prepayment	2,417,472	1,899,968
Interest receivables	7,737	233,278
Others	62,500	62,500
	<u>2,487,709</u>	<u>2,195,746</u>

DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

10 Other Payables

	Note	2016 HK\$	2015 HK\$
Hire of services	(a)	27,962,409	26,243,730
Staff expenses		1,186,719	858,142
Others		1,175,565	1,105,074
		30,324,693	28,206,946

- (a) This amount includes operating expenses reimbursed to the HKMA HK\$26,698,235 (2015: HK\$24,690,126), services fee for payout rehearsal HK\$626,031 (2015: HK\$234,500) and fees for other hire of services HK\$638,143 (2015: HK\$1,319,104).

11 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 a senior officer 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	2016 HK\$	2015 HK\$
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund	(a)	3,137,581,589	2,371,503,564
Transactions during the year			
Interest income from balances with the Exchange Fund	(a)	709,888	1,401,312
Operating expenses reimbursed to the HKMA	(b)	26,698,235	24,690,126

DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

11 Material Related Party Transactions *(continued)*

- (a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$3,137,581,589 (2015: HK\$2,371,503,564) and earned interest amounting to HK\$709,888 (2015: HK\$1,401,312) 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 (2015: HK\$120 billion) of which nil (2015: nil) was drawn during the year.

12 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:

	2016 HK\$	2015 HK\$
No later than 1 year	3,876,075	2,778,548
Later than 1 year and no later than 5 years	—	—
	3,876,075	2,778,548

13 Approval of Statement of Accounts

The statement of accounts was approved by the Board on 16 June 2016.

◀ ANNEX 1 NAMES OF SCHEME MEMBERS AT 31 MARCH 2016

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

◀ NAMES OF SCHEME MEMBERS AT 31 MARCH 2016 ▶

CHINA CONSTRUCTION BANK
CORPORATION

CHINA DEVELOPMENT BANK CORPORATION

CHINA EVERBRIGHT BANK CO., LTD

CHINA MERCHANTS BANK CO., LTD.

CHINA MINSHENG BANKING CORP., LTD.

CHIYU BANKING CORPORATION LIMITED

CHONG HING BANK LIMITED

CHUGOKU BANK, LTD. (THE)

CIMB BANK BERHAD

CITIBANK (HONG KONG) LIMITED

CITIBANK, N.A.

COMMONWEALTH BANK OF AUSTRALIA

COOPERATIEVE RABOBANK U.A.

COUTTS & CO AG

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 AG

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)

HANG SENG BANK, LIMITED

HDFC BANK LIMITED

HONG LEONG BANK BERHAD

HONGKONG & SHANGHAI BANKING
CORPORATION LIMITED (THE)

HSBC BANK INTERNATIONAL LIMITED

HSBC BANK PLC

HSBC BANK USA, NATIONAL ASSOCIATION

HSBC PRIVATE BANK (SUISSE) SA

..... NAMES OF SCHEME MEMBERS AT 31 MARCH 2016 ▶

HUA NAN COMMERCIAL BANK, LTD.	MASHREQ BANK - PUBLIC SHAREHOLDING COMPANY
ICBC STANDARD BANK PLC	MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
ICICI BANK LIMITED	MELLI BANK PLC
INDIAN OVERSEAS BANK	MITSUBISHI UFJ TRUST AND BANKING CORPORATION
INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED	MIZUHO BANK, LTD.
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED	NANYANG COMMERCIAL BANK, LIMITED
INDUSTRIAL BANK CO., LTD.	NATIONAL AUSTRALIA BANK LIMITED
INDUSTRIAL BANK OF KOREA	NATIONAL BANK OF ABU DHABI
INDUSTRIAL BANK OF TAIWAN CO., LTD.	NATIONAL BANK OF PAKISTAN
ING BANK N.V.	NATIXIS
INTESA SANPAOLO SPA	OCBC WING HANG BANK LIMITED
IYO BANK, LTD. (THE)	OVERSEA-CHINESE BANKING CORPORATION LIMITED
JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	PHILIPPINE NATIONAL BANK
KBC BANK N.V.	PICTET & CIE (EUROPE) S.A.
KEB HANA BANK	PORTIGON AG
LAND BANK OF TAIWAN CO., LTD.	PT. BANK NEGARA INDONESIA (PERSERO) TBK.
LGT BANK AG	PUBLIC BANK (HONG KONG) LIMITED
MACQUARIE BANK LIMITED	PUNJAB NATIONAL BANK
MALAYAN BANKING BERHAD	

← NAMES OF SCHEME MEMBERS AT 31 MARCH 2016

RAIFFEISEN BANK INTERNATIONAL AG	TA CHONG BANK, LTD.
ROYAL BANK OF CANADA	TAI SANG BANK LIMITED
ROYAL BANK OF SCOTLAND N.V. (THE)	TAI YAU BANK, LIMITED
ROYAL BANK OF SCOTLAND PUBLIC LIMITED COMPANY (THE)	TAIPEI FUBON COMMERCIAL BANK CO., LTD.
SHANGHAI COMMERCIAL & SAVINGS BANK, LTD. (THE)	TAISHIN INTERNATIONAL BANK CO., LTD
SHANGHAI COMMERCIAL BANK LIMITED	TAIWAN BUSINESS BANK
SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.	TAIWAN COOPERATIVE BANK, LTD.
SHIGA BANK, LTD. (THE)	TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD.
SHINHAN BANK	TORONTO-DOMINION BANK
SHIZUOKA BANK, LTD. (THE)	UBS AG
SKANDINAVISKA ENSKILDA BANKEN AB	UCO BANK
SOCIETE GENERALE	UNICREDIT BANK AG
STANDARD CHARTERED BANK	UNION BANCAIRE PRIVÉE, UBP SA
STANDARD CHARTERED BANK (HONG KONG) LIMITED	UNION BANK OF INDIA
STATE BANK OF INDIA	UNITED OVERSEAS BANK LTD.
STATE STREET BANK AND TRUST COMPANY	WELLS FARGO BANK, NATIONAL ASSOCIATION
SUMITOMO MITSUI BANKING CORPORATION	WESTPAC BANKING CORPORATION
SUMITOMO MITSUI TRUST BANK, LIMITED	WING LUNG BANK LIMITED
SVENSKA HANDELSBANKEN AB (PUBL)	WOORI BANK

◀ ANNEX 2 LIST OF MAJOR PUBLICITY AND COMMUNITY EDUCATION ACTIVITIES IN 2015-2016

Multimedia Publicity Campaigns

- Extended the major advertising campaign with the theme, “Where is the best place to keep my money?”, from the television to infotainment systems on buses and MTR trains (throughout the year). The publicity drive was supplemented with a series of posters at high-traffic MTR stations and on the back of buses (September – November 2015), and online banners on mobile networks, websites and search engines (May 2015 – March 2016)
- Published advertorials in free newspapers and weekly magazines targeting the younger generation and working adults; and issued other informative articles in newsletters aimed at blue-collar workers, teachers and senior citizens (throughout the year)
- Launched a newly designed leaflet to present the key DPS messages in a light-hearted but informative manner (October 2015); and distributed a DPS-themed leaflet as an insert in electricity bills to households with the support of The Hongkong Electric Company, Limited (August 2015)

Engaging the Public

- Launched a DPS Facebook page, “Save with confidence” (存得安心), to connect in a livelier manner with a wider audience, particularly the social media-savvy younger generation (September 2015)
- Launched the first DPS Facebook “Treasure Hunt” campaign involving the participants searching for, and taking photos with, DPS Facebook page mascot “Ah Chuen” (阿存) in different Hong Kong locations. Some 400 fans uploaded their photos to the Facebook page through which information and tips about the Scheme were shared (October 2015)
- Designed a moving mirror truck to spearhead an eye-catching campaign with the slogan “存程照住你” (Cantonese slang for “DPS looking after you all the way”) to promote the message with the help of DPS ambassadors to passers-by in high-traffic business districts and residential areas. They were also invited to take an instant photo with a “deposit dream” caption to share on the DPS Facebook page and engage in a simple question and answer game (October – December 2015)
- Introduced a deposit story competition in conjunction with Ming Pao Newspapers Limited to encourage sharing of memorable stories. The competition attracted more than 2,000 entries from a wide cross-section of the community (February – April 2016)

LIST OF MAJOR PUBLICITY AND COMMUNITY EDUCATION ACTIVITIES IN 2015-2016

- Promoted the DPS at public housing estates and near old tenement buildings around Hong Kong during weekends. DPS videos were shown and other publicity material was distributed to the public (throughout the year)
- Established information booths at two popular consumer shows, namely the Retiree and Senior Fair (July 2015) and the 50th Hong Kong Brands and Products Expo Fair (December 2015) to closely engage with members of the public and reinforce the key DPS messages

Community Education Programmes

- Promoted the DPS to different audience groups including members of elderly centres and secondary school students visiting the HKMA Information Centre (throughout the year); and to the secondary school students at HKMA Public Education Seminars where the newly developed DPS mobile training application was unveiled to stimulate their interest in the Scheme (November 2015)
- Developed a board game, "Around the World in \$80", as an interactive community education aid to promote to younger people money management, the basic concept of DPS protection and the importance of saving. The game was introduced to junior-grade students in liberal studies lessons and extra-curricular activities (June 2015 – March 2016); the game was also displayed at an exhibition at the Jao Tsung-I Academy (December 2015 – March 2016)
- Disseminated DPS information at financial education workshops organised by The Hong Kong Association of Banks for low income families and the Investor Education Centre for students of the Elder Academy (throughout the year)
- Collaborated with the Caritas Cheng Shing Fung District Elderly Centre (Sham Shui Po) in delivering DPS talks to elderly home carers (October 2015) and refresher training talks for members at the Centre (December 2015). And, similarly, worked with the Hong Kong Society for the Aged Tsuen Wan District Elderly Community Centre to introduce the Scheme (December 2015 – March 2016)
- Partnered with The Family Planning Association of Hong Kong's Yuen Long Women's Club in organising another popular bun-making class for housewives, bringing participants' information about deposit protection, in addition to the hands-on bun-making experience (August 2015)

We wish to give special thanks to all our partners in the campaigns mentioned above.