



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

Annual Report | 2013-2014



HONG KONG DEPOSIT PROTECTION BOARD

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

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

Hong Kong Deposit Protection Board

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Special acknowledgement for the featured photos of birds generously provided by Mr C S Ng.

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DEPOSIT PROTECTION SCHEME AT A GLANCE

- The Deposit Protection Scheme (DPS) is a statutory scheme established to protect bank depositors. All licensed banks, unless otherwise exempted by the Board, are required to participate in the DPS as a Scheme member. All Scheme members display a membership sign prominently at their places of business.
- The DPS protects deposits up to a limit of HK\$500,000 per depositor per Scheme member.
- Eligible deposits held with Scheme members are automatically protected by the DPS. Depositors are not required to apply or pay for protection or compensation.
- Deposits denominated in Hong Kong dollar, renminbi or any other currencies are protected.
- The DPS does not protect term deposits with a maturity longer than five years, structured deposits, bearer instruments, offshore deposits and non-deposit products such as bonds, stocks, warrants, mutual funds, unit trusts and insurance policies.
- A depositor's entitlement to compensation will be calculated on a net basis, that is, the liability of the depositor to a Scheme member will be deducted from the protected deposits he or she maintains with the Scheme member in determining compensation.
- A Deposit Protection Scheme Fund (DPS Fund) is being built up through collecting contributions from Scheme members. The target fund size is 0.25% of the total amount of protected deposits held with all Scheme members, or approximately HK\$4.1 billion.
- Contributions payable by Scheme members for building up the DPS Fund are assessed on a differential premium basis. Assessment is made annually with reference to the supervisory rating of each Scheme member.



MAJOR ACHIEVEMENTS IN 2013–2014

BETTER DEPOSIT PROTECTION

- The DPS was assessed by the Financial Sector Assessment Program (FSAP) of the International Monetary Fund (IMF) as a transparent and trusted deposit protection scheme.
- The Board completed a comprehensive review of the DPS and identified key areas that can enhance the robustness of the Scheme through speedy payouts.
- Participated in the design of the resolution regime in Hong Kong, in order to enable the DPS to function effectively within the overall financial safety net.

IN FULL READINESS TO PAYOUTS

- Enhanced deposit information submission requirements with a view to improving the quality of deposit records maintained by Scheme members to enable speedy submission of such information when there is a bank failure.
- Concluded a cooperation agreement with the Hong Kong Monetary Authority (HKMA) concerning implementation of an early warning system to help prepare for payouts.
- Established a more-comprehensive contingency plan and increased the capacity of payout infrastructure and external resource to be ready to respond faster and more effectively to banking crisis involving different scenarios.

INCREASING PUBLIC AWARENESS AND CONFIDENCE

- Launched innovative publicity and public education campaigns leveraging on the popular “bun” theme, in order to enhance the public’s awareness and understanding of the DPS.
- Maintained the public’s confidence in the banking system by sustaining awareness of the DPS at a high level.

SUFFICIENT FUNDING

- Collected contributions totalling HK\$388 million from Scheme members, raising the DPS Fund’s total assets to HK\$2.4 billion at the end of March 2014.
- Adhered to the DPS Fund’s main investment objectives of capital preservation and abundant liquidity, and managed to achieve a positive investment return despite low interest rates and an uncertain investment environment.

MESSAGE FROM THE CHAIRPERSON



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

In reflecting on the work and the challenge ahead in this Year of the Horse, the attributes of the Horse come readily to mind: energetic and productive, quick and reliable, friendly and outreaching. These fine qualities aptly characterise our accomplishments of the year 2013-14 under review, and areas of priority in our drive to continually strengthen the Deposit Protection Scheme (DPS) in Hong Kong.

A good deal of our energy was applied, productively, on a comprehensive internal review of the DPS to ensure Hong Kong stays abreast of global developments and is consistent with international best practices and standards in depositor protection. Towards the end of 2013, we also had our DPS establishment assessed within the intensive Financial Sector Assessment Program (FSAP) led by the International Monetary Fund. These timely reviews are important for us to look into the latest international reform trend with lessons learnt from the recent financial crisis. The FSAP assessment result is encouraging as the DPS is identified as “transparent and trusted”.

Some FSAP suggestions on the way forward reaffirm the enhancement proposals arising from our internal review. For example, the proposed adoption of gross payout to further enhance the robustness of the scheme and the formalisation of the early warning mechanism. The gross payout enhancement would entail

simplification and re-engineer the whole payout process to shorten the time for more expeditious payout such that it can be as quick and reliable as possible. The Board and the Hong Kong Monetary Authority (HKMA) have identified a number of early warning indicators that will better enable the banking regulator to give sufficient advance notification to the Board for its early commencement of preparation for a potential payout. A formal mechanism is now being put in place.

We have also made considerable strides in other areas such as information system guidelines and greater payout capacity. Amendments to the existing guidelines and enhancements to compliance surveillance were introduced to improve the quality of deposit records maintained by Scheme member banks. Furthermore, the information submission timeframe by members in the event of bank failure was tightened to allow the Board to kick start the diligent verification work at an earlier stage. The Board is prepared for all eventualities. It has increased its processing and system planning capability, and expanded its network of external service providers to respond effectively in a crisis situation. A comprehensive contingency planning model was established for managing possible multiple bank failure scenarios in a major financial crisis. The effectiveness of the model has been tested in a payout rehearsal simulating different banking failure scenarios.

It is obvious that a DPS is only as good as it is widely known to the general public who are confident of its reliability to make prompt payout when the time comes. Public education is therefore another area of priority and the Board always attempts to spread the DPS messages in a friendly and outgoing manner.

After consolidating the experience of past years, we will conduct an in-depth foundation research to understand better the perception of the public on DPS so as to reframe our communication strategy for more effective public engagement and reach in future. The research results, hopefully, will point us to new areas that we can further work on to enable more depositors to be reassured of the protection offered by the DPS.

This Annual Report features photos of birds in a serene and peaceful environment, which reflects an important objective of all our efforts – to give depositors the peace of mind they rightly deserve. This peace of mind is based on the trust of depositors in the protection afforded to them by the DPS in particular, and the stability of banks in Hong Kong in general. Our grateful thanks go to Mr C S Ng who has generously allowed us to select from his marvellous work on birds.

As the Chairperson of the Deposit Protection Board, I have the good fortune of the unfailing support of my fellow Board members, advisory panel members and other consultative committee members, as well as our major stakeholders, the Government, and the HKMA. I owed them my heartfelt thanks. I would like to record our deep appreciation to Professor Wong Chak-kei for his valuable service to the Board prior to his departure in October 2013, and a warm welcome to Professor Chan Ngai-hang, who joined the Board in January.

Needless to say, I owe my sincere gratitude to the CEO and the management team and the staff whose commitment and professional output has made possible the achievements of the Board in fulfilling its vision and mission in an ever changing financial world.



CHAN WONG Shui,
CHAIRPERSON
DEPOSIT PROTECTION BOARD

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



*Ms DATWANI Meena, JP
Chief Executive Officer*

It is time once again to review the achievements of the past year as we prepare to tackle the challenges confronting deposit insurance systems the world over as a result of the recent financial crisis. In pursuance of our dual mission to maintain confidence in the banking system and protect depositors from losses in case of a bank failure, we embarked on a number of initiatives in 2013-2014 to enable us to better manage any financial crisis leading to bank failure.

Looking back, it has been a busy but thankfully productive year. In addition to carrying out an internal review of various enhancement measures consistent with international best practice and standards, the Deposit Protection Board (DPB) took part in a rigorous Financial Sector Assessment Program (FSAP) review of Hong Kong's crisis management which covered our deposit protection framework. We also embarked on a two-year payout reform plan, completed the enhancements to the Information System Guidelines, conducted a payout rehearsal and launched a number of innovative publicity schemes. Although there is no room for complacency, we feel we have fortified the Deposit Protection Scheme (DPS) and are entering 2014-2015 in a stronger position.

INTERNAL AND EXTERNAL REVIEWS STRENGTHEN DEPOSITOR PROTECTION

The DPB is committed to ensure compliance with international standards, strengthen the protection for depositors and improve the efficiency and effectiveness of the DPS as part of the core component of the financial safety net system in Hong Kong. In 2013-2014 we carried out a comprehensive internal review and were subject to an external review as part of the International Monetary Fund-led FSAP assessment of Hong Kong's crisis management and depositor protection framework. This resulted in a number of enhancement proposals.

The detailed internal review, which took into account the various measures undertaken by overseas jurisdictions after the financial crisis, assessed the status of the DPS when benchmarked against the key design features of an effective DPS set out in the Core Principles for Effective Deposit Insurance Schemes jointly issued by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers. These Core Principles are included in the Financial Stability Board's (FSB) 2011 list of the key elements of a sound

financial system. I am pleased to say that the FSAP review acknowledged that the DPS is both transparent and trusted. Key recommendations included in the FSAP report are closely in line with the enhancement proposals identified in our internal review for further improving the Scheme's capacity and payout mechanisms to further optimise Hong Kong's financial safety net.

The enhancement proposals and recommendations have involved a rigorous research process, and a public consultation will be launched to gauge the public's views. The focus will be on changes to the payout basis, specifically the proposed payment of compensation on a gross, i.e. without deducting liabilities, rather than a net basis, and increasing the flexibility of electronic payment channels. Upon implementation of the proposals, the DPS will be able to achieve faster payout by removing impediments to compensation determination, reduce inconveniences that might be caused to the public when facing a bank failure, and thus should contribute to a safer and more robust financial system.

A YEAR OF INITIATIVES

The DPB also undertook a range of other initiatives to further improve the effectiveness of the DPS, speed up the payout process and ensure the Board's ability to handle more complex bank failure scenarios through a two-year payout reform focusing on upgrading the Information System Guidelines, specifying the early warning system and developing the compliance review programme.

We implemented several amendments to the Information System Guidelines to strengthen the availability and quality of information provided by Scheme members. One of these amendments specifies a standardised data format for all member banks regardless of their size, thus simplifying data-handling procedures and resulting in speedier compensation calculations and payouts. A shorter timeline for the submission of information would naturally result in swifter payments of compensation. This more robust information regime, to be in place by the end of 2014, should greatly enhance payout effectiveness.

Another significant initiative aimed at boosting our readiness was the enhancement of the early warning system. The upgrade will allow the DPB to begin preparations at an earlier stage in the event of a potential banking crisis. We also continued to work actively with our overseas counterparts throughout the year to strengthen information exchange in both normal and crisis periods and establish protocols to resolve cross-border banking problems.

To ensure that Scheme members are fully prepared to cope with a crisis, we carried out regular simulation tests to check their readiness. After reviewing the results, further upgrades were made to the payout system and infrastructure. Compliance exercises were also conducted to ensure that Scheme members properly adhere to the representation requirements and inform depositors of the protection status of their deposits. Finally, we created a dynamic resource pool to support larger-scale payouts and bolster payout readiness by retaining additional payout agents, such as accounting firms, IT service agents, call centres and security cheque printing companies.

PAYOUT REFORM AND REHEARSAL BEAR FRUIT

Amongst the most important of the DPB's activities during the year was an overhaul of the payout infrastructure and system to ensure greater versatility and the ability to respond rapidly to crisis. Upgrades to the infrastructure included migration to a larger, better-equipped payout operation centre, greatly expanded back-end processing and hotline operation capacities.

Features of the payout system revamp included the development of more sophisticated data analysis techniques to identify optimal payout strategies. The system now offers greater flexibility in addressing different stress scenarios and is able to deal effectively with more complicated calculation rules. The ultimate goal of these initiatives is more timely payouts and hence a stronger financial safety net.

The re-engineered payout system and infrastructure were put to the test in a major payout rehearsal, which also tested the contingency plans for various bank failure scenarios and the system's general payout capabilities. Simulation of a payout situation during the rehearsal assessed the DPB's preparedness to deal with the unforeseen. Rehearsal participants had no prior information on the evolution of the time-critical crisis scenario, which involved a multiple bank failure. I am proud to report that they came through with aplomb.

INNOVATIVE PUBLICITY CAMPAIGN RAISES AWARENESS

As successful as these achievements have been, public awareness of the DPS's key features and role in safeguarding the Hong Kong banking system is essential to our work. During 2013-2014, the DPB engaged in a major publicity drive. With the support of the Advisory Panel on Communication and Public Education, we launched a five-episode infotainment programme to boost public understanding of the DPS's key features. Each episode had a core theme and featured daily-life scenarios, giving the programme particular resonance with housewives and the elderly.

We also launched a major interactive campaign that was targeted at not only these two groups but also the youth. It involved developing a recipe booklet with 10 tailor-made bun recipes and creating bun-making videos broadcast on various digital media, with social-media interactions as extra add-ons. The Board also participated in two major consumer fairs, during which we exhibited information panels and introduced educational games featuring the DPS theme: Ensure your Protection, Save with Confidence. Finally, we partnered with the Hong Kong Design Institute in a DPS mascot design project and competition, with 12 outstanding designs put to public vote via Facebook. These initiatives were particularly effective with the younger tech-savvy generation.

It is clear that these publicity efforts are paying off, as an independent opinion survey revealed that the general awareness level of the DPS stands at an all-time high of around 77%. This as far as I know is among the highest level globally. Riding on the success of achieving a high general awareness level of the DPS, we plan to invest more in publicity and public education initiatives, and devote greater effort to communicating with depositors beyond the reach of conventional advertising media.

MOVING FORWARD WITH CONFIDENCE

Although it has been a year of considerable achievements, the fragile global recovery is likely to present challenges in the future. Moving forward, we will consolidate the work of the past year, keep abreast of the global situation and ensure that we maintain our state of readiness at all times. Like girl guides, “BP” i.e. “Be Prepared” is our motto!!

Priority will be given to the upcoming public consultation exercise on DPS improvements, continuing with payout reforms and maintaining public trust in the Scheme. In the medium term, we will focus more on the evolving role of the DPS in contributing to financial stability and on collaboration with other safety net players for the design and implementation of the resolution regime which is also part of the crisis management toolkit that will have a close interface with the DPS.

WORDS OF THANKS

None of the DPB’s many achievements during the year would have been possible without the hard work and support of the Members of the Board particularly our Chairperson, the Advisory Panel and the Board’s committees. My heartfelt gratitude goes to all of them. I am also grateful for the important contributions made by Scheme members, the HKMA, the HKSAR Government, payout agents and service providers. Finally, I must also thank my colleagues for their dedicated commitment in striving to do their best for the DPS and for the protection of depositors in Hong Kong. My sincere appreciation goes to all of you. Thank you.



DATWANI Meena
CHIEF EXECUTIVE OFFICER



**About the Hong Kong
Deposit Protection Board
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ABOUT THE HONG KONG DEPOSIT PROTECTION BOARD

INTRODUCTION

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

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

MISSION AND FUNCTIONS OF THE BOARD

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

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

COMPOSITION OF THE BOARD

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

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

PERFORMANCE OF FUNCTIONS THROUGH THE HONG KONG MONETARY AUTHORITY

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

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

MEMBERS OF THE BOARD

CHAIRPERSON

Mrs CHAN WONG Shui, Pamela, BBS, JP

*Former Chief Executive,
The Consumer Council of Hong Kong*



MEMBERS

**Professor CHAN Ngai-hang
(from January 2014)**

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



Miss CHAN Wai-hing, Annie

*Managing Director,
Mazars Corporate Recovery & Forensic Services
Limited*



Professor CHIN Yuk-lun, Francis

*Taikoo Professor of Engineering,
Chair of Computer Science,
Associate Dean of Engineering,
Department of Computer Science,
The University of Hong Kong*



Ms CHING Kim-wai, Kerry

*Managing Director, Asia
AMP Capital Asia Limited*



MEMBERS OF THE BOARD

Mr HO Eugene

*Former Chief Executive,
ICBC International Holdings Limited*



Mr KIDD David

*Partner
Linklaters*



Miss AU King-chi, JP

*Permanent Secretary,
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*



Professor Wong Chak-kei (until Oct 2013)

*Professor of Practice in Finance,
Department of Finance
Associate Director, MBA Programs
Director, M.Sc Program in Finance
Director of Business Development,
The Asia-Pacific Institute of Business
The Chinese University of Hong Kong*



INVESTMENT COMMITTEE OF THE BOARD

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

CHAIRPERSON

Ms CHING Kim-wai, Kerry

Managing Director, Asia

AMP Capital Investors (Hong Kong) Limited

MEMBERS

Professor CHAN Ngai-hang

Choh-Ming Li Chair Professor of Statistics,

Director of Graduate Studies Risk Management

Science Program,

Department of Statistics

The Chinese University of Hong Kong

Miss CHAN Wai-hing, Annie

Managing Director,

Mazars Corporate Recovery & Forensic Services

Limited

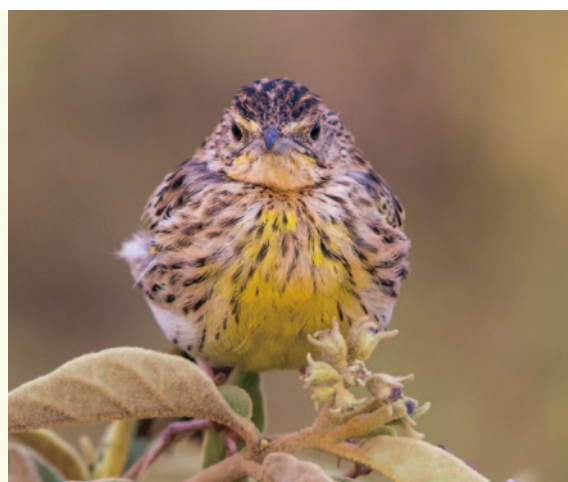
Mr CHU Siu-chuen, Francis, JP

Executive Director (Reserves Management),

Hong Kong Monetary Authority

TERMS OF REFERENCE

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



ADVISORY PANEL ON COMMUNICATION AND PUBLIC EDUCATION

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

CHAIRPERSON

Mrs CHAN WONG Shui, Pamela, BBS, JP

MEMBERS

Mr FONG King-sang, Quentin
Mr NG Shui-lai, BBS, MBE, JP
Mr WONG Koon-shing

DEPOSIT PROTECTION APPEALS TRIBUNAL

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

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

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

CHAIRMAN

Mr Alan Raymond WRIGHT, S.B.S.

PANEL OF PERSONS WHO MAY BE APPOINTED TO BE MEMBERS OF THE TRIBUNAL

Ms Roxanne ISMAIL, S.C.
Professor LAM Kit-chun
Ms XUEREB Maria

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

CONSULTATIVE COMMITTEE ON DEPOSIT PROTECTION SCHEME

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

Mr CHOW Chak-chee,
Bank of China (Hong Kong) Limited

Mr TONG Hon-shing,
The Bank of East Asia Limited

Ms SO Yammie,
BNP Paribas, Hong Kong Branch

Ms MAN Rita,
China CITIC Bank International Limited

Mr POON Edmund,
Dah Sing Bank Limited

Mr CHAN Vincent,
DBS Bank (Hong Kong) Limited

Mr CHOW Arnold,
Hang Seng Bank Limited

Ms LAI Elaine,
The Hongkong and Shanghai Banking Corporation Limited

Mr CHAN Jimmy,
Industrial and Commercial Bank of China (Asia) Limited

**Ms TSUI Jackeline and
Mr KWONG Herbert,**
JP Morgan Chase Bank, Hong Kong Branch

Ms CHEUNG Maggie,
*Mizuho Bank Limited,
Hong Kong Branch*

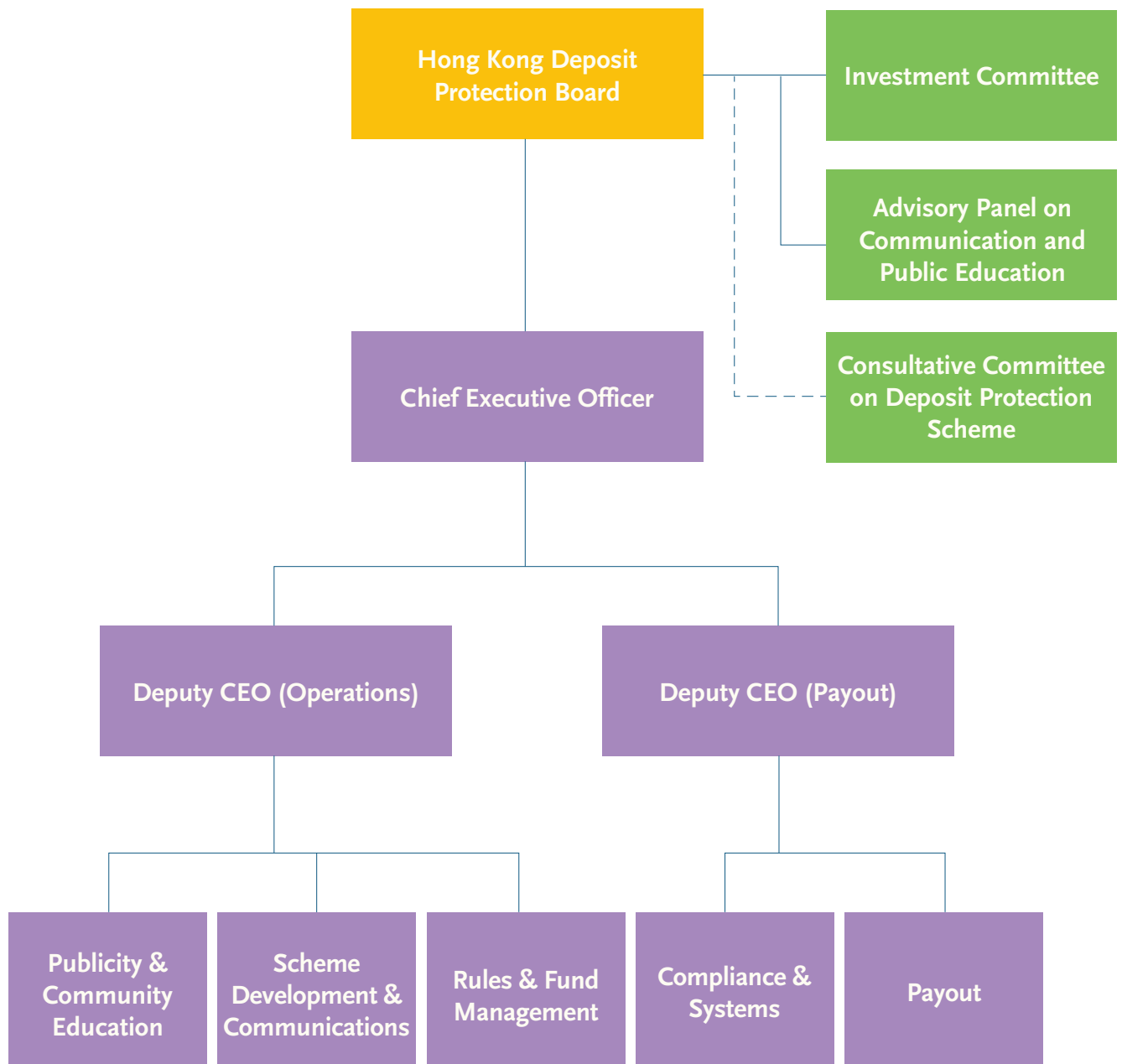
Mr HUI Peter,
Nanyang Commercial Bank Limited

Mr WONG Teddy,
Standard Chartered Bank (Hong Kong) Limited

TERMS OF REFERENCE

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

ORGANISATIONAL STRUCTURE



CORPORATE GOVERNANCE

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

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

BOARD GOVERNANCE

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

The functions and composition of the Board are set out in the DPSO which provides that the Board shall comprise between six to nine members, all of whom are non-executive members. Except for the two ex officio members, all other members are appointed for a fixed renewable term, but for not more than six years in normal circumstances. These members are appointed mainly because they possess professional or occupational experience relevant to the operation of the DPS and are committed to serving the public.

The proceedings of the Board are governed by the relevant provisions in the DPSO. The Board meets three to four times every year to deliberate policy issues crucial to the operation and development of the DPS. In 2013-2014, the Board met four times. On average, over 70% of members were present at each meeting.

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



The Advisory Panel on Communication and Public Education was formed in August 2011 to advise the Board in developing its communication and public education strategy and implementation plan, and in monitoring the effectiveness and quality of the related activities. The Advisory Panel consists of the Chairperson of the Board and experts with extensive experience in public relations, communication and community education strategies.

EXECUTIVE MANAGEMENT

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

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

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

RISK MANAGEMENT AND AUDITS

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

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

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

The external auditor for the year under review was PricewaterhouseCoopers (PwC). Apart from auditing the statement of accounts for 2013-2014, PwC was engaged by the Board to provide advisory services in review of Scheme members' compliance status with the information system requirements and is eligible for appointment as a project co-ordinator for managing payout services.

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

STANDARDS OF BEHAVIOUR AND ETHICS

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

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

COMMUNICATIONS AND TRANSPARENCY

The Board is committed to open communication with the public and other stakeholders. It has set up an enquiry hotline to answer questions from the public, and maintains a website to facilitate access to information on different aspects of the DPS operations. In 2013–2014, the website registered more than 200,000 visits. The Board also makes its annual report publicly available. To keep the banking industry informed of the developments of the DPS, the Board consults the banking industry through the Consultative Committee on the DPS and the industry associations on policies and initiatives relating to the operation of the DPS that may have an impact on the industry.

APPEAL MECHANISM

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

REVIEW OF THE CORPORATE GOVERNANCE STRUCTURE

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



**Review of operations and
achievements in 2013–2014
P.22-37**

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2013–2014

ECONOMIC SITUATION

Hong Kong's economic performance improved during 2013. Real GDP expanded by a moderate 2.9%, up from 1.5% in 2012, and full employment was maintained in the labour market. However, the growth rate was slower than the average of 4.5% achieved in the past decade. This was due to the global economy's lacklustre performance as a result of the sluggishness of advanced economies and a consequential slowdown in the growth of emerging economies. Domestic demand and exports of services were the key driving forces of Hong Kong's economic growth in 2013.

Local stock prices fluctuated considerably during the year. After declining mid-year following jitters about less monetary accommodation in the US and ensuing volatility in the emerging markets, the stock market regained lost ground in the second half as the advanced economies improved and the Mainland economy displayed resilience. It ended the year slightly higher. The Government's introduction of further demand-side management measures in early 2013 stabilised the local property market. The increase in residential prices slowed down and the number of transactions decreased. Lower imported inflation helped to offset the effects of domestic price pressure and contained consumer price inflation during the year. Underlying inflation averaged 4.0% during 2013, compared with 5.3% in 2011 and 4.7% in 2012.

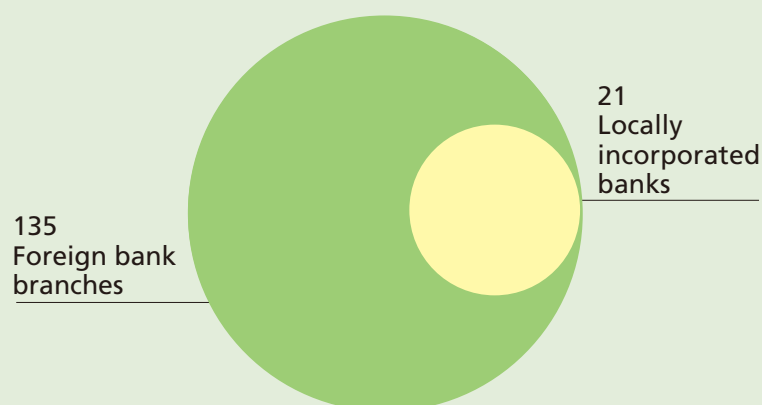
HONG KONG BANKING ENVIRONMENT

The Hong Kong banking sector remained resilient in 2013. The capital positions of locally incorporated authorized institutions stayed strong following the implementation of the first phase of Basel III capital standards promulgated by the Basel Committee on Banking Supervision during the year. Based on their more-stringent capital definitions, the consolidated capital adequacy ratio of all Hong Kong's locally incorporated authorized institutions stood at 15.9% at the end of 2013, compared with 15.7% a year earlier and well above the international minimum of 8%. The asset quality and liquidity positions of retail banks also remained sound. Their classified loan ratio was just 0.48% at the end of the year. However, their average liquidity ratio decreased from 42.6% in the final quarter of 2012 to 39.6% in the same period of 2013. This was due to the fact that their average qualifying liabilities rose faster than their average liquefiable assets. Despite the decrease, their quarterly average liquidity ratio stayed well above the statutory minimum of 25%.

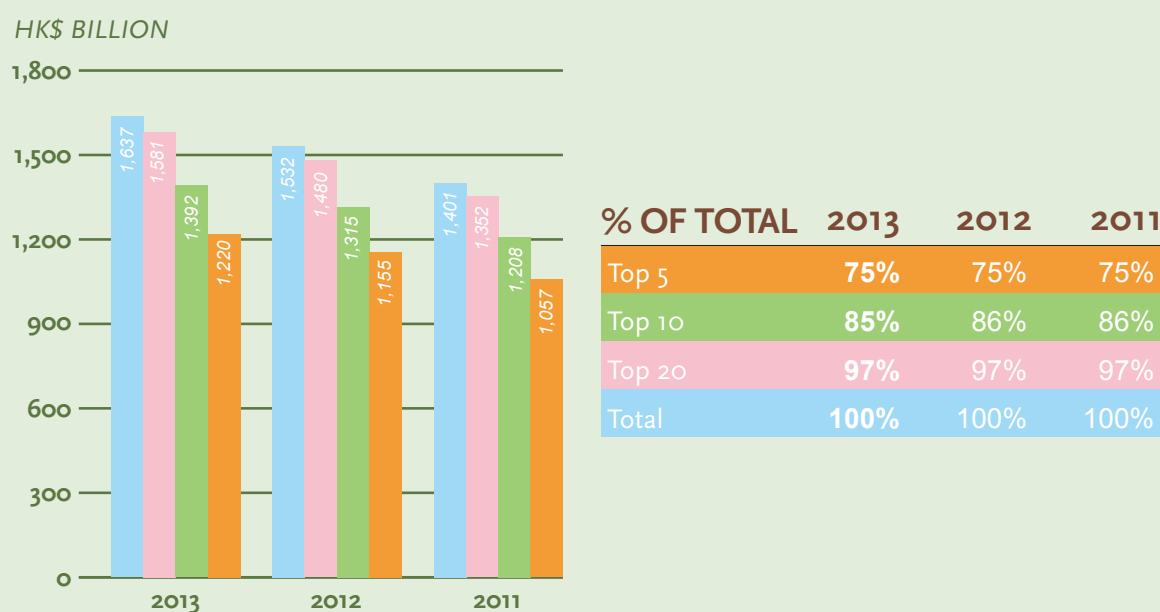
SCHEME MEMBERS' PROFILE

The Scheme had 156 members at the end of March 2014, compared with 153 a year earlier. Four newly licensed banks became members during the year, while one bank's membership was revoked because of its group restructuring. Twenty-one of the 156 Scheme members were locally incorporated banks and 135 were foreign bank branches. This was largely in line with the numbers of retail and wholesale banks in Hong Kong.

NUMBER OF SCHEME MEMBERS AS AT 31 MARCH 2014



RELEVANT DEPOSITS HELD WITH SCHEME MEMBERS



Based on returns submitted by Scheme members, the aggregate amount of their relevant deposits grew by 7% to HK\$1,637 billion during 2013, compared with HK\$1,532 billion in 2012.

The distribution of relevant deposits among Scheme members remained similar to that of the previous year. The top 20 Scheme members (all of which were retail banks) held 97% of the

industry's aggregate relevant deposits, whereas the wholesale banks held the other 3%. In terms of growth, retail and wholesale banks recorded increases in their relevant deposits of 7% and 8% respectively.

RELEVANT DEPOSITS HELD BY RETAIL BANKS AND WHOLESALE BANKS

(HK\$ billion)	2013	2012	+
Retail banks	1,585	1,484	7%
Wholesale banks	52	48	8%

CONTRIBUTING TO BETTER PROTECTION

A self-assessment against the Core Principles for Effective Deposit Insurance Systems jointly issued by the Basel Committee on Banking Supervision and the IADI was conducted in 2012. Based on the results of the self-assessment, a more focused internal review was carried out to explore various ways to achieve faster payouts. The results led to the formulation of concrete enhancement proposals. One key proposal is to adopt the gross payout approach, which would enable the DPS to pay depositors within a shorter period. Other technical enhancements to the payout process would also help to minimise the payout timeframe. These proposals will be the subject of further consultation before they are formally adopted.

Externally, the FSAP led by the IMF evaluated Hong Kong's crisis management and bank resolution framework, including the establishment of the DPS and its contribution to an effective financial safety net framework. This FSAP assessment complemented our internal review on the ways to enhance the DPS.

Included in the review was an assessment of the scale of the DPS Fund and its funding structure in order to ensure the Fund's sustainability. A particular focus was to ensure the appropriate assumption of responsibility for the costs associated with problem banks by the private sector, without undue reliance on fiscal resources. The assessment covered the target size for the Fund and its premium structure, as well as the surcharge mechanism for Fund replenishment and back-up funding. While the overall funding modalities are sound and in line with international practice, the Board will continue to monitor changing conditions in the banking sector to ensure the continued effectiveness of the DPS.

As a component of the financial safety net system, the Board was actively involved in consultations about the resolution regime that commenced in early 2014. Despite their respective functions in the financial safety net, there are synergies between the DPS regime and the resolution regime that will make it possible to deploy the most effective strategies to deal with any banking problems that arise. Closer collaboration on crisis-management and resolution between the two different functions will, therefore, help promote financial stability.

ENSURING PAYOUT READINESS OF THE DPS

INFORMATION READINESS OF SCHEME MEMBERS

An amended information system guideline was issued in September 2013. Based on earlier rehearsals and simulations, this has been developed to enhance and standardise the mandatory requirements for information from Scheme members, in order to make it possible to determine compensation payments swiftly in the event of a payout. The amended guideline tightened the timeframe for Scheme members to submit information. Three briefing sessions in October 2013 helped Scheme members prepare themselves to comply fully with the new requirements before the end of 2014. Scheme members' progress in this process is being monitored through regular surveys.

The compliance of Scheme members with the guideline's requirements is also being monitored by a new review programme that is being phased in. This will verify their ability and readiness to submit the required information within a shortened time period. Moreover, Scheme members will be required to conduct regular independent assessments and submit annual compliance declarations to demonstrate their readiness to provide deposit records completely, timely and accurately. To assist Scheme members, a guide on the assessment approach and steps to be taken was issued in September 2013.

ESTABLISHMENT OF AN EARLY WARNING SYSTEM WITH THE BANKING SUPERVISOR

During the year, the Board worked closely with the HKMA, the banking regulator, and reached agreement on an effective early warning system. Such an arrangement would enable the Board to gain early access to the problem bank's depositor records in order to ascertain its status and data quality, and to undertake payout preparation. In addition, a process model of the payout preparatory review was developed which covers the strategy of resource allocation, review procedures and operational arrangements. These will enable the Board to begin planning and preparation work as soon as possible for the speedy completion of its payout tasks after the bank closes.

LATEST PAYOUT INFRASTRUCTURE DEVELOPMENTS

The adequacy, efficiency and effectiveness of the payout system's infrastructure are reviewed regularly. To accommodate larger and more-complex payouts during a banking crisis, the capacity of IT systems and the payout operation centre were further upgraded.

IT consultants were engaged to conduct a broad review of the system functions to support the reformed payout model. As a result of the review, the process flow was redesigned and development work is now underway to enable it to make the fullest use of the additional efficiencies offered by the new payout preparation mode, which includes an early alert from the banking regulator, as well as the more-comprehensive information provision by Scheme members under the amended guideline.

CONTINGENCY PLANNING MODEL AND REHEARSAL

It is crucially important for the public to have confidence in the Board's ability to compensate depositors efficiently under any circumstances. To ensure this, effective contingency planning and rehearsal exercises are essential.

The contingency planning framework underwent a major revamp during the past year. New elements were added to facilitate appropriate strategic decisions being taken during a crisis involving different bank-failure scenarios. These have enhanced different aspects of the crisis

management capabilities, including strategic decisions on the deployment of resources (people, systems and infrastructure), crisis management oversight, public communication and payout arrangements.

The effectiveness of the revised framework was confirmed during a payout rehearsal involving a number of simulated bank failure scenarios. The rehearsal, conducted in conjunction with payout agents, demonstrated the Board's ability to coordinate the planning, organisation of resources and activation of the payout infrastructure facilities in response to changing circumstances during a banking crisis.



Snapshot of a payout walkthrough

SIMULATION TESTS AND PAYOUT WALKTHROUGH

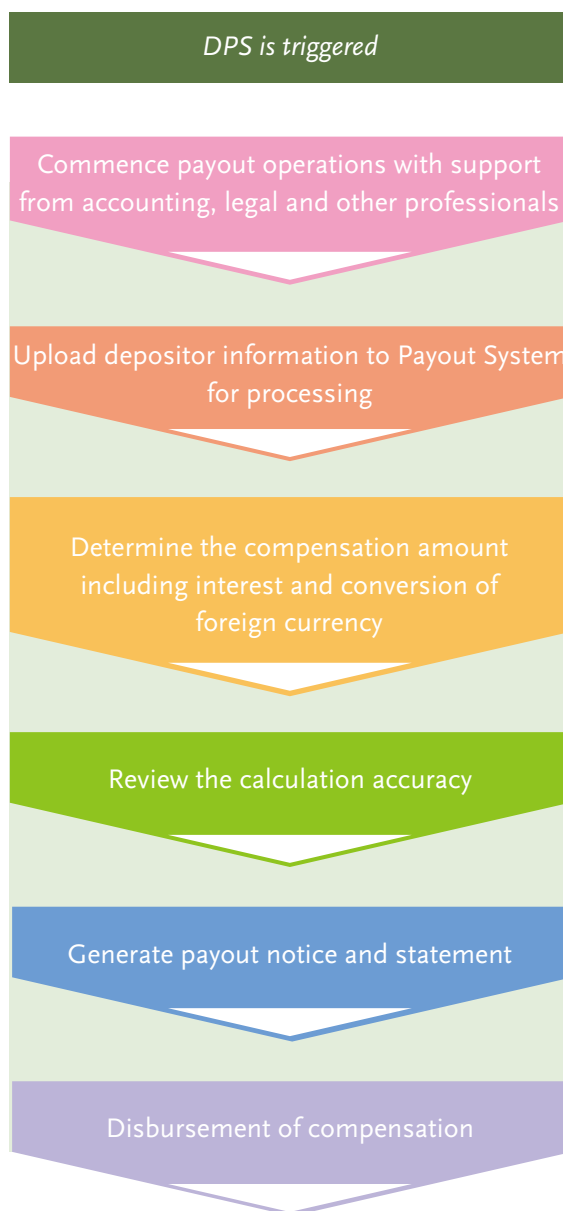
Six simulation tests using full sets of customer records obtained from Scheme members during compliance reviews were conducted during the year. They ensured the payout infrastructure would be able to handle payout operations of any magnitude and involving a combination of the products and depositors of any Scheme members. Service providers were involved in the simulations to familiarise them with certain complex payout procedures.

Contractual agreements were signed with a number of new service providers to expand the network of agents available for payouts. The new service providers received training by undergoing a payout procedure walkthrough, and were involved in the simulation tests. The Board has now built up a dynamic resource pool that is ready to handle payouts triggered by different bank-failure scenarios.

ACCESS TO PRE-ESTABLISHED FUNDING

Once a DPS payout is triggered, the Board will be obliged to compensate the depositors of the failed Scheme members as soon as practicable. To this end, the Board has in place a standby credit facility for up to HK\$120 billion from the Exchange Fund, which will be used to meet its funding requirements. Any costs and losses incurred during the payout process will be absorbed by the DPS Fund.

PAYOUT PROCESS



BUILDING UP THE DPS FUND

COMPOSITION OF THE DPS FUND

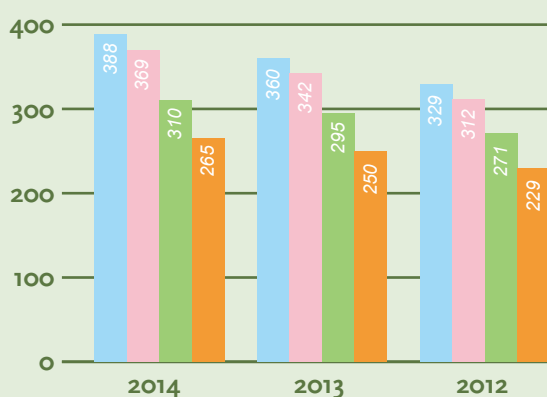
The DPS Fund mainly consists of two components: annual contributions by Scheme members to the Board, and returns generated by the DPS Fund's investments.

REPORTING OF RELEVANT DEPOSITS

Scheme members are required to report the amount of relevant deposits they hold in the fourth quarter of each year. The reported figure, together with the supervisory rating provided by the HKMA, serve as the basis for determining their contributions for the coming year.

CONTRIBUTION PAID BY SCHEME MEMBERS

HK\$ MILLION



BY RELEVANT DEPOSITS HELD

% OF TOTAL	2014	2013	2012
Top 5	68%	70%	70%
Top 10	80%	82%	82%
Top 20	95%	95%	95%
Total	100%	100%	100%

ASSESSMENT AND COLLECTION OF CONTRIBUTIONS

The contributions collected from Scheme members during the year amounted to HK\$388 million, an increase of 8% on the previous year. All contributions were paid in accordance with the DPS Contribution Rules during the first quarter of 2014. Similar to the distribution of relevant deposits, the amount of contributions collected from the top 20 Scheme members accounted for 95% of the total. To ensure that the deposit data reported by Scheme members is accurate, the Board has since 2007 requested Scheme members to

conduct regular audit reviews of their Returns of Relevant Deposits in accordance with the policy for reviewing returns. A total of 35 Scheme members were requested to submit an audit report to the Board on the accuracy of their returns in 2014. The results reviewed were generally satisfactory, and no reporting error leading to a material impact on the amount of contributions collected by the Board was noted. After the completion of the review in 2014, more than 99% of the relevant deposits reported would have been verified by an auditor, thus increasing our confidence in the accuracy of the total amount of contributions payable by the industry.

INVESTMENTS OF THE DPS FUND

In view of the uncertainty of global financial markets and the primary investment objective of the Fund being capital preservation, the Board continued to exercise caution and adopted a conservative investment strategy to guard against possible losses arising from any sharp fluctuations in the financial markets. 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.

In view of the low yields of short-term US Treasury and Exchange Fund papers, the Board did not purchase any security papers during the year. As at the end of March 2014, the DPS Fund's assets were predominantly held as deposits and almost all were denominated in Hong Kong dollars, with only a minimal balance in US dollars. During the year, the DPS Fund achieved a positive investment return of 0.24%, despite the low interest rate and uncertain investment environment.

THE DPS FUND'S MIX OF CASH AND INVESTMENTS (AS AT 31 MARCH)

(HK\$ million)	2014	2013
Cash and deposit balance	2,425	2,103
Investment securities	0	0
Total	2,425	2,103

THE DPS FUND'S CURRENCY MIX OF CASH AND INVESTMENTS (AS AT 31 MARCH)

(HK\$ million)	2014	2013
HK dollars	2,424	2,102
US dollars	1	1
Total	2,425	2,103

ENHANCING PUBLIC AWARENESS AND UNDERSTANDING

COMMUNICATING WITH THE PUBLIC

The Board continued to promote the protection offered by the DPS to the public via mass publicity channels and outreach programmes. These ongoing efforts aim to increase the public's knowledge of the DPS, and their confidence in the DPS to ensure their deposits are safeguarded.

The Board regularly reviews its publicity and community education strategies to ensure that its messages are being conveyed effectively to different segments of the community. Besides

conventional media and outreach channels, the Board developed a series of new initiatives that included the use of social media and partnership programmes with non-profit organisations, an educational institution and a celebrity chef to engage the public during the year.

MASS PUBLICITY CAMPAIGNS

Television

The main strategy to maintain public awareness of the key features of the DPS was a short video screened on major terrestrial and paid TV channels. In addition, five consecutive infotainment segments with daily life scenarios to illustrate specific DPS concepts were broadcasted on TV and the Internet.



DPS 15-sec. advertisement



One-minute infotainment video



Bus shelter advertisements in 18 Hong Kong districts



A "tunnel wrap" at an interchange junction in Kowloon Tong MTR Station

Out-of-Home Media

A new creative advertising series featuring cute cartoon characters was developed for out-of-home displays on bus shelters, in-vehicle bus and train TV, and pedestrian tunnels in Kowloon Tong and Causeway Bay MTR stations. These highlighted key features of the DPS via a Q&A dialogue between a member of the public and an ATM machine representing the DPS.



Ad series in daily papers



Newsletters to employees

Radio and Print Advertising

Radio advertising promoted the core features of the DPS to the public, especially households and senior citizens. Moreover, a print advertising campaign consisting of advertorials placed in major newspapers, weekly magazines and newsletters to employees conveyed the DPS messages to a wide cross-section of the community.



Advertorial in magazines

COMMUNITY EDUCATION ACTIVITIES

“Ensure Your Protection, Save with Confidence” Bun-Making Campaign

To leverage on the success of the “Bao, Bao, Bao” video, the Board developed a bun-making campaign with a celebrity chef. The chef introduced a series of bun recipes and

filmed 10 bun-making videos to introduce educational messages about the DPS in a fun way and through a dialogue with the Board’s Chairperson. The videos were broadcasted on digital media and the website of the Board. To increase their impact, online engagement campaigns with an interactive quiz and photo contest were launched side-by-side on a social networking platform.



“Ensure Your Protection, Save with Confidence” – Maria Cordero and Pamela Chan, Chairperson of the Board



A recipe booklet with DPS messages widely distributed to the public



“存保bun” (“bun (包 or bao)” in Chinese means “cover/ inclusive” which associates with the coverage of the Scheme)

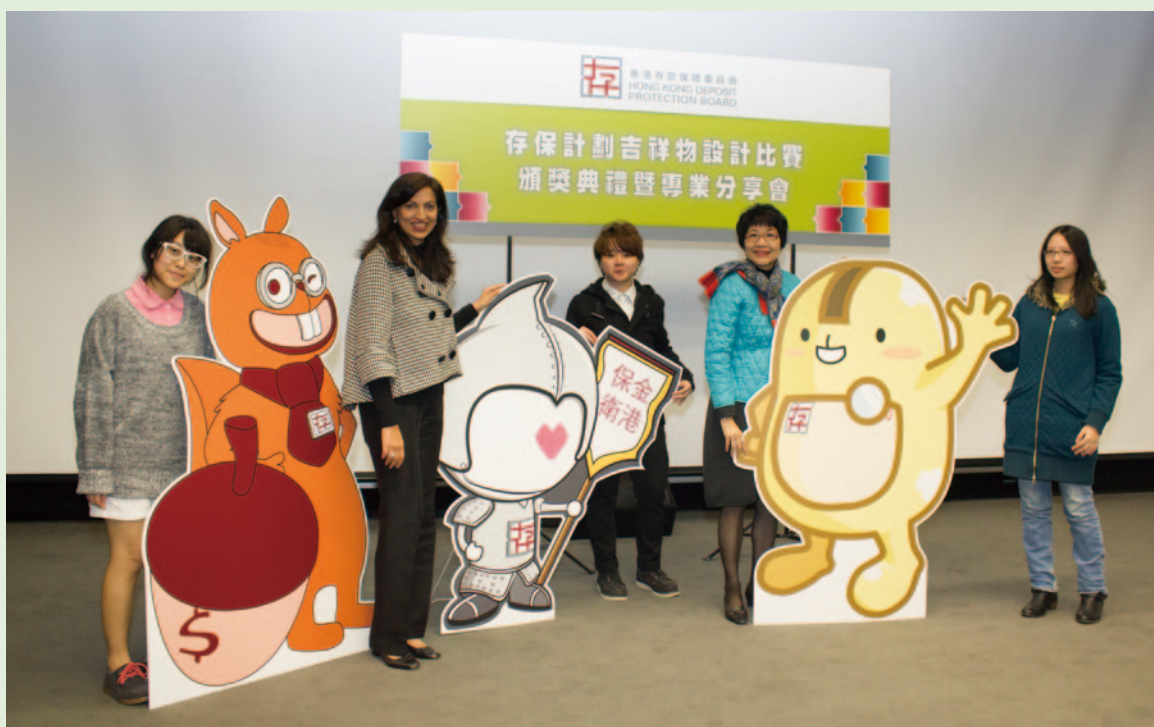


Bun-making Campaign – Facebook Page

DPS Mascot Design Competition

The Board invited Hong Kong Design Institute (HKDI) students to create a mascot as the DPS Ambassador. The shortlisted designs were uploaded on a social media platform for public voting. The mascot named Jewellery

Box designed by Chu Ki Chun was selected as the winner by an independent judging panel. A prize presentation ceremony held at the HKDI also included sharing sessions on DPS, money management, and professional design experience.



The Chairperson and the CEO of the Board, together with the winners and their mascots, at the DPS Mascot Design Prize Presentation Ceremony

(Left to right: Li Chui Yi (Second Runner-up), Meena Datwani (CEO of the Board), Candy Chiu (First Runner-up), Pamela Chan (Chairperson of the Board) and Chu Ki Chun (the Winner))



Introduction to the Concept of Savings and Money Management for Gen-Y by Mr Francis Wong of the IFA HK



Consumer Shows

Participation in high-traffic consumer shows provided good opportunities for the Board to engage more closely with the public via

interactive games, one-on-one introductions, information panels and the distribution of publicity materials.



Exhibition at the Flower Bird Insect and Fish Show in North District in December 2013



48th Hong Kong Brands and Products Expo Fair in January 2014

Partnership with Hongkong Post

The Board partnered with Hongkong Post and took advantage of the wide network of post offices in different neighbourhoods to distribute DPB card-sized magnifiers to customers using its “PayThruPost” services during the second half of 2013.



Partnership campaign with Hongkong Post

DPS Talks

As part of its ongoing community outreach programme, the Board gave more than 50 presentations to elderly, student and family

groups in various districts around Hong Kong. These featured interactive role-play, games and case studies enhanced the participants' awareness and understanding of the Scheme.



DPS talks for the elderly



DPS talks for students

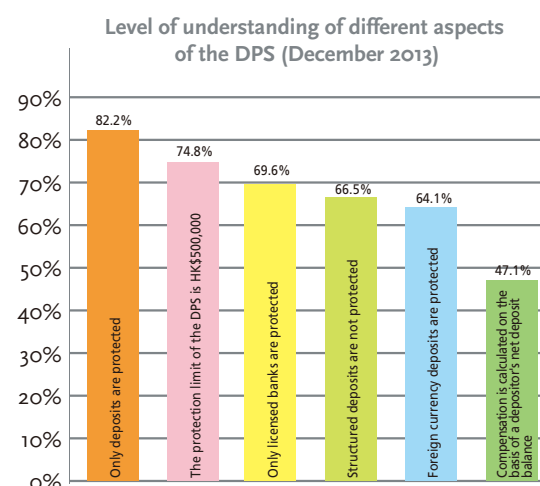
Community Outreach Programme

A new community outreach platform has been created by leveraging on financial education workshops organised by the Hong Kong Association of Banks. Since February 2014, core messages about the DPS are being incorporated into the presentation and publicity materials distributed at these events, so that participants can learn about DPS protection.

EFFECTIVENESS OF PUBLICITY CAMPAIGNS

Based on the findings of an opinion survey conducted by an independent research centre in December 2013, awareness about the DPS had reached a very encouraging level of 77%. Of those respondents aware of the Scheme, more than 75% knew about the HK\$500,000 protection limit and over 64% also knew about the protection coverage of deposits denominated in different currencies. Such a high level of awareness can be attributed to the broad range of publicity campaigns and new community educational initiatives to promote the scope and features of the DPS to the public.

The Board will make reference to these findings as it continues to refine and enhance its publicity and community education strategies.



COMPLIANCE WITH REPRESENTATION RULES

The DPS 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 enhanced representation requirements, Scheme members were asked to conduct a self-assessment review covering the period from 1 June 2012 to 30 June 2013. In addition, on-site examinations continued to be undertaken to ascertain in greater detail the level of Scheme members' compliance with the Representation Rules. The Board reviewed the self-assessment reports and on-site examination findings to determine appropriate follow up action.

The results indicated that the overall compliance level of Scheme members was satisfactory in general, and no non-compliance cases with a systemic impact were identified.

RELATIONSHIP WITH OTHER SAFETY NET PLAYERS

CO-OPERATION WITH THE HONG KONG MONETARY AUTHORITY

The Board and the HKMA are both financial safety net players, sharing the common objective of promoting the stability of the banking system. To accomplish this, the two parties have signed a Memorandum of Understanding (MoU) that sets out how they cooperate in the performance of their respective functions. In addition, since the Board is required by the DPSO to perform functions through the HKMA, the Board and HKMA have agreed on the extent of the support provided by the HKMA to the Board on a day-to-day basis. The Board also has in place a standby facility from the Exchange Fund to provide the liquidity required to pay compensation in the event of a bank failure. During the year, the Board and the HKMA also worked closely to enhance the early warning system enabling a faster payout.

RELATIONSHIP WITH THE SECURITIES AND FUTURES COMMISSION AND INVESTOR COMPENSATION COMPANY

In the event of a bank failure, the funds of a depositor or a portion of those funds may in certain circumstances be covered by both the DPS and the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance to compensate securities or futures investors. To ensure that no person receives double compensation, the Board and 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 (ICC), the company established by the SFC to administer the ICF. The MoU recognises that the DPS will normally pay the depositors first in the event of a bank failure, and that the parties will avoid double compensation by exchanging relevant information.

INTERNATIONAL COOPERATION

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

In 2013–2014, the Board's personnel took part in a number of international meetings, including:

- The IADI 2013 Research Conference on the evolution of the deposit insurance framework in Basel, Switzerland;

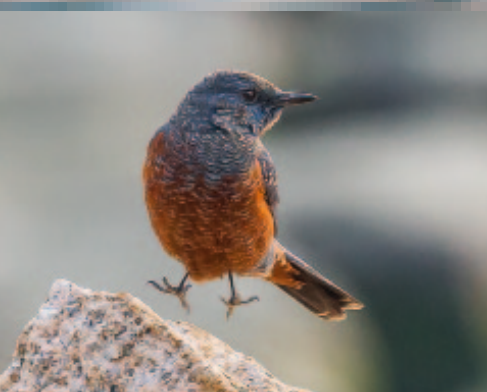
- The IADI Asia-Pacific Regional Committee 11th Annual Meeting and International Conference in Seoul, Korea;
- The IADI 12th Annual General Meeting and 2013 Annual Conference in Buenos Aires, Argentina; and
- A seminar on claims management organised by the Central Deposit Insurance Corporation in Taipei.



IADI 2013 Research Conference (Basel, Switzerland)



IADI Asia-Pacific Regional Committee 11th Annual Meeting and International Conference (Seoul, Korea)



Plans for 2014–2015

P.39-40

PLANS FOR 2014–2015

THE ECONOMIC OUTLOOK

Hong Kong's economy is expected to grow moderately in the coming year, as a result of the gradual recovery of the world's advanced economies and the general resilience of Mainland China's economy. Despite the possibility that external fluctuations may affect the local economy, the favourable employment condition and prevailing positive business sentiment are likely to underpin domestic demand. However, a number of risks continue to overshadow the prospects of full global economic recovery. In particular, it remains uncertain whether the normalisation of US monetary policy will trigger volatility in financial markets, liquidity and fund flows. Moreover, slower-than-expected growth in the world's advanced economies and the Mainland's economy might also have a knock-on effect on Hong Kong.

The Hong Kong banking sector is generally sound, due to the solid capital, liquidity and asset quality of its retail banks. Even so, the potential risks created by changes to the accommodative global monetary policy that has prevailed during the past few years cannot be taken lightly. If this triggers unfavourable market adjustments, the ample liquidity conditions and the extraordinarily low interest rate environment to which we have become accustomed cannot be taken for granted. However, Hong Kong already has in place a robust regulatory and supervisory framework as well as the DPS. These are designed to reduce the likelihood and impact of banking and financial instability. Yet substantial efforts still need to be made to ensure that these overall financial safety net functions are sufficiently robust to deal with the constantly evolving financial environment both locally and internationally.

BUSINESS PLAN AND KEY INITIATIVES

ENHANCING THE DPS

A consultation will be conducted to collect views on how best to attain a more robust DPS through faster payout. The enhancement proposals have undergone thorough research and taken into account the recommendations of the FSAP mission. The key proposals will include the adoption of gross payout, improvements to the certainty of determining a quantification date for compensation, and the use of electronic notices. It is expected that these proposed enhancements would reduce the target payout timeframe considerably. Depending on the results of the consultation, the relevant legislative proposals for amending the DPSO will be contemplated.

The Board will continue to contribute to the formulation of a resolution regime for financial institutions in Hong Kong, which is currently the subject of a public consultation. The interactions between the DPS and the resolution regime will be considered in order to ensure good coordination with the resolution authority and the effective implementation of resolution tools to safeguard financial stability.

INCREASING READINESS FOR A FAST PAYOUT

We are now entering the full implementation phase of the payout reform plan. Its completion will be a milestone in the Board's mission to provide better protection to depositors by establishing a new payout target timeframe. To this end, the Board will continue to monitor the progress of Scheme members in ensuring they implement the new information submission requirements in a timely manner. The payout system will be gradually enhanced to support

the reformed payout model which requires depositor information to be processed more efficiently. A more-comprehensive set of policies and procedures for the smooth completion of the complex and time-bound payout process will also be put in place to cater for the objectives of the reformed payout model.

The reform plan underscores the need to enable a number of channels to arrange payouts. An implementation roadmap for this will be drawn up following the completion of a feasibility study to evaluate the efficiency and economic viability of various options. If the use of any electronic channels is deemed likely to speed up the payment of compensation, the roadmap will include the requirements for building the necessary supporting technological infrastructure and payment processes.

At the same time, the Board will continue to conduct compliance reviews, payout simulations and walkthroughs in order to ensure the readiness of Scheme members, payout agents and infrastructure to make payouts.

ENSURING A HIGH DEGREE OF PUBLIC AWARENESS AND UNDERSTANDING

The Board will continue to attach great importance to the coverage and effectiveness of its publicity and community education activities. It will strive to maintain the public's awareness and trust in the protection provided by the DPS by conducting mass advertising campaigns during the coming year. These will run side-by-side with publicity programmes targeted at specific groups which are less conscious of the DPS messages.

A number of new initiatives are in the pipeline to attract the public's interest. A brand-new video leveraging on the popularity of the "Bao" jingle will be produced to refresh the messages about the DPS. Meanwhile, innovative outreach programmes will be launched to establish closer contact with people in the community and encourage them to participate in DPS activities.

The Board will explore various ways to develop a longer-term publicity and educational strategy. It will conduct detailed research to better understand the general public's perception of the DPS, and the factors that would increase their confidence that their deposits are well protected. At the same time, it will continue to monitor general awareness of the DPS through regular opinion surveys.

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

ADMINISTRATIVE EFFICIENCY AND EFFECTIVENESS

The Board will assess and collect contributions by Scheme members for 2015 under the well-established mechanism based on their returns of relevant deposits and the supervisory ratings assigned to them by the HKMA. The accuracy of these returns will remain subject to monitoring by the Board through reviews of their audit reports.

INDEPENDENT AUDITOR'S REPORT

TO THE HONG KONG DEPOSIT PROTECTION BOARD

We have audited the statement of accounts of the Deposit Protection Scheme Fund (the "Fund") established under section 14 of the Deposit Protection Scheme Ordinance (the "Ordinance") set out on pages 43 to 63, which comprises the balance sheet as at 31 March 2014, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board's responsibility for the statement of accounts

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

Auditor's responsibility

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the statement of accounts gives a true and fair view of the financial position of the Fund's affairs as at 31 March 2014, 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, 25 June 2014

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

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

	Note	2014 HK\$	2013 HK\$
INCOME			
Contributions		367,145,351	337,206,851
Interest income from cash and balances with banks and the Exchange Fund	9	5,124,513	2,928,779
Interest income from available-for-sale securities		—	958,311
Exchange (losses)/gains		(897)	200,847
Realised gains from the disposal of available-for-sale securities		—	23,546
Other income		60,000	60,000
		372,328,967	341,378,334
EXPENDITURE			
Staff costs	5	8,628,988	5,398,461
Premises costs	11	5,900,537	5,006,197
Depreciation and amortisation		4,113,601	3,555,850
Office supplies		115,998	257,884
Overseas travel		189,412	188,138
Transport and travelling		5,456	9,800
Operating expenses reimbursable to the HKMA	9	24,698,673	23,921,619
Hire of services		11,352,360	13,789,253
Communications		83,177	104,149
Publicity and printing		13,825,776	14,889,864
Other expenses		4,108,745	3,869,807
		73,022,723	70,991,022
Surplus for the year		299,306,244	270,387,312
Total comprehensive income for the year		299,306,244	270,387,312

The notes on pages 47 to 63 form part of this statement of accounts.

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND BALANCE SHEET

As at 31 March 2014 (Expressed in Hong Kong dollars)

	Note	2014 HK\$	2013 HK\$
Non-current assets			
Fixed assets	6	5,617,904	7,410,451
Intangible assets	7	5,452,849	5,804,426
		11,070,753	13,214,877
Current assets			
Other receivables	8	2,201,618	1,435,925
Cash and balances with banks and the Exchange Fund	9	2,424,501,601	2,102,615,447
		2,426,703,219	2,104,051,372
Current liabilities			
Contributions received in advance		291,157,122	270,166,455
Other payables	10	29,294,053	29,083,241
		320,451,175	299,249,696
Net current assets		2,106,252,044	1,804,801,676
Net assets		2,117,322,797	1,818,016,553
Represented by			
Accumulated surplus		2,117,322,797	1,818,016,553
		2,117,322,797	1,818,016,553

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 25 June 2014

Mrs Chan Wong Shui, Pamela, BBS, JP
Chairperson

The notes on pages 47 to 63 form part of this statement of accounts.

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

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

	2014 HK\$	2013 HK\$
Fund balance as at 1 April	1,818,016,553	1,547,629,241
Surplus for the year	299,306,244	270,387,312
Fund balance as at 31 March	2,117,322,797	1,818,016,553

The notes on pages 47 to 63 form part of this statement of accounts.

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

STATEMENT OF CASH FLOW

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

	2014 HK\$	2013 HK\$
Operating activities		
Surplus for the year	299,306,244	270,387,312
Interest income	(5,124,513)	(3,887,090)
Exchange losses/(gains)	897	(200,847)
Net realised gains	—	(23,546)
Depreciation and amortisation	4,113,601	3,555,850
Cash inflow from operating surplus before changes in operating assets and liabilities	298,296,229	269,831,679
Changes in operating assets and liabilities		
Increase in other receivables	(718,385)	(228,062)
Increase in contributions received in advance	20,990,667	23,064,905
Increase in other payables	210,812	3,471,240
Net cash inflow from operating activities	318,779,323	296,139,762
Investing activities		
Purchase of intangible assets	(1,795,425)	(2,624,297)
Purchase of fixed assets	(174,052)	(6,270,208)
Interest received	5,076,308	2,840,439
Purchase of available-for-sale securities	—	(619,772,185)
Proceeds from disposal and redemption of available-for-sale securities	—	620,978,674
Net cash inflow from investing activities	3,106,831	(4,847,577)
Net increase in cash and cash equivalents	321,886,154	291,292,185
Cash and cash equivalents at 1 April	2,102,615,447	1,811,323,262
Cash and cash equivalents at 31 March	2,424,501,601	2,102,615,447
Analysis of balance of cash and cash equivalents		
Cash and balances with banks and the Exchange Fund	2,424,501,601	2,102,615,447

The notes on pages 47 to 63 form part of this statement of accounts.

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

For the year ended 31 March 2014 (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”). Currently, the protection limit is set at HK\$500,000 per depositor per bank. The Hong Kong Deposit Protection Board (the “Board”) manages the Fund in accordance with the provisions of the Ordinance. The Fund mainly consists of contributions collected from Scheme members and returns on investments of the Fund. Expenditure incurred in the establishment and maintenance of the Scheme, as well as the management and administration of the Fund are paid from the Fund.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

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

There are no HKFRS or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning 1 January 2013 that would be expected to have a material impact on the Fund.

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

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 2013 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.

- HKAS 32, “Financial instruments: Presentation” (Amendment)
- HKFRS 10, “Consolidated Financial Statements”, HKFRS 12, “Disclosure of Interests in Other Entities” and HKAS 27 (2011), “Separate Financial Statements” (Amendments)
- HKAS 36, “Impairment of assets” (Amendment)
- HKAS 39, “Financial Instruments: Recognition and Measurement” (Amendment)

- (iii) *Up to the date of issue of the statement of accounts, the HKICPA has issued a number of amendments and interpretations which are not yet effective for the year ended 31 March 2014 and which have not been adopted in the statement of accounts.*

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

(b) Revenue recognition

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

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

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

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

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Revenue recognition *(continued)*

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.

(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

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Fixed assets *(continued)*

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

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

(e) Loans and receivables

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

(f) Intangible assets

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

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

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

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of financial assets

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

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

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

(h) Cash and cash equivalents

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

(i) Other payables

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

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Translation of foreign currencies

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

(k) Operating leases

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

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

(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.

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

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.

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

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

3 RISK MANAGEMENT *(continued)*

(b) Investment management and control

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

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

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

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

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

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

3 RISK MANAGEMENT *(continued)*

(c) Financial risk management

Market risk

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

(i) Interest rate risk

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

(ii) Currency risk

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

Liquidity risk

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

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

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.

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

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

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. In addition to the counterparty and issuer risks, the Fund is exposed to country risk, which is confined to the sovereign risk of Hong Kong and the US and the country risk of financial institutions approved by the Investment Committee given the Fund's limited types of investments. The Fund's credit exposures are reported regularly to the Investment Committee based on its delegated authority from the Board.

Fair value of financial assets and financial liabilities

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

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

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

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

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

3 RISK MANAGEMENT *(continued)*

(c) Financial risk management *(continued)*

(ii) Other receivables

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

(iii) Other payables

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

4 TAXATION

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

5 STAFF COSTS

	2014 HK\$	2013 HK\$
Salaries	7,540,413	4,885,019
Gratuity	362,467	—
Other employee benefits	726,108	513,442
	8,628,988	5,398,461

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

6 FIXED ASSETS

	Office equipment, furniture and fixtures HK\$	Computer hardware/ software HK\$	Total HK\$
Cost			
As at 1 April 2013	1,419,520	15,449,498	16,869,018
Additions	86,664	87,388	174,052
As at 31 March 2014	1,506,184	15,536,886	17,043,070
Accumulated depreciation			
As at 1 April 2013	1,042,238	8,416,329	9,458,567
Charge for the year	115,843	1,850,756	1,966,599
As at 31 March 2014	1,158,081	10,267,085	11,425,166
Net book value			
As at 31 March 2014	348,103	5,269,801	5,617,904
As at 31 March 2013	377,282	7,033,169	7,410,451

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

7 INTANGIBLE ASSETS

	Development costs of Payout System HK\$
Cost	
As at 1 April 2013	23,564,323
Additions	1,795,425
As at 31 March 2014	25,359,748
Accumulated amortisation	
As at 1 April 2013	17,759,897
Charge for the year	2,147,002
As at 31 March 2014	19,906,899
Net book value	
As at 31 March 2014	5,452,849
As at 31 March 2013	5,804,426

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

8 OTHER RECEIVABLES

	2014 HK\$	2013 HK\$
Prepayment	1,976,922	1,304,537
Interest receivables	162,196	114,888
Others	62,500	16,500
	2,201,618	1,435,925

9 MATERIAL RELATED PARTY TRANSACTIONS

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

The related party transactions with the HKMA are as follows:

	Note	2014 HK\$	2013 HK\$
Aggregate amounts outstanding at the year end			
Balances with the Exchange Fund	(a)	2,027,679,431	1,705,395,502
Transactions during the year			
Interest income from balances with the Exchange Fund	(a)	2,450,116	1,056,009
Operating expenses reimbursed to the HKMA	(b)	24,698,673	23,921,619

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

9 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

- (a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$2,027,679,431 (2013: HK\$1,705,395,502) and earned interest amounting to HK\$2,450,116 (2013: HK\$1,056,009) 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 (2013: HK\$120 billion) of which nil (2013: nil) was drawn during the year.

10 OTHER PAYABLES

	Note	2014 HK\$	2013 HK\$
Hire of services	(a)	27,781,080	25,739,751
Staff expenses		915,461	323,829
Others		597,512	3,019,661
		29,294,053	29,083,241

- (a) This amount includes operating expenses reimbursed to the HKMA HK\$24,698,673 (2013: HK\$23,921,619), services fee for payout rehearsal HK\$1,257,625 (2013: HK\$1,050,941) and fees for other hire of services HK\$1,824,782 (2013: HK\$767,191).

STATEMENT OF ACCOUNTS OF THE DEPOSIT PROTECTION SCHEME FUND

NOTES TO THE STATEMENT OF ACCOUNTS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

11 OPERATING LEASE COMMITMENTS

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

	2014 HK\$	2013 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
	7,946,648	13,114,748

12 APPROVAL OF STATEMENT OF ACCOUNTS

The statement of accounts was approved by the Board on 25 June 2014.

ANNEX 1: NAMES OF SCHEME MEMBERS AS OF 31 MARCH 2014

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

ANNEX 1: NAMES OF SCHEME MEMBERS AS OF 31 MARCH 2014

CREDIT SUISSE AG	INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED
CTBC BANK CO., LTD.	INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED (THE)
DAH SING BANK, LIMITED	INDUSTRIAL BANK CO., LTD.
DBS BANK (HONG KONG) LIMITED	INDUSTRIAL BANK OF KOREA
DBS BANK LTD.	INDUSTRIAL BANK OF TAIWAN CO., LTD.
DZ BANK AG DEUTSCHE ZENTRAL-GENOSSENSCHAFTSBANK, FRANKFURT AM MAIN	ING BANK N.V.
E.SUN COMMERCIAL BANK, LTD.	INTESA SANPAOLO SPA
EAST WEST BANK	IYO BANK, LTD. (THE)
EFG BANK LTD	JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
ERSTE GROUP BANK AG	KBC BANK N.V.
FALCON PRIVATE BANK LTD.	KOREA EXCHANGE BANK
FAR EASTERN INTERNATIONAL BANK	LAND BANK OF TAIWAN CO., LTD.
FIRST COMMERCIAL BANK, LTD.	LGT BANK AG
FUBON BANK (HONG KONG) LIMITED	LLOYDS BANK PLC
HACHIJUNI BANK, LTD. (THE)	MACQUARIE BANK LIMITED
HANA BANK	MALAYAN BANKING BERHAD
HANG SENG BANK, LIMITED	MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
HDFC BANK LIMITED	MELLI BANK PLC
HONG LEONG BANK BERHAD	MITSUBISHI UFJ TRUST AND BANKING CORPORATION
HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED (THE)	MIZUHO BANK, LTD.
HSBC BANK INTERNATIONAL LIMITED	NANYANG COMMERCIAL BANK, LIMITED
HSBC BANK PLC	NATIONAL AUSTRALIA BANK, LIMITED
HSBC BANK USA, NATIONAL ASSOCIATION	NATIONAL BANK OF ABU DHABI
HSBC PRIVATE BANK (SUISSE) SA	NATIONAL BANK OF PAKISTAN
HUA NAN COMMERCIAL BANK, LTD.	NATIXIS
ICICI BANK LIMITED	NEWEDGE GROUP
INDIAN OVERSEAS BANK	

ANNEX 1: NAMES OF SCHEME MEMBERS AS OF 31 MARCH 2014

OVERSEA-CHINESE BANKING CORPORATION LTD.	STATE BANK OF INDIA
PHILIPPINE NATIONAL BANK	STATE STREET BANK AND TRUST COMPANY
PICTET & CIE (EUROPE) S.A.	SUMITOMO MITSUI BANKING CORPORATION
PORTIGON AG	SUMITOMO MITSUI TRUST BANK, LIMITED
PT. BANK NEGARA INDONESIA (PERSERO) TBK.	SVENSKA HANDELSBANKEN AB (PUBL)
PUBLIC BANK (HONG KONG) LIMITED	TA CHONG BANK, LTD.
PUNJAB NATIONAL BANK	TAI SANG BANK LTD.
RAIFFEISEN BANK INTERNATIONAL AG	TAI YAU BANK, LIMITED
ROYAL BANK OF CANADA	TAIPEI FUBON COMMERCIAL BANK CO., LTD.
ROYAL BANK OF SCOTLAND N.V. (THE)	TAISHIN INTERNATIONAL BANK CO., LTD
ROYAL BANK OF SCOTLAND PUBLIC LIMITED COMPANY (THE)	TAIWAN BUSINESS BANK
SHANGHAI COMMERCIAL & SAVINGS BANK, LTD. (THE)	TAIWAN COOPERATIVE BANK, LTD.
SHANGHAI COMMERCIAL BANK LIMITED	TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD
SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.	TORONTO-DOMINION BANK
SHIGA BANK LIMITED (THE)	UBS AG
SHINHAN BANK	UCO BANK
SHIZUOKA BANK, LTD. (THE)	UNICREDIT BANK AG
SKANDINAVISKA ENSKILDA BANKEN AB	UNION BANK OF INDIA
SOCIETE GENERALE	UNITED OVERSEAS BANK LTD.
SOCIETE GENERALE BANK & TRUST	WELLS FARGO BANK, NATIONAL ASSOCIATION
STANDARD BANK PLC	WESTPAC BANKING CORPORATION
STANDARD CHARTERED BANK	WING HANG BANK, LIMITED
STANDARD CHARTERED BANK (HONG KONG) LIMITED	WING LUNG BANK LIMITED
	WOORI BANK

ANNEX 2: LIST OF MAJOR PUBLICITY AND COMMUNITY EDUCATION ACTIVITIES FOR 2013–2014

Month	Campaigns/Activities
June – December 2013	Partnership with Hongkong Post Card-sized DPS magnifiers distributed to “PayThruPost” customers at Hongkong Post’s extensive post office network
June - August 2013	Mass Media Coverage TV <ul style="list-style-type: none"> – A short video aired on major terrestrial and paid TV channels Print Media <ul style="list-style-type: none"> – Key messages in widely circulated newspapers – Articles highlighting DPS themes in major weekly magazines and newsletters for professional groups Radio <ul style="list-style-type: none"> – Sound clips promoting the core features of DPS targeting households and senior citizens Out-of-Home Platforms <ul style="list-style-type: none"> – Bus shelter displays in 18 districts – Videos on bus and train infotainment systems – “Tunnel wrap” on Kowloon Tong MTR station walkways
August – November 2013	DPS Mascot Design Competition The DPB partnered with Hong Kong Design Institute (HKDI) to organise a design competition of an interesting and friendly mascot for conveying DPS messages to the public. A prize presentation ceremony held at the HKDI in November also included sharing sessions about the DPS, money management, and professional design experience
September 2013 – March 2014	“Ensure your Protection, Save with Confidence” Bun-Making Campaign DPS messages were introduced together with a series of healthy bun recipes in 10 bun-making videos presented by a celebrity chef on digital media. To maximise the campaign’s impact, online engagement campaigns with an interactive quiz and photo contest were launched side-by-side on a social networking platform

ANNEX 2: LIST OF MAJOR PUBLICITY AND COMMUNITY EDUCATION ACTIVITIES FOR 2013–2014

Month	Campaigns/Activities
November - December 2013	<p>Mass Media Coverage</p> <p>TV</p> <ul style="list-style-type: none"> – A series of five episodes to enhance the public's understanding of key DPS features were broadcast during November and December; they were also made available online to increase the campaign's reach <p>Print Media</p> <ul style="list-style-type: none"> – Key messages in widely circulated newspapers <p>Out-of-Home Platforms</p> <ul style="list-style-type: none"> – Bus shelter displays in 18 districts – Videos on bus and train infotainment systems – “Tunnel wrap” on walkways at Causeway Bay MTR station
December 2013 – January 2014	<p>DPS Neighbourhood Exhibitions</p> <p>A roadshow to communicate directly with the public about the DPS at community level visited the North District Flower Bird Insect & Fish Show in December 2013 and the Hong Kong Brands and Products Expo Fair in January 2014</p>