

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

Annual Report  
**2018-2019**





## HONG KONG DEPOSIT PROTECTION BOARD

The Hong Kong Deposit Protection Board is a statutory body established under the Deposit Protection Scheme Ordinance to oversee the operations 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 Protection Scheme is in place in accordance with the Ordinance and in line with international best practices.



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## MESSAGE FROM THE CHAIRMAN



This year, the role of the Hong Kong Deposit Protection Board (the Board) as a “Guardian of Savings” for Hong Kong people has been mirrored by the arrival of the Chinese Year of the Pig. Within traditional Chinese culture, the pig symbolises wealth and good fortune, to which the Board’s motto “Everyone Can Save with Confidence” is a natural companion. In 2018-2019, the Board has furthered its goal of maintaining public confidence in Hong Kong’s banking system along two main channels: further enhancing its payout readiness and efficiency should the Deposit Protection Scheme (the Scheme) be triggered, and strengthening public awareness and understanding of the Scheme.

In terms of enhancing payout readiness, the Board undertook the testing and launch of a new payout system during the year which has led to significant improvements in payout speed, system resilience and data security. Incorporating the latest technology, the new system has reduced the time needed to execute computation-intensive processes by 76% on average. To cite one example – whereas in the past it required around 6.5 hours to upload the deposit records of a medium sized bank into the system, the system now enables the task to be completed in just one hour.

The next important milestone for speedier payout will be the adoption of electronic payment channels, including the Faster Payment System launched by the Hong Kong Monetary Authority in 2018, to supplement traditional paper cheque payments, which would provide depositors with safe, faster and more convenient access to compensation payment in the event of failure of a Scheme member. The Board is currently undertaking this work at the initial stage of the project, with a view to launching electronic payment channels in 2021.

On public education and outreach, the Board’s efforts have continued to focus on getting across our “save with confidence” message to diverse target groups, boosted by a new three-year communication strategy aimed at making more people aware of the Board’s work and of the Scheme’s personal relevance. Apart from mass promotion via TV, print and digital platforms, we took further steps to engage people on the streets and at schools, shopping walkways and arcades through board game activities, exhibitions, talks and seminars.



## MESSAGE FROM THE CHAIRMAN

One series of activities, linked thematically with the approaching Year of the Pig, was based on the creative concept of the “DPS Piggy Bank”. Highlights included the first “My Piggy Bank” roving Art Installation, held in January 2019, and a series of TV commercials featuring animated piggy banks communicating the message that “everyone is protected” to people of all ages and social groups.

The Board also utilised social media platforms to reach a wider audience and generate positive engagement from Hong Kong’s social media users. Our innovative money saving competition called “Saving Piggy Challenge” and “Street Interviews” to explore the public’s views and habits on saving reached over 500,000 social media users with around 30,000 engagements (such as Like and Share) recorded on Facebook. In August 2018, we carried out the first ever survey on “Hongkongers’ Sense of Security on Savings”, providing valuable insights into how local people manage and safeguard their hard-earned money. Generating over 100 media reports, the survey made the public more aware of the Scheme and of the Board’s role as a “Guardian of Savings” for Hong Kong people. This was reflected in the results of our annual survey to measure public perception of the Scheme, which revealed a high level of awareness of about 78%.

Looking ahead, with much of the Year of the Pig still ahead of us, we will continue to incorporate the “DPS Piggy Bank” concept into various mass publicity campaigns planned for 2019. A special focus will be on extending the scope of our community education activities in order to reach those who traditionally have a lower awareness of the Scheme. These include homemakers, the elderly, new arrival families and the non-Chinese speaking community.

I would like to conclude by expressing my sincerest thanks to the Board and the Advisory Panel Members for their expertise and assistance over the year. My grateful thanks also go out to our three major stakeholder groups: the Hong Kong Monetary Authority, the Financial Services and the Treasury Bureau, and Scheme members. They have each continued to give their unfailing support to the Board. Finally, commendations are due to all our devoted management team and staff, whose efforts have enabled us to move our plans and goals forward effectively.

The Board’s role is a vitally important one in helping to maintain the stability of Hong Kong’s banking system. I invite all our stakeholders, and members of the general public, to continue their support of the Board in its efforts to enhance its status as the “Guardian of Savings” for Hong Kong in the year ahead.



**Professor HUI King-man, Michael, MH**

Chairman

Hong Kong Deposit Protection Board

## 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 image shows the logo of the Deposit Protection Scheme (DPS), which consists of a stylized Chinese character '保' (protect) inside a square frame. Below the logo, the text reads '存款保障計劃 DEPOSIT PROTECTION SCHEME'. To the right of the logo, there is a grey box containing text in both Chinese and English. The Chinese text states: '[計劃成員名稱]是存款保障計劃的成員。本銀行接受的合資格存款受存保計劃保障，最高保障額為每名存款人HK\$500,000。' The English text states: '[Name of the Scheme member] is a member of the Deposit Protection Scheme. Eligible deposits taken by this Bank are protected by the Scheme up to a limit of HK\$500,000 per depositor.'
- The aggregate deposits of each depositor are protected up to a limit of HK\$500,000 per Scheme member. In the event of a bank failure, the compensation payable to a depositor is determined on a gross basis (i.e., without deducting the liabilities owed by the depositor to the bank concerned) and the target timeframe for making full compensation payments to depositors is within seven days in most cases.
  - Deposits denominated in the Hong Kong dollar, Renminbi or any other currencies are covered by the DPS.
  - Eligible deposits held with Scheme members are legally protected by the DPS without the need for pre-registration or application. Depositors are not required to pay for protection.
  - Deposits such as 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, fall outside the scope of DPS protection.
  - A Deposit Protection Scheme Fund (DPS Fund) has been 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\$5.7 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 as determined by the Hong Kong Monetary Authority (HKMA).

# ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

## OVERVIEW

### Introduction

The Hong Kong Deposit Protection Board (the Board) is a statutory body established under section 3 of the Deposit Protection Scheme Ordinance (DPSO) to oversee the operations 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 been contributing to the stability of the banking system. The Board is a member of the International Association of Deposit Insurers and has 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 in accordance with the DPSO and in line with international best practices. Under section 5 of the DPSO, the Board's functions include the following:

- maintaining the DPS;
- collecting contributions payable by Scheme members;
- managing the DPS Fund;
- making payments to depositors in the event of a failure of a Scheme member; and
- recovering payments made to depositors from the assets of the failed Scheme member.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### **Composition of the Board**

Members of the Board are appointed by the Financial Secretary (FS), with the power delegated from the Chief Executive of the HKSAR (CE/HKSAR). They are selected from different professions, such as accounting, banking, consumer protection, investment, information technology and public administration, and have rich experience in public service. The Board currently comprises nine members including two ex officio members representing the HKMA and the Secretary for Financial Services and the Treasury. Except for the ex officio members, all other members are appointed for a fixed renewable term not exceeding six years under normal circumstances. See pages 8 and 9 for the composition of the Board.

### **Committee and Advisory Panel of the Board**

Under the DPSO, the Board may appoint committees and advisory panels to assist in performing its functions. Currently, an Investment Committee and an Advisory Panel on Communication and Public Education have been formed for this purpose, with their objectives and composition set out on pages 10 and 11.



## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### **Executive Management**

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 professional and support staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board to oversee all day-to-day functions of the DPS. The HKMA also provides administrative support to the Board, including accounting, administration, human resources and information technology, with detailed arrangements set out in a Memorandum of Understanding between the two organisations. The costs incurred by the HKMA for such purposes 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 Chairman and the Chief Executive Officer, which have been devised in line with good corporate governance practice. In general, strategic decisions relating to the operations 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 operations of the DPS according to the principles and policies endorsed by the Board.

# ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

## THE BOARD AND ITS COMMITTEE AND ADVISORY PANEL

### Members of the Board

#### Chairman



**Professor HUI King-man, Michael, MH**  
Choh-Ming Li Professor of Marketing  
Chairman, Department of Marketing  
The Chinese University 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



**Ms GIDUMAL Anita**  
Director – Finance & Strategy  
Abercorn Trading Co. Ltd.



**Mr NG Mat**  
Partner – Transaction Advisory Services  
Ernst & Young



**Ms SHIU Barbara**  
Former General Manager  
Operational Risk and Compliance Department  
Bank of China (Hong Kong) Limited

# ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

## Members



**Professor TAM Kar-yan, MH**  
Dean, School of Business and Management  
Chair Professor of Information Systems,  
Business Statistics and Operations Management  
The Hong Kong University of Science and Technology



**Ms ZEE Helen**  
Deputy Chief Executive and Managing Director  
Haitong International Capital Limited



**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 YUEN Kwok-hang, Arthur, JP**  
Deputy Chief Executive  
Hong Kong Monetary Authority

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

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Investment Committee of the Board

The Investment Committee is established in accordance with section 7 of Schedule 2 to the DPSO to advise the Board on the investment of the DPS Fund. It is responsible for:

- making recommendations on the investment policy and strategy in respect of the DPS Fund;
- monitoring the investment performance of the DPS Fund and establishing proper risk management controls for the investment activities of the Board; and
- working on any other investment-related matters as determined from time to time by the Board.

The Committee comprises members with experience and expertise in banking and investment-related areas. The Chairperson and a majority of the members of the Committee are also members of the Board. The membership of the Committee is as follows:

### Chairperson

#### Ms SHIU Barbara

Former General Manager  
Operational Risk and Compliance Department  
Bank of China (Hong Kong) Limited

### 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

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

Chief Operating Officer  
Exchange Fund Investment Office  
Hong Kong Monetary Authority

#### Ms ZEE Helen

Deputy Chief Executive and Managing Director  
Haitong International Capital Limited

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### **Advisory Panel on Communication and Public Education**

The Advisory Panel on Communication and Public Education is established in accordance with section 7 of the DPSO. Comprising the Chairman of the Board and experts with extensive experience in public relations, communication and community education strategies, the Panel advises the Board on related matters, such as the development and implementation of strategy in these areas. The membership of the Advisory Panel is as follows:

#### **Chairman**

**Professor HUI King-man, Michael, MH**

#### **Members**

**Ms CHAN Kwok-fai, Jenny**

**Mr CHIU Sung-kei, Josiah**

**Mr WONG Koon-shing**



# ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

## CORPORATE GOVERNANCE

### The Board

The Board is an independent statutory body formed under the DPSO. In line with good corporate governance standards applicable to deposit insurers, only a minority of the members of the Board are from the Government and the HKMA. This arrangement is to facilitate a balanced contribution from the Government, the banking supervisor and external professionals from various perspectives in the management and operations of the DPS. At the same time, the Board's functions are insulated from the influence of the banking industry, as employees or directors of banks and bank-related companies are not eligible for appointment to the Board.

The Board is subject to the oversight of the FS who is responsible for approving the estimates of income and expenditure of the DPS Fund and tabling in the Legislative Council the Board's annual report covering its activities, the statement of accounts of the DPS Fund and the audit report of the statement. The proceedings of the Board are governed by the relevant provisions of the DPSO and it meets about three times a year to discuss policy issues crucial to the operations and continuing development of the DPS. In 2018-2019, the Board met three times with an average attendance of over 85% of its members.

### 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 assessments of the risks inherent in various operational areas of the Board. It also assesses whether there are appropriate and sufficient controls in place to safeguard the Board against the potential risks identified. The IAD reports its findings and recommendations directly to the Board to ensure that the audit findings and recommendations are communicated independently and effectively to the members. The next review will be conducted by the IAD in the second quarter of 2019.

The audit of the DPS Fund's annual statement of accounts is undertaken by an external auditor and the appointment is approved by the FS. The appointee reports the results and any findings directly to the Board. The external auditor for the financial year ended 31 March 2019 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 also participates in non-financial audit engagements. Apart from auditing the statement of accounts, PwC was engaged by the Board to provide advisory services for enhancing the payout processes and procedures through a separate team. PwC is also on the panel list of the Board to provide project management and accounting services related to payouts through this separate team.

## ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

### Standards of Behaviour and Ethics

The Board has established clear guidelines and procedures to prevent any possible conflicts of interest, including the requirements for 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. Members are required to declare in writing their personal interests when they first join the Board or its committees, and then annually, 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 an annual declaration to the Chairman of the Board. Specific procedures are in place for members and staff on reporting their interests and, when applicable, to excuse themselves from the decision-making process.

### Communication and Transparency

The Board is committed to open communication with the public and other stakeholders. It maintains a website to facilitate access to information on different aspects of the DPS operations and its annual report is publicly available. In addition, the Board has also established multiple channels to answer enquiries from the public. The banking industry is kept informed of developments in the DPS through consultations with the industry associations on policies and initiatives relating to the operations 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 CE/HKSAR has appointed a former Deputy Judge of the Court of First Instance of the High Court as Chairman of the Tribunal, together with a panel of three persons who may be called upon as members of the Tribunal. Sittings of the Tribunal will be convened only when required. So far, there has been no appeal case reported or reviewed by the Tribunal.

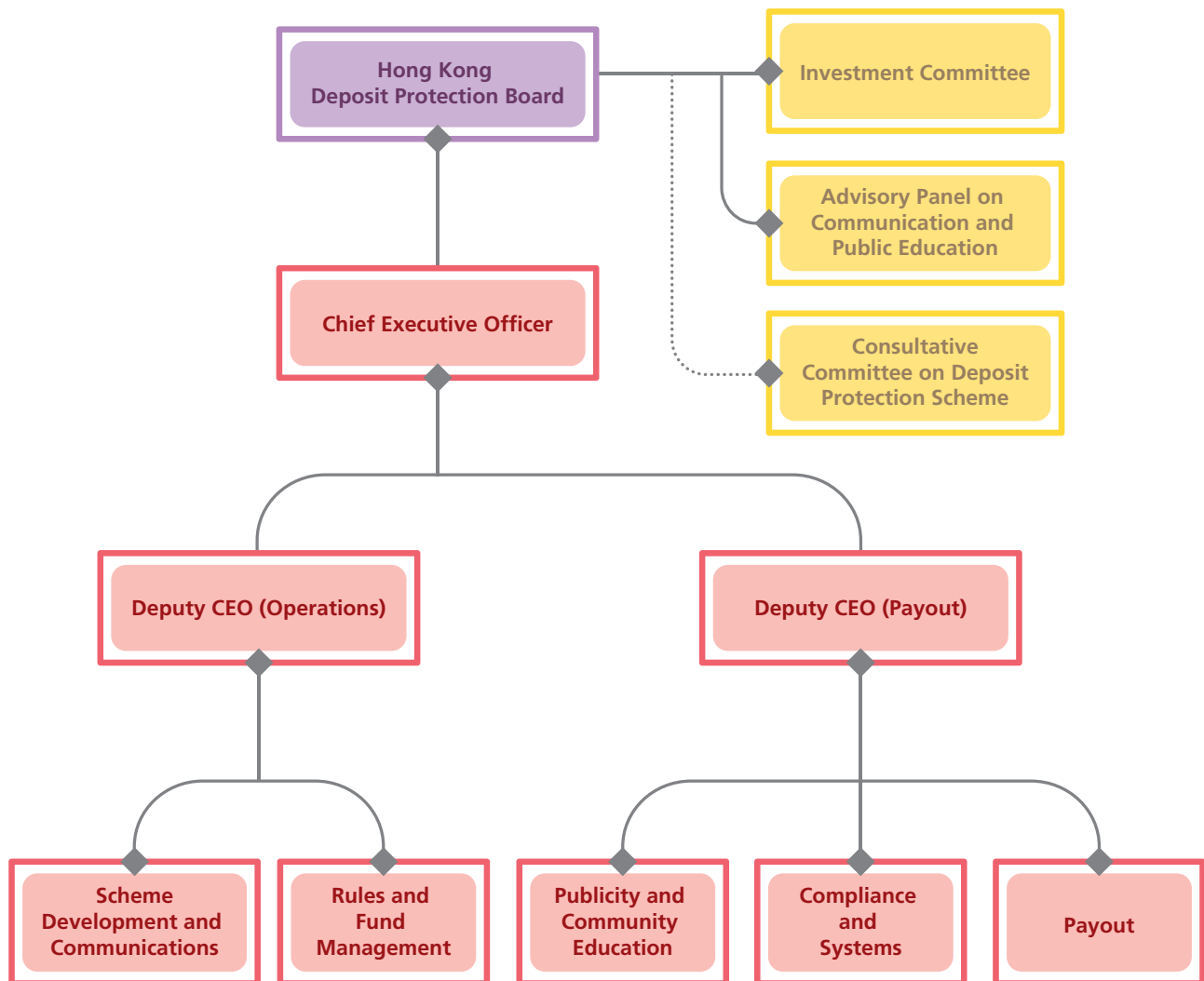
### Review of the Corporate Governance Structure

The Board has set a policy of regularly reviewing its corporate governance structure to ensure that it continues to adhere to sound corporate governance standards, despite any expansion or change in the scope of the Board's operations driven by the development of the DPS. Refinements are made between individual reviews as and when necessary as the Board keeps up with local and international best practices. The IAD also conducts independent reviews of the Board's corporate governance practices against applicable local or international standards on a periodic basis. The IAD conducted a review in the second quarter of 2018 and concluded that the Board's corporate governance framework was in line with the industry best practices.

# ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

## ORGANISATIONAL STRUCTURE

(at 31 March 2019)



## SCHEME OPERATIONS

### SCHEME MEMBERS' PROFILE AND RELEVANT DEPOSITS

The Scheme had 152 members at the end of March 2019: 25 were incorporated locally and 127 were incorporated outside Hong Kong. This is largely in line with the number of retail and wholesale banks in Hong Kong.

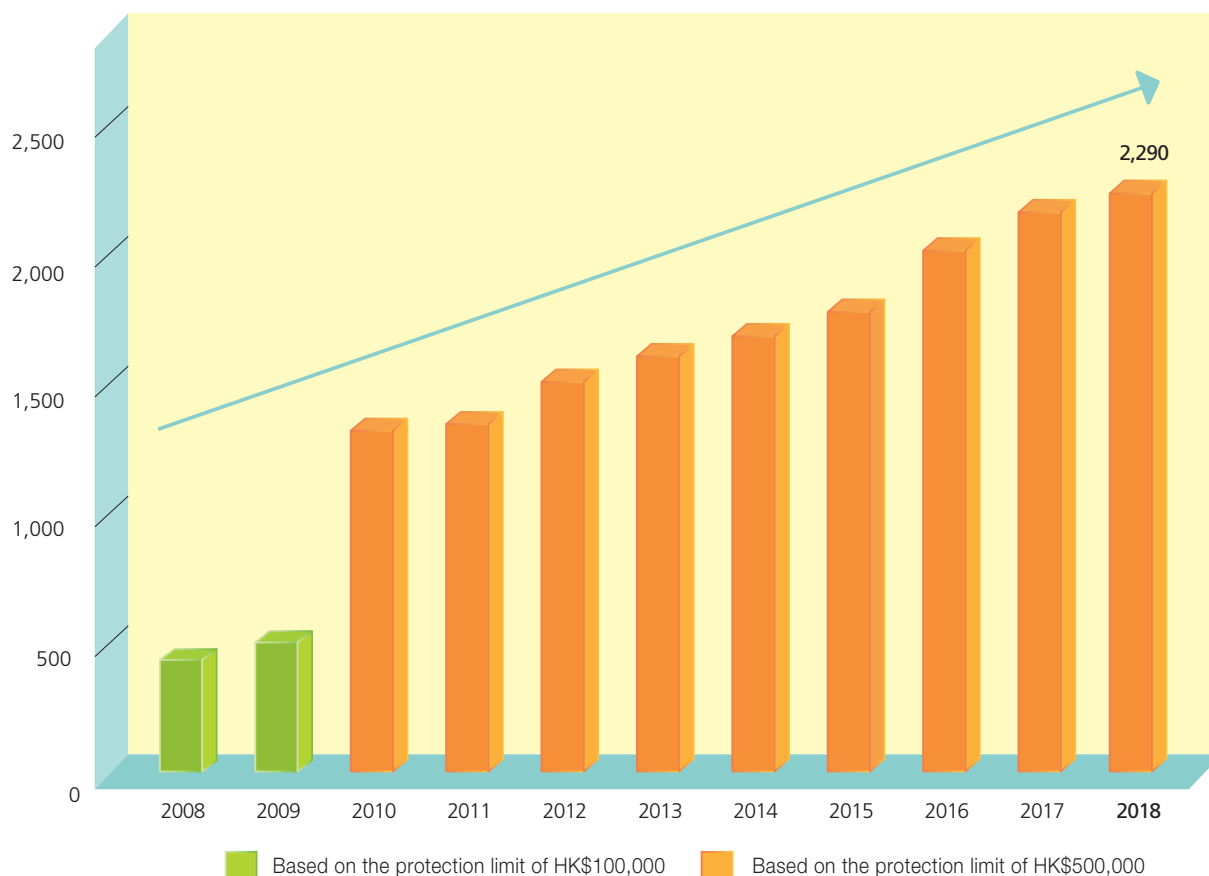
Based on returns submitted by Scheme members, the aggregate amount of their relevant deposits grew by 4% to HK\$2,290 billion during 2018, compared with HK\$2,197 billion in 2017. This was attributed to an increase in total deposits held with Scheme members.

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.

The Board's objective is for most depositors to be fully protected by the DPS. According to statistics provided by Scheme members, about 90% of depositors are fully protected by the DPS. A regular survey for monitoring the popularity of structured deposits (currently not under the protection of the DPS) was conducted in the fourth quarter of 2018. 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.

### Relevant Deposits Held with Scheme Members

HK\$ billion

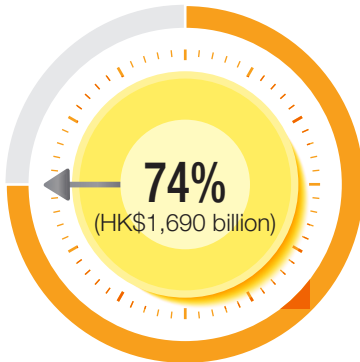


# SCHEME OPERATIONS

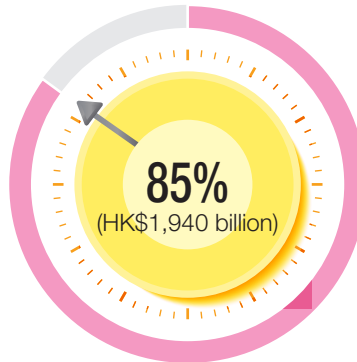
## Distribution of Relevant Deposits in 2018

As a percentage of total relevant deposits:

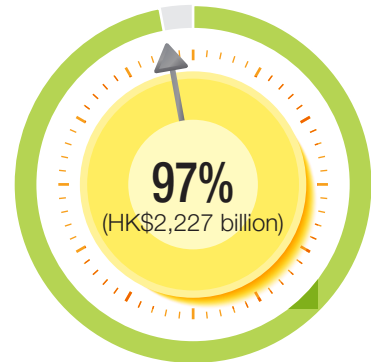
Top 5 Scheme Members



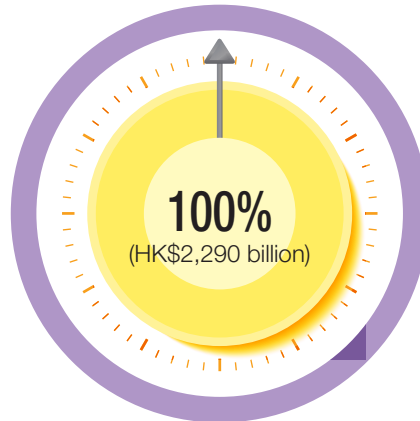
Top 10 Scheme Members



Top 20 Scheme Members

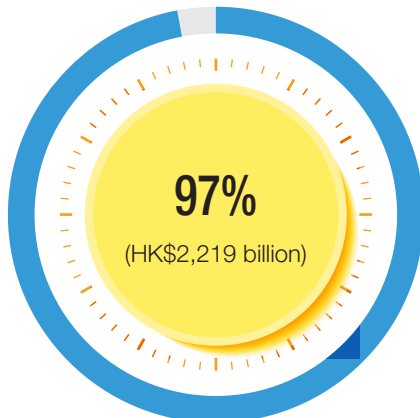


Total

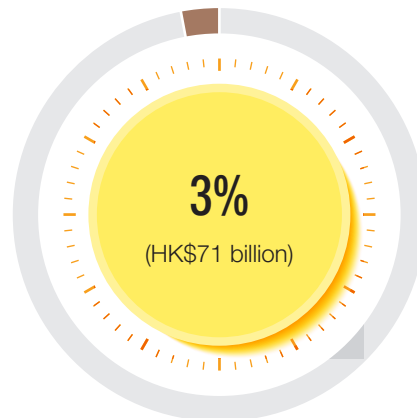


Represented by:

Retail Banks



Wholesale Banks





## SCHEME OPERATIONS

### PAYOUT READINESS

#### Overview

The Board is firmly committed to meeting its objective of paying compensation to depositors of a failed Scheme member within seven days in most cases if the DPS is triggered. In order to achieve this, it is crucial to have in place an efficient payout system and to monitor Scheme members' compliance with the information system requirements on the maintenance of good quality deposit records.

During the year, the Board undertook a number of initiatives to enhance payout readiness. A new payout system was launched and contingency

measures were strengthened to cope with different payout scenarios. The Board also conducted training and drill exercises for the payout agents to ensure that they would be ready to respond promptly under a payout scenario. In addition, in order to further improve payout efficiency, the Board completed a feasibility study on the introduction of electronic payment channels to supplement paper cheque payment, which would provide depositors with safe, faster and more convenient access to compensation payment. In 2019-2021, the Board will work on the implementation details of adopting electronic payment channels for making compensation payment.

### Depositors are Compensated when the Deposit Protection Scheme is Triggered



#### Automatic Protection

Depositors are automatically protected by the DPS.



#### No Submission of Claim is Needed

Depositors do not need to apply or submit a claim when a Scheme member fails.



#### Public Communication

The Board keeps depositors updated on payout process through multiple channels (e.g. press releases and media announcements). Enquiries can be made through the designated hotline and website.



#### Compensation Calculation

The compensation amount of each depositor is calculated based on deposit balances maintained with the failed Scheme member. The determination is a highly automated process.



#### Compensation Payment

Cheques and payout notices will be posted to depositors within seven days in most cases.

## SCHEME OPERATIONS

### Modernisation of the Payout System

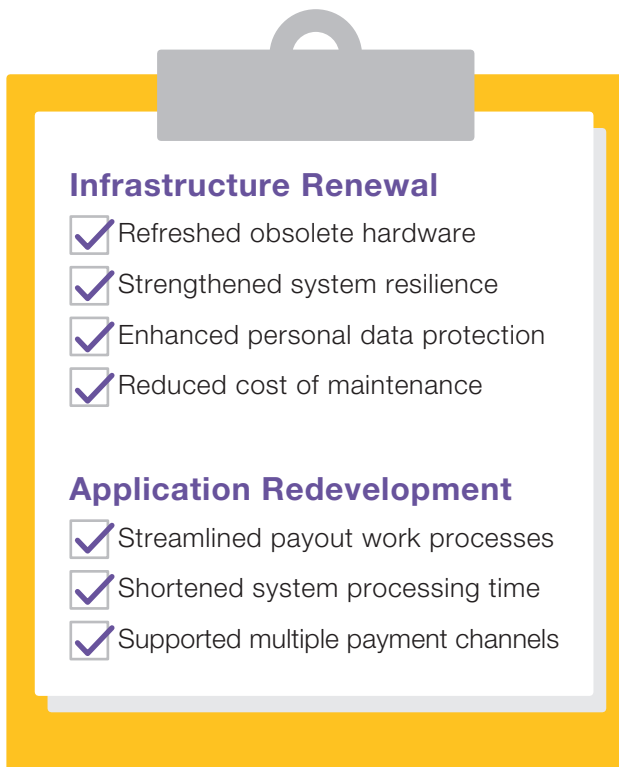
The Board completed a two-year payout system modernisation project and officially rolled out the new system in December 2018. The new payout system helps strengthen system resilience and enhance personal data protection. As compared with the old payout system, which was used for more than a decade, the new system further streamlines work processes for compensation calculation under the gross payout approach (i.e. each compensation payment is calculated without the need to deduct the liabilities owed by the depositor to the bank concerned). This has helped speed up the system processing time by an average of 76%, resulting in a shorter payout time frame. During the year, the Board also provided training to payout agents in conducting a payout operation using the new system to help them take full advantage of its benefits.

### Contingency Planning and Rehearsal

The Board developed a contingency plan with procedures to ensure that the payout agents are able to respond quickly under different banking crisis scenarios. With the rollout of the new payout system, the contingency plan was updated, taking into account the improved payout capacity. Moreover, the enhanced contingency plan also addressed possible unexpected disturbances during a payout operation, such as an interruption of operation due to inclement weather.

To further strengthen the operational readiness of the Board's extensive network of payout agents, the Board conducted six training sessions and five drill exercises for these agents during the year. The Board will also conduct a payout rehearsal in 2019 to test the execution of payout operations using the new system.

### Accomplishments of Payout System Modernisation



### Information System Requirements and Compliance

As the quality of deposit records maintained by Scheme members and the prompt submission of records are essential to ensuring a speedy payout, the Board monitors Scheme members' compliance with the information system requirements through different measures and follows up on areas where there is room for improvement.

## SCHEME OPERATIONS

As part of the Compliance Review Programme adopted by the Board, we completed six comprehensive compliance reviews on selected Scheme members and reviewed annual self-declarations from all Scheme members on their compliance with the information system requirements during the year. Each Scheme member is also required to conduct an independent assessment once every three years to assess the adequacy of systems and processes to ensure compliance with the information system requirements. Given the three-year cycle, the Board invites around one-third of the Scheme members to conduct independent assessments every year. This year the Board required 51 Scheme members to perform the independent assessments and found an improvement in their overall compliance as compared to the assessments conducted three years ago.

To provide further guidance to Scheme members on identifying common cases of non-compliance, the Board incorporated more assessment steps into the Programme Guide for the Independent

Assessment Programme. Furthermore, the Board held four information sessions for auditors and information technology practitioners of Scheme members to deepen their understanding of the data requirements and to provide clarification on the updated Programme Guide.

### Electronic Payment Channels for Compensation Payment

To supplement paper cheque payment, in 2018 the Board completed a feasibility study on the introduction of electronic payment channels, including the Faster Payment System launched by the Hong Kong Monetary Authority in 2018, for paying DPS compensation. The study confirmed the technical feasibility of introducing electronic payment channels, which would provide depositors with safe, faster and more convenient access to compensation payment by the Board without compromising payment accuracy. In 2019-2021, the Board, in collaboration with service providers, will complete system development and establish operational procedures, with a view to launching electronic payment channels in 2021.

## Monitoring of Scheme Members' Compliance



**Conducted 6** comprehensive compliance reviews of controls and correctness of deposit records submitted by selected Scheme members



**Commissioned 51** Scheme members to submit independent assessment reports under the Compliance Review Programme



**Reviewed annual** self-declarations submitted by all Scheme members on their compliance with the information system requirements

# SCHEME OPERATIONS

## DEPOSIT PROTECTION SCHEME FUND

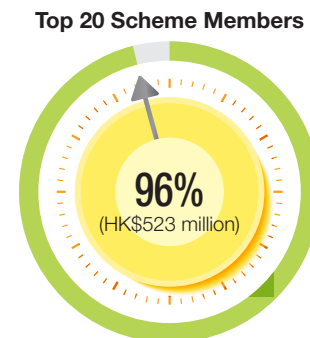
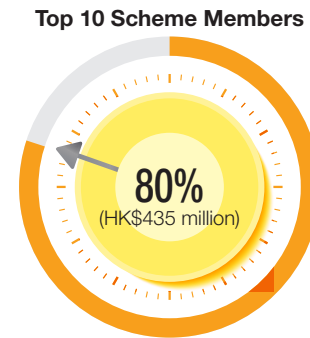
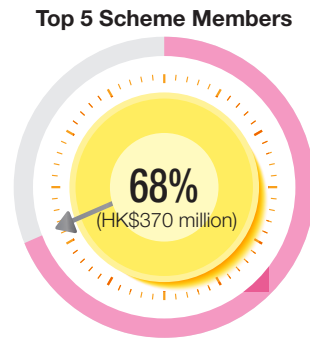
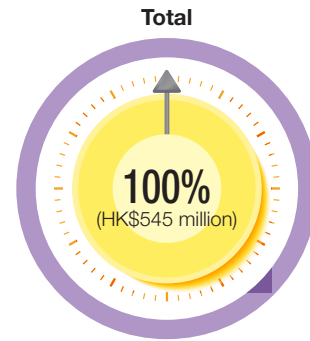
### Composition of the DPS Fund

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 DPS 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.

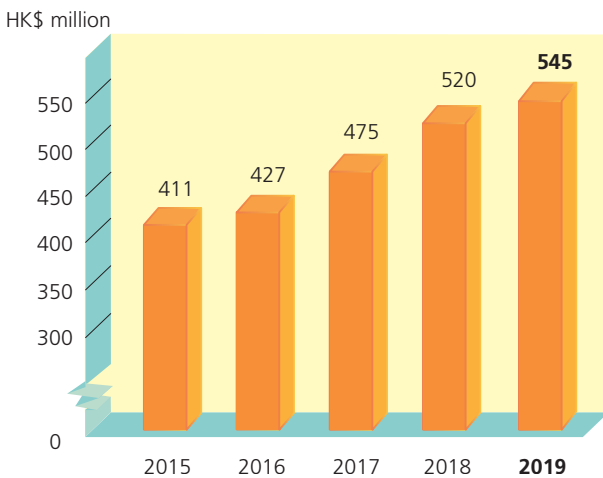
### Assessment and Collection of Contributions

The contributions collected from Scheme members during the year amounted to HK\$545 million, an increase of 5% from the previous year. 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 the reporting accuracy of Scheme

## Distribution of Contributions Collected from Scheme Members



## Contributions Paid by Scheme Members



## SCHEME OPERATIONS

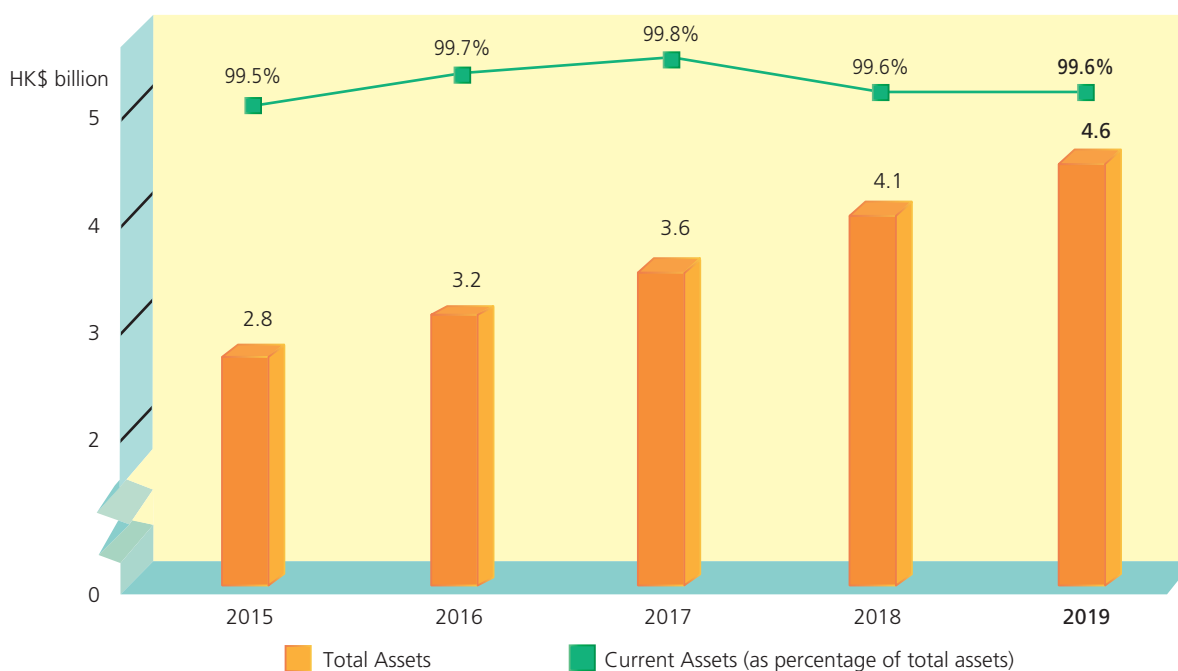
members, the Board, since 2007, has requested Scheme members to conduct regular audit reviews of their returns of relevant deposits in accordance with the policy for reviewing returns. The Board selected 19 Scheme members to submit an audit report on the accuracy of their returns in 2019. The audit results were satisfactory, and no reporting error leading to a material impact on the amount of contributions collected by the Board was noted.

### DPS Fund Investments

In view of the uncertain investment environment, the Board continued to maintain a cautious

approach by adopting a capital preservation and conservative strategy for the investment of the DPS Fund. Investments were made in strict compliance with the DPSO 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. The DPS Fund's assets were predominantly held in the form of Hong Kong dollar deposits at the end of March 2019. The DPS Fund achieved an investment return of 1.45% for the year.

### DPS Fund's Assets





## SCHEME OPERATIONS

### REINFORCING PUBLIC AWARENESS AND UNDERSTANDING OF THE SCHEME

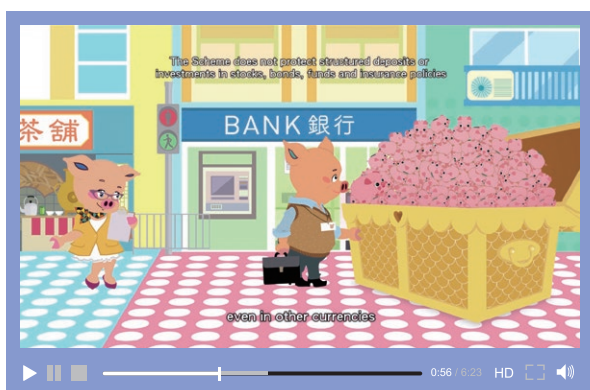
#### Overview

As public awareness and understanding are key to maintaining an effective DPS, the Board devotes intense effort to enhancing public understanding of key features of the DPS. During the year, the Board rolled out a new three-year communication strategy that has the goal of giving depositors peace of mind. As part of the strategy, the Board launched a multimedia publicity campaign centred around the creative concept of the “DPS Piggy Bank” which generated significant public interest and media attention on the DPS. The Board also engaged in a variety of community education and outreach activities to convey key messages of the DPS to specific target groups.

#### Multimedia Publicity

##### *Mass Advertising and Consumer Campaigns*

To tie in with the Year of the Pig, the Board developed a new advertising campaign using the concept of a piggy bank to resonate with the public’s perception of savings. In January 2019, the Board launched a new series of three 15-second TV commercials with animated piggy bank characters created by three famous local illustrators: Ms Theresa Lee (“13 Dots”), Mr John Chan (“Din Dong”) and Mr Nicky Sun (“Picnic by the Motorway”). The TV commercials conveyed key messages of the DPS, including the statutory protection offered to bank deposits and the automatic protection limit of up to HK\$500,000, reassuring depositors that they can save with confidence. In addition to the TV commercials, the Board placed advertisements through other channels, such as print, outdoor and digital platforms, to broaden the reach of the key messages on deposit protection.



The new series of TV commercials launched in January 2019

## SCHEME OPERATIONS

To go along with the creative concept of the “DPS Piggy Bank”, the Board also rolled out the “My Piggy Bank” roving Art Installation (Art Installation) during the Chinese New Year holiday period at Lee Tung Avenue and Hopewell Centre in Wanchai. The Art Installation featured 66 piggy bank art pieces, all of which reflected the ideas of students and local artists based on their understanding of the DPS. Moreover, visitors could obtain more detailed information on the DPS through participation in various interactive workshops and drama sessions. The Art Installation, which engaged more than 1,000 visitors in the interactive workshops and generated widespread media attention, will be held in other districts during the rest of 2019.



Professor Michael Hui, the Chairman of the Board, attended the launch ceremony of the Art Installation



Snapshots of the Art Installation



## SCHEME OPERATIONS

### Survey on Hongkongers' Savings Habits

To generate wider public interest in saving money and to reinforce the public's impression of the Board as a "Guardian of Savings", the Board conducted the first annual survey on "Hongkongers' Sense of Security on Savings" in August 2018. The objective of the survey was to understand people's saving behaviour and money management habits, and to further promote the benefits of deposit protection. The results of the survey were announced at a press briefing in October 2018, which attracted extensive media coverage.

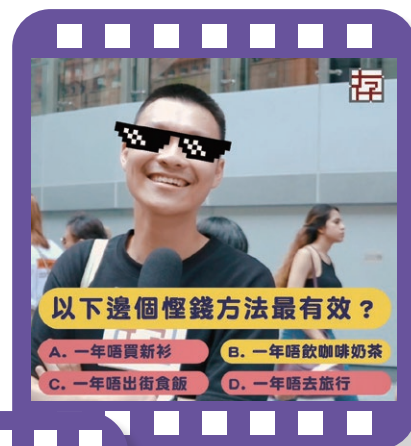
### Social Media Campaigns

In order to reach out to social media users who might not have been covered by the mass advertising programme, the Board rolled out new social media campaigns on its Facebook fanpage. During the year, the Board introduced two social media initiatives: (i) "Street Interviews", which explored the public's views and habits



Professor Michael Hui, the Chairman of the Board, at the press briefing announcing the results of the "Survey on Hongkongers' Sense of Security on Savings"

on saving; and (ii) a money-saving competition called the "Saving Piggy Challenge", with participation from local artistes. The Board produced a series of interesting short videos of the two initiatives incorporating DPS messages that were posted on the Board's Facebook fanpage.



Louisa So (蘇玉華) and Gregory Charles Rivers (河國榮) were invited to participate in the "Saving Piggy Challenge" competition



One of the interesting questions that was asked during the "Street Interviews"

## SCHEME OPERATIONS

### Community Education and Outreach

#### *Key Opinion Leaders' Sharing at DPS Talks*

The Board invited key opinion leaders Mr Shih Wing-ching (施永青), Mr Stephen Chan (陳志雲) and Ms Smile Cheung (張笑容) to share their personal saving stories at selected DPS Talks for the elderly and parents in various districts of Hong Kong. This sharing of personal saving stories was intended to promote and deepen audience members' understanding of DPS protection, and the talks were favourably received.



The DPS Talk attracted active participation from the audience



(Left to right) Mr Shih Wing-ching (施永青), Mr Stephen Chan (陳志雲) and Ms Smile Cheung (張笑容) sharing their personal saving stories at selected DPS Talks



## SCHEME OPERATIONS

### A Quick Glance at the DPS Community Education and Outreach Activities



#### 1. Board Game Activities

Organised board game activities at schools and elderly centres to introduce the DPS and the importance of saving, targeting parents, students, the elderly and the non-Chinese speaking community.

#### 2. Consumer Events and Engagement Activities

Participated in various consumer events to promote public awareness and understanding of the DPS by conducting interactive educational games, dramas and DPS Talks.

#### 3. Ambassador and Promoter Training Workshops

Conducted train-the-trainer workshops to better equip DPS ambassadors and promoters with DPS knowledge to share with their service targets (e.g. the elderly living alone), as well as their families and friends.

#### 4. DPS Talks and Seminars

Disseminated key messages of the DPS to a wide range of audiences, including the elderly, students, homemakers, new arrivals to Hong Kong, low-income groups and the non-Chinese speaking community by collaborating with different organisations.



## SCHEME OPERATIONS

### *Educational Radio Programme*

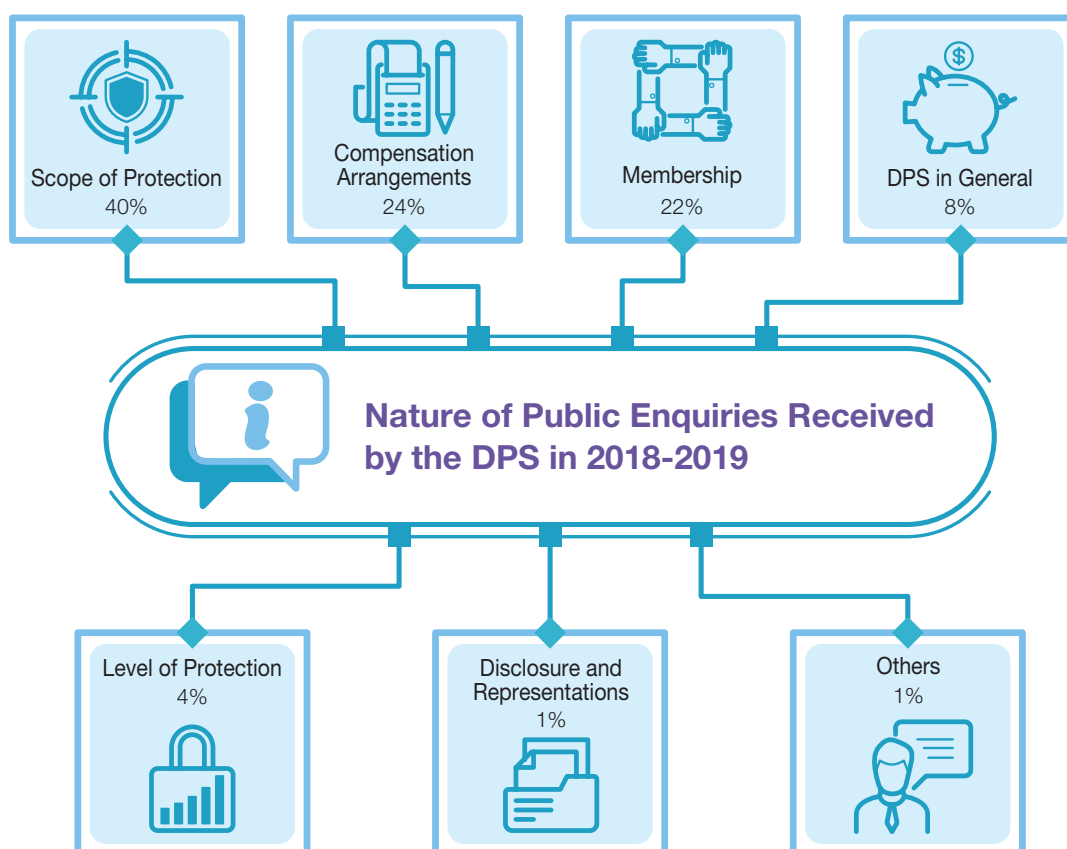
In partnership with Radio Television Hong Kong, the Board developed a year-long DPS educational radio programme comprising 12 five-minute episodes of stories about everyday life, as well as a series of 24 one-minute info-segments on interesting facts about the DPS. The radio programme enabled the Board to disseminate DPS messages to targeted audiences, including homemakers, the elderly and blue-collar workers.

### **Public Awareness and Enquiries**

The Board commissions an independent public opinion survey each year to measure the level of public awareness of the DPS. According to the results of the survey conducted in 2018, the level of public awareness of the DPS remained high at 78%, which was around the same level as the previous year. Of those aware of the DPS, 83%

knew about the HK\$500,000 protection limit and 85% realised that the protection provided by the DPS is statutory. The Board will continue to fine-tune its communication strategy based on the survey findings.

The Board also operates the DPS Public Enquiry Service, which provides a convenient and effective channel for members of the public to ask questions about different aspects of the DPS and the functions of the Board. About 40% of the enquiries received in 2018-2019 were related to the scope of protection of the DPS (including the types of financial products covered by the DPS), and about one-quarter were related to compensation arrangements (including the compensation entitlements for joint account and company account depositors).



## SCHEME OPERATIONS

### COMPLIANCE WITH THE REPRESENTATION RULES

The Deposit Protection Scheme (Representation on Scheme Membership and Protection of Financial Products under Scheme) Rules (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 2017 to 30 June 2018. 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 the necessity of follow-up actions. The results indicated that the overall compliance level was generally satisfactory, 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 share the common objective of promoting the stability of the banking system. To accomplish this, the two parties have signed a Memorandum of Understanding (MoU) that sets out how they would co-operate in the performance of their respective functions. Since the Board is required by the DPSO to perform its 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 fast DPS payout.

## SCHEME OPERATIONS

### **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 experiences on the effectiveness of overseas reform measures that may provide insights and impetus for making future enhancement to Hong Kong's DPS. To enhance mutual cooperation and information sharing, the Board engaged in an Exchange of Letters with the Deposit Insurance Corporation of Japan in August 2018. In 2018-2019, the Board's personnel took part in a number of international meetings, including:

- The 17th IADI Annual General Meeting and 2018 Annual Conference in Basel, Switzerland;
- The 16th IADI Asia-Pacific Regional Committee Annual Meeting, Regional Workshop and International Conference in Hanoi, Vietnam;
- IADI Asia-Pacific Regional Committee Technical Assistance Workshop on Dealing with Failing and Failed Member Institutions: Case Studies and Lessons Learnt, in Taipei; and
- The 11th Deposit Insurance Corporation of Japan Round Table in Tokyo, Japan.

# INDEPENDENT AUDITOR'S REPORT

## To the Hong Kong Deposit Protection Board

### OPINION

#### What 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 34 to 56, which comprises:

- the balance sheet as at 31 March 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the statement of accounts, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the statement of accounts gives a true and fair view of the financial position of the Fund as at 31 March 2019, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and have been properly prepared in compliance with the Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statement of Accounts section of our report.

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

## INDEPENDENT AUDITOR'S REPORT

### Independence

We are independent of the Hong Kong Deposit Protection Board (the Board) in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### OTHER INFORMATION

The Board is responsible for the other information. The other information comprises all of the information included in the annual report other than the statement of accounts and our independent auditor's report thereon.

Our opinion on the statement of accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the statement of accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the statement of accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF THE BOARD FOR THE STATEMENT OF ACCOUNTS

The Ordinance requires 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 HKFRS issued by the HKICPA, 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.

## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE STATEMENT OF ACCOUNTS

Our objectives are to obtain reasonable assurance about whether the statement of accounts as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the statement of accounts.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the statement of accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.



## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE STATEMENT OF ACCOUNTS *(continued)*

- Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the statement of accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the statement of accounts, including the disclosures, and whether the statement of accounts represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings (if any), including any significant deficiencies in internal control that we identify during our audit.

#### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 19 June 2019

# DEPOSIT PROTECTION SCHEME FUND – STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

|   | Note | 2019<br>HK\$       | 2018<br>HK\$       |
|---|------|--------------------|--------------------|
| <b>Income</b>   |      |                    |                    |
| Contributions   |      | 524,194,131        | 485,892,994        |
| Interest income from cash and balances with banks and the Exchange Fund |      | 59,104,904         | 8,194,331          |
| Interest income from available-for-sale securities                      | 5    | –                  | 23,105,926         |
| Net realised losses on disposal of available-for-sale securities        | 5    | –                  | (1,561,477)        |
| Exchange gains  |      | –                  | 15,671,955         |
| Other income  |      | 90,000             | 95,063             |
|   |      | <b>583,389,035</b> | <b>531,398,792</b> |
| <b>Expenditure</b>  |      |                    |                    |
| Staff costs   | 6    | 10,438,859         | 10,309,803         |
| Premises costs  |      | 5,885,483          | 5,866,687          |
| Depreciation and amortisation   |      | 2,037,686          | 3,227,788          |
| Office supplies   |      | 98,369             | 55,811             |
| Overseas travel   |      | 84,690             | 148,742            |
| Transport and travelling  |      | 3,056              | 7,108              |
| Operating expenses reimbursable to the HKMA                             | 11   | 24,719,955         | 24,250,327         |
| Hire of services  |      | 7,132,066          | 9,668,986          |
| Communications  |      | 104,380            | 160,845            |
| Publicity and printing  |      | 10,864,267         | 10,660,858         |
| Other expenses  |      | 2,714,919          | 4,697,734          |
|   |      | <b>64,083,730</b>  | <b>69,054,689</b>  |
| Surplus for the year  |      | <b>519,305,305</b> | <b>462,344,103</b> |
| Total comprehensive income for the year                                 |      | <b>519,305,305</b> | <b>462,344,103</b> |

The notes on pages 38 to 56 form part of this statement of accounts.

# DEPOSIT PROTECTION SCHEME FUND — BALANCE SHEET

As at 31 March 2019

|  | Note | 2019<br>HK\$  | 2018<br>HK\$  |
|--|------|---------------|---------------|
| Non-current assets                                 |      |               |               |
| Fixed assets                                       | 7    | 8,608,173     | 9,025,449     |
| Intangible assets                                  | 8    | 11,259,557    | 6,659,449     |
|  |      | 19,867,730    | 15,684,898    |
| Current assets                                     |      |               |               |
| Other receivables                                  | 9    | 1,189,496     | 2,873,949     |
| Cash and balances with banks and the Exchange Fund |      | 4,582,189,098 | 4,044,426,439 |
|  |      | 4,583,378,594 | 4,047,300,388 |
| Current liabilities                                |      |               |               |
| Contributions received in advance                  |      | 410,602,984   | 389,909,270   |
| Other payables                                     | 10   | 27,603,539    | 27,341,520    |
|  |      | 438,206,523   | 417,250,790   |
| Net current assets                                 |      | 4,145,172,071 | 3,630,049,598 |
| Net assets   |      | 4,165,039,801 | 3,645,734,496 |
| Represented by                                     |      |               |               |
| Accumulated surplus                                |      | 4,165,039,801 | 3,645,734,496 |
|  |      | 4,165,039,801 | 3,645,734,496 |

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 19 June 2019

**Professor Hui King-man, Michael**

Chairman

The notes on pages 38 to 56 form part of this statement of accounts.

# DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

|                             | 2019<br>HK\$  | 2018<br>HK\$  |
|-----------------------------|---------------|---------------|
| Fund balance as at 1 April  | 3,645,734,496 | 3,183,390,393 |
| Surplus for the year        | 519,305,305   | 462,344,103   |
| Fund balance as at 31 March | 4,165,039,801 | 3,645,734,496 |

The notes on pages 38 to 56 form part of this statement of accounts.

# DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

|  | 2019<br>HK\$  | 2018<br>HK\$    |
|--|---------------|-----------------|
| <b>Operating activities</b>  |               |                 |
| Surplus for the year   | 519,305,305   | 462,344,103     |
| Interest income  | (59,104,904)  | (31,300,257)    |
| Exchange gains on available-for-sale securities                                | –             | (14,000,265)    |
| Net realised losses on disposal of available-for-sale securities               | –             | 1,561,477       |
| Depreciation and amortisation  | 2,037,686     | 3,227,788       |
| Cash from operating surplus before changes in operating assets and liabilities | 462,238,087   | 421,832,846     |
| <b>Changes in operating assets and liabilities</b>                             |               |                 |
| Decrease/(increase) in other receivables                                       | 1,767,847     | (845,597)       |
| Increase in contributions received in advance                                  | 20,693,714    | 33,892,819      |
| Increase/(decrease) in other payables  | 262,019       | (682,414)       |
| Net cash from operating activities   | 484,961,667   | 454,197,654     |
| <b>Investing activities</b>  |               |                 |
| Purchase of intangible assets  | (6,220,518)   | (4,180,320)     |
| Purchase of fixed assets   | –             | (8,424,434)     |
| Interest received  | 59,021,510    | 8,108,189       |
| Purchase of available-for-sale securities                                      | –             | (2,543,475,173) |
| Proceeds from disposal of available-for-sale securities                        | –             | 2,579,019,887   |
| Net cash from investing activities   | 52,800,992    | 31,048,149      |
| Net increase in cash and cash equivalents                                      | 537,762,659   | 485,245,803     |
| Cash and cash equivalents at 1 April   | 4,044,426,439 | 3,559,180,636   |
| Cash and cash equivalents at 31 March  | 4,582,189,098 | 4,044,426,439   |
| <b>Analysis of balance of cash and cash equivalents</b>                        |               |                 |
| Cash and balances with banks and the Exchange Fund                             | 4,582,189,098 | 4,044,426,439   |

The notes on pages 38 to 56 form part of this statement of accounts.

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

## 1 PURPOSE AND ACTIVITIES

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The statement of accounts of the Fund has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Hong Kong (IFRIC) 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*

The following new standards have been adopted by the Fund for the first time for the accounting year beginning on 1 April 2018:

- HKFRS 9, Financial Instruments
- HKFRS 15, Revenue from Contracts with Customers

#### HKFRS 9: Financial Instruments

HKFRS 9, which replaces the HKAS 39, includes revised guidance on the classification and measurement of financial instruments; more timely recognition of expected credit loss (ECL) of financial assets; and introduces revised requirements for general hedge accounting. HKFRS 9 has been applied retrospectively by the Fund and did not result in a change to the classification and measurement of financial instruments as outlined in note 2(f).

Also, there was no material impact on adoption from the application of the new impairment methodology.

The details of major changes to the accounting policies from the implementation of HKFRS 9 are covered in Note 2(f).

#### HKFRS 15: Revenue from Contracts with Customers

From 1 January 2018, HKFRS 15 replaced the existing revenue recognition guidance and established a comprehensive framework for determining whether, how much and when revenue is recognised. Revenue is recognised when a performance obligation is satisfied, which could either be at a point in time or when the obligation is satisfied over time.

Management has assessed the impact of the new standard and considered that there is no significant effect on these financial statements.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

#### (ii) *New and amended standards have been issued but are not effective for the financial year beginning 1 April 2019 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 16: Leases

HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It will supersede HKAS 17 related to leases. The new standard is mandatory for financial years beginning on or after 1 January 2019.

It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability. The right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease. In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17.

HKFRS 16 will primarily affect the Fund's accounting as a lessee of leases for premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the income and expenditure account over the period of the leases. As disclosed in note 12, the Fund has non-cancellable operating leases commitments of approximately HK\$8 million as at 31 March 2019.

The Fund has made an assessment of the impact of this new standard and will apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Management has quantified the financial impact of HKFRS 16 and expects that the standard will not have, when applied, material impacts on the financial statements.

## 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.

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

## 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:

|   | <b>Years</b> |
|---|--------------|
| 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 1 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 into different categories for determining the subsequent measurement methods, on the basis of both the Fund's business model for managing the assets and the contractual cash flow characteristics of the assets. Management determines the classification of its financial assets at initial recognition. The Fund reclassifies a financial asset when and only when it changes its business model for managing the asset.

#### (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.

If collection of loans and other receivables is expected in 1 year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

#### (ii) Other financial assets

Other financial assets are non-derivatives that are measured at amortised cost. This category includes investment instruments that are specified under section 21 of the Ordinance.

#### *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. Loans and receivables and other financial assets are subsequently carried at amortised cost using the effective interest method (net of any impairment loss allowance).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) Financial assets *(continued)*

#### *Impairment of financial assets*

The Fund applies a three-stage approach to measure ECLs and impairment losses or reversals, for financial instruments that are not measured at fair value through profit or loss.

The change in credit risk since initial recognition determines the measurement bases for ECLs:

#### Stage 1: 12-month ECLs

For financial instruments for which there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECLs that represent the ECLs that result from default events that are possible within the 12 months after the reporting period are recognised.

#### Stage 2: Lifetime ECLs – not credit impaired

For financial instruments for which there has been a significant increase in credit risk since initial recognition but that are not credit impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial instrument are recognised.

#### Stage 3: Lifetime ECLs – credit impaired

For financial instruments that have become credit impaired, lifetime ECLs are recognised and interest income is calculated by applying the effective interest rate to the amortised cost (net of loss allowance) rather than the gross carrying amount.

#### Determining the stage for impairment

At each reporting date, the Fund assesses whether there has been a significant increase in credit risk for financial instruments since initial recognition by comparing the risk of default occurring over the remaining expected life as at the reporting date with that as at the date of initial recognition. For this purpose, the date of initial recognition of loan commitments is the date that the Fund becomes a party to the irrevocable commitment. The assessment considers quantitative and qualitative information as well as forward-looking information. A financial asset is assessed to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.



## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) Financial assets *(continued)*

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

##### Determining the stage for impairment *(continued)*

The Fund assesses whether there has been a significant increase in credit risk since initial recognition on an individual or collective basis. For collective assessment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account investment type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the counterparty or borrower and other relevant factors.

Debt investments with an external credit rating of investment grade are considered to have a low credit risk. Other financial instruments are considered to have a low credit risk if they have a low risk of default and the counterparty or borrower has a strong capacity to meet its contractual cash flow obligations in the near term. The credit risk on these financial instruments is assessed as not having increased significantly since initial recognition.

For a financial asset with lifetime ECLs recognised in the previous reporting period, if its credit quality improves and reverses the previously assessed significant increase in credit risk, then the loss allowance reverts from lifetime ECLs to 12-month ECLs.

When a financial asset is uncollectible, it is written off against the related loss allowance. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the statement of comprehensive income.

##### Measurement of ECLs

ECLs of a financial instrument are an unbiased and probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A credit loss is the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. For a financial asset that is credit impaired at the reporting date, the Fund measures the ECLs as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (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) Cash and cash equivalents

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

### (i) Other payables

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

Other payables are classified as current liabilities if payment is due within 1 year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (j) Translation of foreign currencies

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

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

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

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

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.

### (k) Operating leases

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (l) Provisions and contingent liabilities

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

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

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

### (m) Employee benefits

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

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

#### (ii) *Pension obligations*

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

### (n) Related parties

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

## 3 RISK MANAGEMENT

### (a) Governance

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

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

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

- makes recommendations on the investment policy and strategy in respect of the Fund;
- monitors the investment performance of the Fund and establishes proper risk management controls for the investment activities of the Board; and
- works on any other investment-related 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 limits versus exposures are regularly submitted to the Investment Committee for control purpose.

### (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.

## 3 RISK MANAGEMENT *(continued)*

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

#### *Market risk (continued)*

(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 currency 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.

#### *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.

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

## 3 RISK MANAGEMENT *(continued)*

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

#### *Credit risk (continued)*

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. Management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. 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.

## 4 TAXATION

No provision for Hong Kong Profits Tax for 2019 and 2018 have 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

In 2018, the Fund purchased and disposed of the US Treasury Bills resulting in interest income of HK\$23,105,926, exchange gain of HK\$14,000,265 and net realised losses on disposal of available-for-sale securities of HK\$1,561,477 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\$35,544,714 in 2018.

In 2019, there was no such income arising from purchase or disposal of US Treasury Bills.

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

## 6 STAFF COSTS

|                         | 2019<br>HK\$      | 2018<br>HK\$      |
|-------------------------|-------------------|-------------------|
| Salaries                | 9,522,670         | 9,205,353         |
| Gratuity                | 8,768             | 196,484           |
| Other employee benefits | 907,421           | 907,966           |
|                         | <b>10,438,859</b> | <b>10,309,803</b> |

## 7 FIXED ASSETS

|                                 | Office<br>equipment,<br>furniture and<br>fixtures<br>HK\$ | Computer<br>hardware/<br>software<br>HK\$ | Total<br>HK\$ |
|---------------------------------|---|---|---------------|
| <b>Cost</b>                     |   |   |               |
| As at 1 April 2018              | 1,647,992   | 25,158,820                                | 26,806,812    |
| Additions                       | –   | –   | –             |
| As at 31 March 2019             | 1,647,992   | 25,158,820                                | 26,806,812    |
| <b>Accumulated depreciation</b> |   |   |               |
| As at 1 April 2018              | 1,545,414   | 16,235,949                                | 17,781,363    |
| Charge for the year             | 42,543  | 374,733                                   | 417,276       |
| As at 31 March 2019             | 1,587,957   | 16,610,682                                | 18,198,639    |
| <b>Net book value</b>           |   |   |               |
| As at 31 March 2019             | 60,035  | 8,548,138                                 | 8,608,173     |
| As at 31 March 2018             | 102,578   | 8,922,871                                 | 9,025,449     |

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

## 8 INTANGIBLE ASSETS

|                                 | <b>Development<br/>costs of<br/>Payout<br/>System<br/>HK\$</b> |
|---------------------------------|--|
| <b>Cost</b>                     |  |
| As at 1 April 2018              | 34,885,758   |
| Additions                       | 6,220,518  |
| <hr/>                           |  |
| As at 31 March 2019             | 41,106,276   |
| <hr/>                           |  |
| <b>Accumulated amortisation</b> |  |
| As at 1 April 2018              | 28,226,309   |
| Charge for the year             | 1,620,410  |
| <hr/>                           |  |
| As at 31 March 2019             | 29,846,719   |
| <hr/>                           |  |
| <b>Net book value</b>           |  |
| As at 31 March 2019             | 11,259,557   |
| <hr/>                           |  |
| As at 31 March 2018             | 6,659,449  |
| <hr/>                           |  |

## 9 OTHER RECEIVABLES

|                      | <b>2019<br/>HK\$</b> | 2018<br>HK\$ |
|----------------------|----------------------|--------------|
| Prepayment           | 926,296              | 2,215,962    |
| Interest receivables | 200,700              | 117,306      |
| Others               | 62,500               | 540,681      |
| <hr/>                |                      |              |
|                      | <b>1,189,496</b>     | 2,873,949    |
| <hr/>                |                      |              |



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

### 10 OTHER PAYABLES

|                  | Note | 2019<br>HK\$      | 2018<br>HK\$      |
|------------------|------|-------------------|-------------------|
| Hire of services | (a)  | 25,352,840        | 25,065,796        |
| Staff expenses   |      | 1,105,875         | 1,369,834         |
| Others           |      | 1,144,824         | 905,890           |
|                  |      | <b>27,603,539</b> | <b>27,341,520</b> |

(a) This amount includes operating expenses of HK\$24,719,955 (2018: HK\$24,250,327) reimbursed to the Hong Kong Monetary Authority (HKMA).

### 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 HKMA has assigned a team of staff to assist the Board in discharging its functions. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer of the Board. The HKMA also supports the Board on aspects such as accounting, administration, human resources, and information technology.

The related party transactions with the HKMA are as follows:

|  | Note | 2019<br>HK\$  | 2018<br>HK\$  |
|--|------|---------------|---------------|
| Aggregate amounts outstanding at the year end        |      |               |               |
| Balances with the Exchange Fund                      | (a)  | 4,578,468,535 | 4,039,314,656 |
| Transactions during the year                         |      |               |               |
| Interest income from balances with the Exchange Fund | (a)  | 59,104,453    | 8,193,999     |
| Operating expenses reimbursed to the HKMA            | (b)  | 24,719,955    | 24,250,327    |

# 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\$4,578,468,535 (2018: HK\$4,039,314,656) and earned interest amounting to HK\$59,104,453 (2018: HK\$8,193,999) 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 (2018: HK\$120 billion) of which nil (2018: 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:

|   | 2019<br>HK\$     | 2018<br>HK\$      |
|---|------------------|-------------------|
| No later than 1 year                        | 5,168,100        | 5,168,100         |
| Later than 1 year and no later than 5 years | 2,778,548        | 7,946,648         |
|   | <b>7,946,648</b> | <b>13,114,748</b> |

## 13 APPROVAL OF STATEMENT OF ACCOUNTS

The statement of accounts was approved by the Board on 19 June 2019.

## ANNEX : LIST OF SCHEME MEMBERS AT 31 MARCH 2019

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

## ANNEX : LIST OF SCHEME MEMBERS AT 31 MARCH 2019

|   |  |
|---|--|
| CHINA CONSTRUCTION BANK (ASIA)<br>CORPORATION LIMITED | CTBC BANK CO., LTD.  |
| CHINA CONSTRUCTION BANK<br>CORPORATION                | DAH SING BANK, LIMITED   |
| CHINA DEVELOPMENT BANK                                | DBS BANK (HONG KONG) LIMITED   |
| CHINA EVERBRIGHT BANK CO., LTD.                       | DBS BANK LTD.  |
| CHINA MERCHANTS BANK CO., LTD.                        | DZ BANK AG DEUTSCHE<br>ZENTRAL-GENOSSENSCHAFTSBANK,<br>FRANKFURT AM MAIN |
| CHINA MINSHENG BANKING CORP., LTD.                    | E.SUN COMMERCIAL BANK, LTD.  |
| CHINA ZHESHANG BANK CO., LTD.                         | EAST WEST BANK   |
| CHIYU BANKING CORPORATION LIMITED                     | EFG BANK AG  |
| CHONG HING BANK LIMITED                               | ERSTE GROUP BANK AG  |
| CHUGOKU BANK, LTD. (THE)                              | FAR EASTERN INTERNATIONAL BANK   |
| CIMB BANK BERHAD                                      | FIRST ABU DHABI BANK PJSC  |
| CITIBANK (HONG KONG) LIMITED                          | FIRST COMMERCIAL BANK, LTD.  |
| CITIBANK, N.A.  | FUBON BANK (HONG KONG) LIMITED   |
| CMB WING LUNG BANK LIMITED                            | HACHIJUNI BANK, LTD. (THE)   |
| COMMONWEALTH BANK OF AUSTRALIA                        | HANG SENG BANK, LIMITED  |
| COÖPERATIEVE RABOBANK U.A.                            | HDFC BANK LIMITED  |
| COUTTS & CO AG  | HONG LEONG BANK BERHAD   |
| CREDIT AGRICOLE CORPORATE AND<br>INVESTMENT BANK      | HONGKONG AND SHANGHAI BANKING<br>CORPORATION LIMITED (THE)               |
| CREDIT INDUSTRIEL ET COMMERCIAL                       | HSBC BANK PLC  |
| CREDIT SUISSE AG                                      | HSBC BANK USA, NATIONAL<br>ASSOCIATION                                   |

## ANNEX : LIST OF SCHEME MEMBERS AT 31 MARCH 2019

|   |   |
|---|---|
| HSBC PRIVATE BANK (SUISSE) SA                             | MASHREQ BANK – PUBLIC<br>SHAREHOLDING COMPANY   |
| HUA NAN COMMERCIAL BANK, LTD.                             |   |
| ICBC STANDARD BANK PLC                                    | MEGA INTERNATIONAL COMMERCIAL<br>BANK CO., LTD. |
| ICICI BANK LIMITED  | MELLI BANK PLC                                  |
| INDIAN OVERSEAS BANK                                      | MITSUBISHI UFJ TRUST AND BANKING<br>CORPORATION |
| INDUSTRIAL AND COMMERCIAL BANK OF<br>CHINA (ASIA) LIMITED | MIZUHO BANK, LTD.                               |
| INDUSTRIAL AND COMMERCIAL BANK OF<br>CHINA LIMITED        | MUFG BANK, LTD.                                 |
| INDUSTRIAL BANK CO., LTD.                                 | NANYANG COMMERCIAL BANK, LIMITED                |
| INDUSTRIAL BANK OF KOREA                                  | NATIONAL AUSTRALIA BANK LIMITED                 |
| ING BANK N.V.   | NATIONAL BANK OF PAKISTAN                       |
| INTESA SANPAOLO SPA                                       | NATIXIS   |
| JPMORGAN CHASE BANK, NATIONAL<br>ASSOCIATION              | NATWEST MARKETS N.V.                            |
| KBC BANK N.V.   | NATWEST MARKETS PLC                             |
| KEB HANA BANK   | O-BANK CO., LTD.                                |
| KOOKMIN BANK  | OCBC WING HANG BANK LIMITED                     |
| LAND BANK OF TAIWAN CO., LTD.                             | OVERSEA-CHINESE BANKING<br>CORPORATION LIMITED  |
| LGT BANK AG   | PHILIPPINE NATIONAL BANK                        |
| LIVI VB LIMITED   | PICTET & CIE (EUROPE) S.A.                      |
| MACQUARIE BANK LIMITED                                    | PT. BANK NEGARA INDONESIA (PERSERO)<br>TBK.     |
| MALAYAN BANKING BERHAD                                    | PUBLIC BANK (HONG KONG) LIMITED                 |



## ANNEX : LIST OF SCHEME MEMBERS AT 31 MARCH 2019

|   |   |
|---|---|
| PUNJAB NATIONAL BANK                              | TAI SANG BANK LIMITED                         |
| ROYAL BANK OF CANADA                              | TAI YAU BANK, LIMITED                         |
| SC DIGITAL SOLUTIONS LIMITED                      | TAIPEI FUBON COMMERCIAL BANK<br>CO., LTD.     |
| SHANGHAI COMMERCIAL & SAVINGS<br>BANK, LTD. (THE) | TAISHIN INTERNATIONAL BANK CO., LTD           |
| SHANGHAI COMMERCIAL BANK LIMITED                  | TAIWAN BUSINESS BANK, LTD.                    |
| SHANGHAI PUDONG DEVELOPMENT<br>BANK CO., LTD.     | TAIWAN COOPERATIVE BANK, LTD.                 |
| SHIGA BANK, LTD. (THE)                            | TAIWAN SHIN KONG COMMERCIAL BANK<br>CO., LTD. |
| SHINHAN BANK                                      | TORONTO-DOMINION BANK                         |
| SHIZUOKA BANK, LTD. (THE)                         | UBS AG  |
| SKANDINAVISKA ENSKILDA BANKEN AB                  | UCO BANK                                      |
| SOCIETE GENERALE                                  | UNION BANCAIRE PRIVÉE, UBP SA                 |
| STANDARD CHARTERED BANK                           | UNION BANK OF INDIA                           |
| STANDARD CHARTERED BANK<br>(HONG KONG) LIMITED    | UNITED OVERSEAS BANK LTD.                     |
| STATE BANK OF INDIA                               | WELLS FARGO BANK, NATIONAL<br>ASSOCIATION     |
| STATE STREET BANK AND TRUST<br>COMPANY            | WESTPAC BANKING CORPORATION                   |
| SUMITOMO MITSUI BANKING<br>CORPORATION            | WOORI BANK                                    |
| SUMITOMO MITSUI TRUST BANK, LIMITED               | YUANTA COMMERCIAL BANK CO., LTD               |
| SVENSKA HANDELSBANKEN AB (PUBL)                   | ZHONGAN VIRTUAL FINANCE LIMITED               |