

DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2015



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

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

DEPOSIT PROTECTION SCHEME FUND — BALANCE SHEET

As at 31 March 2015



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

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

Mrs Chan Wong Shui, Pamela, BBS, JP
Chairperson

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



DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2015

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

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



DEPOSIT PROTECTION SCHEME FUND — STATEMENT OF CASH FLOWS

For the year ended 31 March 2015

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

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



1 Purpose and Activities

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

2 Significant Accounting Policies

(a) Basis of preparation

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

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

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

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

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

2 Significant Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

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

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

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

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

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

(b) Revenue recognition

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

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

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

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

2 Significant Accounting Policies *(continued)*

(b) Revenue recognition *(continued)*

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

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

(c) Expenses

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

(d) Fixed assets

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

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

2 Significant Accounting Policies *(continued)*

(d) Fixed assets *(continued)*

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

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

(e) Loans and receivables

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

(f) Intangible assets

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

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

2 Significant Accounting Policies *(continued)*

(g) Impairment of financial assets

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

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

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

(h) Cash and cash equivalents

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

(i) Other payables

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

2 Significant Accounting Policies *(continued)*

(j) Translation of foreign currencies

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

(k) Operating leases

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

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

2 Significant Accounting Policies *(continued)*

(l) Provisions and contingent liabilities

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

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

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

(m) Employee benefits

(i) *Employee leave entitlements*

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

(ii) *Pension obligations*

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

(n) Related parties

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

3 Risk Management

(a) Governance

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

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

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

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

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

3 Risk Management *(continued)*

(b) Investment management and control

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

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

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

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

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

3 Risk Management *(continued)*

(c) Financial risk management

Market risk

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

(i) *Interest rate risk*

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

(ii) *Currency risk*

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

Liquidity risk

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

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

3 Risk Management *(continued)*

(c) Financial risk management *(continued)*

Credit risk

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

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

Fair value of financial assets and financial liabilities

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

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

(i) Bank balances and balances with the Exchange Fund

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

DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

3 Risk Management *(continued)*

(c) Financial risk management *(continued)*

(ii) Other receivables

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

(iii) Other payables

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

4 Taxation

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

5 Staff Costs

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

DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

6 Fixed Assets

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

7 Intangible Assets

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

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

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

The related party transactions with the HKMA are as follows:

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

(a) During the year, the Fund placed deposits with the Exchange Fund amounting to HK\$2,371,503,564 (2014: HK\$2,027,679,431) and earned interest amounting to HK\$1,401,312 (2014: HK\$2,450,116) at a rate which is referenced to the market interest rates.

(b) Certain operating expenses are reimbursed to the HKMA on a cost recovery basis in accordance with the provisions set out in the Ordinance. The expenses include the cost of staff and supporting services incurred by the HKMA for assisting the Board in carrying out its functions.

(c) During the year, the HKMA provided the Board a standby facility from the Exchange Fund for meeting the necessary liquidity required for payment of compensation in the event of a bank failure. The maximum amount which may be drawn under the facility is HK\$120 billion (2014: HK\$120 billion) of which nil (2014: nil) was drawn during the year.

DEPOSIT PROTECTION SCHEME FUND — NOTES TO THE STATEMENT OF ACCOUNTS

10 Other Payables

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

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

11 Operating Lease Commitments

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

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

12 Approval of Statement of Accounts

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