

## INDEPENDENT AUDITOR'S REPORT

### TO THE HONG KONG DEPOSIT PROTECTION BOARD

We have audited the statement of accounts of the Deposit Protection Scheme Fund (the "Fund") established under section 14 of the Deposit Protection Scheme Ordinance (the "Ordinance") set out on pages 43 to 62, which comprises the balance sheet as at 31 March 2011, and the income and expenditure account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### THE BOARD'S RESPONSIBILITY FOR THE STATEMENT OF ACCOUNTS

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

### AUDITOR'S RESPONSIBILITY

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

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

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

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



## INDEPENDENT AUDITOR'S REPORT

### OPINION

In our opinion, the statement of accounts gives a true and fair view of the state of the Fund's affairs as at 31 March 2011, and of the surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and has been properly prepared in accordance with the Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 20 June 2011



## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

	Note	2011	2010
<b>Income</b>			
Contributions		\$ 364,747,541	\$ 349,009,372
Interest income from cash and balances with bank and the Exchange Fund		566,890	129,221
Interest income from available-for-sale securities		4,538,535	4,055,271
Exchange gains		3,781,251	1,173,808
Realised gains from the disposal of available-for-sale securities		287,111	–
Other income		62,268	60,000
		\$ 373,983,596	\$ 354,427,672
<b>Expenditure</b>			
Staff costs	5	\$ 5,385,949	\$ 5,756,941
Premises costs		3,442,548	2,748,909
Depreciation and amortisation		5,629,275	5,066,164
Office supplies		76,364	70,751
Overseas travel		91,761	190,565
Transport and travelling		2,751	2,961
Operating expenses reimbursable to the HKMA		16,044,004	18,188,716
Hire of services		9,296,743	11,111,009
Communications		93,971	94,990
Printing and publicity		27,985,866	19,209,647
Other expenses		3,309,492	3,077,655
		\$ 71,358,724	\$ 65,518,308
<b>Surplus for the year</b>		<b>\$ 302,624,872</b>	<b>\$ 288,909,364</b>



## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

	2011	2010
Surplus for the year	\$ 302,624,872	\$ 288,909,364
Other comprehensive income		
Change in fair value of available-for-sale securities	–	(36,345)
Disposal of available-for-sale securities	(42,610)	–
<b>Total comprehensive income for the year</b>	<b>\$ 302,582,262</b>	<b>\$ 288,873,019</b>



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND BALANCE SHEET

as at 31 March 2011

(Expressed in Hong Kong dollars)

	Note	2011	2010
Non-current assets			
Fixed assets	6	\$ 3,257,517	\$ 5,089,008
Intangible assets	7	7,889,721	10,218,095
		\$ 11,147,238	\$ 15,307,103
Current assets			
Other receivables	8	\$ 1,131,276	\$ 1,284,186
Available-for-sale securities	9	–	782,565,686
Cash and balances with bank and the Exchange Fund	11	1,535,871,789	484,736,196
		\$ 1,537,003,065	\$ 1,268,586,068
Current liabilities			
Contributions received in advance		\$ 245,957,023	\$ 282,639,918
Other payables	10	20,486,363	22,128,598
		\$ 266,443,386	\$ 304,768,516
<b>Net current assets</b>		<b>\$ 1,270,559,679</b>	<b>\$ 963,817,552</b>
<b>Net assets</b>		<b>\$ 1,281,706,917</b>	<b>\$ 979,124,655</b>
Represented by			
Accumulated surplus		\$ 1,281,706,917	\$ 979,082,045
Investment revaluation reserve		–	42,610
		\$ 1,281,706,917	\$ 979,124,655

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 20 June 2011.

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



## STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

	2011	2010
Fund balance as at 1 April	\$ 979,124,655	\$ 690,251,636
Surplus for the year	302,624,872	288,909,364
Change in fair value of available-for-sale securities	–	(36,345)
Disposal of available-for-sale securities	(42,610)	–
Fund balance as at 31 March	<u>\$1,281,706,917</u>	<u>\$ 979,124,655</u>



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## CASH FLOW STATEMENT

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

	2011	2010
Operating activities		
Surplus for the year	\$ 302,624,872	\$ 288,909,364
Interest income	(5,105,425)	(4,184,492)
Exchange gains	(3,781,251)	(1,173,808)
Net realised gains	(287,111)	–
Depreciation and amortisation	5,629,275	5,066,164
Cash inflow from operating surplus before changes in operating assets and liabilities	\$ 299,080,360	\$ 288,617,228
Changes in operating assets and liabilities		
Increase/(Decrease) in other receivables	\$ 152,910	\$ (408,223)
(Decrease)/Increase in contributions received in advance	(36,682,895)	27,874,861
Decrease in other payables	(1,642,235)	(458,095,700)
Net cash inflow/(outflow) from operating activities	\$ 260,908,140	\$ (142,011,834)
Investing activities		
Purchase of intangible assets	\$ (1,424,320)	\$ (2,612,000)
Purchase of fixed assets	(45,090)	(650,341)
Interest received	566,890	129,221
Purchase of available-for-sale securities	(1,103,871,358)	(826,574,218)
Proceeds from disposal and redemption of available-for-sale securities	1,895,001,331	824,931,333
Net cash inflow/(outflow) from investing activities	\$ 790,227,453	\$ (4,776,005)
Net increase/(decrease) in cash and cash equivalents	\$1,051,135,593	\$ (146,787,839)
Cash and cash equivalents at 1 April	484,736,196	631,524,035
Cash and cash equivalents at 31 March	\$1,535,871,789	\$ 484,736,196
Analysis of balance of cash and cash equivalents		
Cash and balances with bank and the Exchange Fund	\$1,535,871,789	\$ 484,736,196



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

### 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"). 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.

During the year, all the necessary legislative amendments were completed for giving effect to the recommendations as concluded from the review of the DPS in 2009. The enhanced DPS providing a higher protection limit of HK\$500,000 per depositor per bank and expanding the coverage to include deposits pledged as security for banking services came into operation on 1 January 2011. In respect of the amount of relevant deposits for contribution assessment purposes, the Scheme members were allowed to report on a net deposit basis (i.e. after deducting the liabilities of depositors to Scheme members from their relevant deposits) and the annual contribution rates of Scheme members were cut by 65% across the board.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

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

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) Standards, amendments and interpretations effective in 2010 which are relevant to the Fund

HKAS 1 (Amendment) "Presentation of financial statements" and  
HKAS 38 (Amendment) "Intangible Assets"

These amendments and revisions result in additional disclosures and revisions on presentation of financial statements. They do not otherwise have any impact on the Fund's statement of accounts.

#### (ii) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Fund

The Fund has chosen not to early adopt the following new and revised HKFRSs which have been issued but are not yet effective. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

HKAS 24 (Revised) "Related party disclosures" and  
HKFRS 9 "Financial instruments"

Other new accounting standards, amendments and interpretations to existing standards have been published that are not yet effective and interpretations are either not relevant to the Fund's operations or are not expected to have material effect on the Fund's accounting policies and disclosure.

### (b) Revenue recognition

Revenue is recognised in the income and expenditure account 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 income and expenditure account using the effective interest method.



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

### 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

#### (c) Expenses

All expenses are recognised in the income and expenditure account on an accrual basis.

#### (d) Fixed assets

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

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

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 income and expenditure account 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.



## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Financial assets

#### (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 and for which the Fund has no intention of trading.

#### (ii) Available-for-sale securities

The Fund classifies its investments in debt securities as available-for-sale securities. Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices.

Purchases and disposal of available-for-sale securities are recognised on the trade-date – the date on which the Fund commits to purchase or dispose of the securities. They are initially recognised at fair value plus transaction costs and subsequently held at fair value.

Unrealised gains and losses arising from changes in the fair value are recognised directly in reserve, until the available-for-sale securities are derecognised or impaired at which time the cumulative gain or loss previously recognised in the reserve should be recognised in the income and expenditure account. However, interest calculated using the effective interest method is recognised in the income and expenditure account.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in the income and expenditure account. Other changes in the carrying amount are recognized in reserve.

When the available-for-sale securities are disposed, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the reserve are treated as gains or losses on disposal in the income and expenditure account.



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

### 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (f) Fair value measurement principles

The fair value of quoted investments in active markets is based on current bid prices. If the market for a financial asset is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants.

#### (g) Intangible assets

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

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

#### (h) Impairment of financial assets

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

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

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



## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Cash and cash equivalents

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

### (j) Other payables

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

### (k) Translation of foreign currencies

#### (i) Functional and presentation currency

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

#### (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 income and expenditure account.

### (l) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income and expenditure account 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.



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

### 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (m) Provisions and contingent liabilities

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

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

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

#### (n) Employee benefits

##### (i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are recognised when the absence occurs.

##### (ii) Pension obligations

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

#### (o) Related parties

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



### 3 RISK MANAGEMENT

#### (a) Governance

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

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

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

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

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

#### (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.



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

### 3 RISK MANAGEMENT *(continued)*

#### (b) Investment management and control *(continued)*

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

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

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

#### (c) Financial risk management

##### Market risk

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

##### (i) Interest rate risk

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

##### (ii) Currency risk

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



### 3 RISK MANAGEMENT *(continued)*

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

##### 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.

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

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

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



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

### 3 RISK MANAGEMENT *(continued)*

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

##### Fair value of financial assets and financial liabilities *(continued)*

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

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

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

##### (ii) Other receivables

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

##### (iii) Other payables

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

##### (iv) Fair value hierarchy

HKFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Available-for-sale securities are measured at fair values which are based on quoted market prices in active markets and therefore classified as Level 1 of the fair value hierarchy. The Fund has no financial instruments measured at fair value which are classified as Level 2 or Level 3 of the fair value hierarchy.



## 4 TAXATION

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

## 5 STAFF COSTS

	2011	2010
Salaries	\$ 4,968,960	\$ 5,109,474
Gratuity	71,612	428,927
Other employee benefits	345,377	218,540
	<u>\$ 5,385,949</u>	<u>\$ 5,756,941</u>

## 6 FIXED ASSETS

	Office equipment, furniture and fixtures	Computer hardware/ software	Total
<b>Cost</b>			
As at 1 April 2010	\$ 1,032,294	\$ 8,448,127	\$ 9,480,421
Additions	29,800	15,290	45,090
As at 31 March 2011	<u>\$ 1,062,094</u>	<u>\$ 8,463,417</u>	<u>\$ 9,525,511</u>
<b>Accumulated depreciation</b>			
As at 1 April 2010	\$ 676,602	\$ 3,714,811	\$ 4,391,413
Charge for the year	202,562	1,674,019	1,876,581
As at 31 March 2011	<u>\$ 879,164</u>	<u>\$ 5,388,830</u>	<u>\$ 6,267,994</u>
<b>Net book value</b>			
As at 31 March 2011	<u>\$ 182,930</u>	<u>\$ 3,074,587</u>	<u>\$ 3,257,517</u>
As at 31 March 2010	<u>\$ 355,692</u>	<u>\$ 4,733,316</u>	<u>\$ 5,089,008</u>



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

### 7 INTANGIBLE ASSETS

	Development costs of Payout System
<b>Cost</b>	
As at 1 April 2010	\$ 18,535,056
Additions	1,424,320
	<hr/>
As at 31 March 2011	\$ 19,959,376
	<hr/> <hr/>
<b>Accumulated amortization</b>	
As at 1 April 2010	\$ 8,316,961
Charge for the year	3,752,694
	<hr/>
As at 31 March 2011	\$ 12,069,655
	<hr/> <hr/>
<b>Net book value</b>	
As at 31 March 2011	\$ 7,889,721
	<hr/> <hr/>
As at 31 March 2010	\$ 10,218,095
	<hr/> <hr/>

### 8 OTHER RECEIVABLES

	2011	2010
Prepayment	\$ 1,056,497	\$ 1,230,864
Interest receivables	10,049	36,822
Others	64,730	16,500
	<hr/>	<hr/>
	\$ 1,131,276	\$ 1,284,186
	<hr/> <hr/>	<hr/> <hr/>

### 9 AVAILABLE-FOR-SALE SECURITIES

	2011	2010
Debt securities:		
– Unlisted US Treasury Bills	\$ –	\$ 782,565,686
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>



## 10 OTHER PAYABLES

		2011	2010
Hire of services	(a)	\$ 18,847,606	\$ 20,621,810
Staff expenses		133,962	530,072
Others		1,504,795	976,716
		<u>\$ 20,486,363</u>	<u>\$ 22,128,598</u>

- (a) This amount includes operating expenses reimbursed to the HKMA HK\$16,044,004 (2010: HK\$18,188,716), services fee for payout rehearsal HK\$1,863,840 (2010: HK\$2,293,094) and fees for other hire of services HK\$939,762 (2010: HK\$140,000).

## 11 MATERIAL RELATED PARTY TRANSACTIONS

Pursuant to section 6 of the Ordinance, the Board shall perform its functions through the MA unless indicated otherwise by the Financial Secretary. The Hong Kong Monetary Authority ("HKMA") has assigned a team of staff to assist the Board in discharging its functions. The team is headed by 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	2011	2010
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund	(a)	<u>\$1,528,322,621</u>	<u>\$ 121,014,292</u>
Transactions during the year			
Interest income from balances with the Exchange Fund	(a)	558,493	91,908
Operating expenses reimbursed to the HKMA	(b)	<u>\$ 16,044,004</u>	<u>\$ 18,188,716</u>



# STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

## NOTES TO THE STATEMENT OF ACCOUNTS

for the year ended 31 March 2011

(Expressed in Hong Kong dollars)

### 11 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

- (a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$1,528,322,621 (2010: HK\$121,014,292) and earned interest amounting to HK\$558,493 (2010: HK\$91,908) 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.
- (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 (2010: HK\$40 billion) of which nil (2010: nil) was drawn during the year.

### 12 APPROVAL OF STATEMENT OF ACCOUNTS

The statement of accounts was approved by the Board on 20 June 2011.

