



## Report of the Director of Audit to the Financial Secretary

I have audited the statement of the accounts on pages 92 to 107 which has been prepared in accordance with the accounting policies set out in Note 2 on the accounts.

### Respective responsibilities of the Monetary Authority and the Director of Audit

The directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance (Cap. 66) requires the Monetary Authority to sign the statement of the accounts. In preparing the statement of the accounts, the Monetary Authority has to select appropriate accounting policies and to apply them consistently.

It is my responsibility to form an independent opinion, based on my audit, on that statement of the accounts and to report my opinion to you.

### Basis of opinion

I certify that I have audited the statement of the accounts referred to above in accordance with the directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance and the Audit Commission auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of the accounts. It also includes an assessment of the significant estimates and judgements made by the Monetary Authority in the preparation of the statement of the accounts, and of whether the accounting policies are appropriate to the Exchange Fund's and the Group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance as to whether the statement of the accounts is free from material misstatement. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the statement of the accounts. I believe that my audit provides a reasonable basis for my opinion.

### Opinion

In my opinion the statement of the accounts gives a true and fair view, in all material respects, of the state of affairs of the Exchange Fund and of the Group as at 31 December 1999 and of their surplus for the year then ended and has been properly prepared in accordance with the directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance.

Audit Commission

Hong Kong

24 March 2000

**Dominic Y T Chan**

Director of Audit



## Exchange Fund – Income and Expenditure Account

for the year ended 31 December 1999

(Expressed in millions of Hong Kong dollars)	Notes	Group		Fund	
		1999	1998	1999	1998
<b>INCOME</b>					
Investment income	3	104,782	94,218	103,785	93,795
Licence fees	3	158	170	158	170
Others	3	238	173	30	19
<b>TOTAL INCOME</b>		<b>105,178</b>	<b>94,561</b>	<b>103,973</b>	<b>93,984</b>
<b>EXPENDITURE</b>					
Note and coin expenses	4	454	672	454	672
Operating expenses	4	1,170	937	905	799
Interest	4	54,468	40,699	54,001	40,494
<b>TOTAL EXPENDITURE</b>		<b>56,092</b>	<b>42,308</b>	<b>55,360</b>	<b>41,965</b>
<b>SURPLUS BEFORE SHARE OF PROFIT OF ASSOCIATED COMPANY</b>		<b>49,086</b>	<b>52,253</b>	<b>48,613</b>	<b>52,019</b>
Share of profit of associated company		1	9	-	-
<b>SURPLUS BEFORE TAXATION</b>		<b>49,087</b>	<b>52,262</b>	<b>48,613</b>	<b>52,019</b>
Taxation : subsidiaries		69	40	-	-
<b>SURPLUS AFTER TAXATION BEFORE MINORITY INTERESTS</b>		<b>49,018</b>	<b>52,222</b>	<b>48,613</b>	<b>52,019</b>
Minority interests		58	48	-	-
<b>SURPLUS FOR THE YEAR</b>		<b>48,960</b>	<b>52,174</b>	<b>48,613</b>	<b>52,019</b>
<b>STATEMENT OF ACCUMULATED SURPLUS</b>					
Accumulated surplus brought forward		242,310	190,136	242,245	190,226
Surplus for the year		48,960	52,174	48,613	52,019
<b>ACCUMULATED SURPLUS CARRIED FORWARD</b>		<b>291,270</b>	<b>242,310</b>	<b>290,858</b>	<b>242,245</b>

No separate statement of recognised gains and losses has been prepared as the surplus for the year would be the only component of this statement for both the current and the previous year.

The notes on pages 94 to 107 form part of these accounts.



## Exchange Fund – Balance Sheet

as at 31 December 1999

		Group		Fund	
(Expressed in millions of Hong Kong dollars)	Notes	1999	1998	1999	1998
ASSETS					
Cash and short-term funds	5	167,063	133,334	167,047	133,325
Fixed deposits		77,289	52,439	71,942	52,194
Certificates of deposit		4,982	27,832	4,982	27,832
Investments	6	738,464	676,963	739,064	677,569
Mortgage loans		8,727	11,376	-	-
Fixed assets	7	283	293	213	217
Other assets	8	17,598	19,165	19,508	21,138
TOTAL ASSETS		9	1,014,406	921,402	1,002,756
LIABILITIES					
Certificates of Indebtedness	10	118,195	86,465	118,195	86,465
Coins in circulation	10	5,777	5,778	5,777	5,778
Balance of the banking system	11	7,960	2,527	7,960	2,527
Exchange Fund Bills and Notes	12	101,828	98,334	101,828	98,334
Placements by other Hong Kong Special Administrative Region government funds	13	392,206	424,562	392,206	424,562
Placements by other institutions	14	29,099	21,401	29,099	17,219
Other liabilities	15	67,890	39,902	56,833	35,145
TOTAL LIABILITIES			722,955	678,969	711,898
			291,451	242,433	290,858
REPRESENTING					
ACCUMULATED SURPLUS			291,270	242,310	290,858
MINORITY INTERESTS			181	123	-
			291,451	242,433	290,858

Joseph Yam

Monetary Authority

23 March 2000

The notes on pages 94 to 107 form part of these accounts.



## Exchange Fund – Notes on the Accounts

(Amounts expressed in millions of Hong Kong dollars, unless otherwise stated.)

### 1. GENERAL

The Monetary Authority, under delegated authority from the Financial Secretary as Controller of the Exchange Fund, manages the Exchange Fund in accordance with the provisions of the Exchange Fund Ordinance.

### 2. PRINCIPAL ACCOUNTING POLICIES

#### (a) Group accounts

The consolidated accounts comprise the accounts of the Exchange Fund (the Fund) and its subsidiary companies (the Group). All significant intra-group balances and transactions have been eliminated on consolidation.

#### (b) Financial assets and liabilities

Debt securities, equities and Exchange Fund Bills and Notes are valued in the accounts at market value at the balance sheet date. The accounting treatment of debt securities and equities is in accordance with the “benchmark treatment” for “other investments” set out in Statement of Standard Accounting Practice No. 24 “Accounting for investments in securities” issued by the Hong Kong Society of Accountants, and is consistent with the treatment adopted in the previous year.

Fixed deposits, certificates of deposit, placements by other Hong Kong Special Administrative Region (“HKSAR”) government funds for which interest is payable at predetermined fixed rates, placements by other Hong Kong statutory bodies and other borrowings are valued according to a price matrix of discounted cash flows using year end interest rates for discounting.

Where securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the Balance Sheet as assets and a liability is recorded in respect of the consideration received in “Placements by other institutions”. Conversely, securities purchased under analogous commitments to resell are not recognised as assets on the Balance Sheet and the consideration paid is recorded in “Cash and short-term funds” as “Placements with banks and other financial institutions in respect of resale agreements”. At the balance sheet date consideration received or paid under repurchase and resale agreements are valued according to a price matrix of discounted cash flows using year end interest rates for discounting.

The consequential change in value of the asset or liability arising from revaluation is reflected in the carrying value of the relevant asset or liability in the Balance Sheet except in the case of placements by other HKSAR government funds for which interest is payable at predetermined fixed rates, which are stated in the Balance Sheet at the principal amounts payable at the balance sheet date with the revaluation differences included in other liabilities.



## Exchange Fund – Notes on the Accounts (cont.)

Placements by other HKSAR government funds for which interest is payable at rates determined by reference to the investment income of the Fund are stated at the principal amounts payable at the balance sheet date.

Mortgage loans are stated at their principal value less provisions for bad and doubtful loans.

Revaluation gains and losses are included in the Income and Expenditure Account as investment gains and losses.

### (c) Investments in subsidiary and associated companies

Investments in subsidiary and associated companies are stated in the Fund's Balance Sheet at cost less any provisions for diminutions in value that are other than temporary as determined by management. In the Group's Balance Sheet, the investment in the associated company is stated at the Group's share of its net assets. The Group's Income and Expenditure Account includes the Group's share of the results of the associated company for the year.

### (d) Investment in the Bank for International Settlements

Investment in unlisted shares of the Bank for International Settlements is stated at cost.

### (e) Foreign currency translation

Foreign currency assets and liabilities (being assets and liabilities denominated in foreign currencies) are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency assets and liabilities are included in the Income and Expenditure Account.

Certificates of Indebtedness and with effect from 1 April 1999 coins in circulation, both of which are denominated in Hong Kong dollars but are issued and redeemed in US dollars at the linked exchange rate of US\$1=HK\$7.80, are stated in the accounts at their Hong Kong dollar face value. At the balance sheet date the difference between their Hong Kong dollar face value and the market value of the US dollars required for their redemption is included in other assets.

Foreign currency income and expenditure are translated into Hong Kong dollars at the exchange rates prevailing at the transaction dates.

### (f) Off-balance sheet financial instruments

Forward foreign exchange contracts are marked to market on the balance sheet date with the resultant revaluation gains and losses being included in the Income and Expenditure Account as exchange gains and losses, as are exchange gains and losses arising from forward foreign exchange contracts maturing during the year.



## Exchange Fund – Notes on the Accounts (cont.)

Interest rate swap contracts, stock index futures contracts and bond futures contracts are marked to market on the balance sheet date with the resultant revaluation gains and losses being included in the Income and Expenditure Account as investment gains and losses. Interest income and expenses arising from interest rate swap contracts are included in the Income and Expenditure Account as adjustments to interest expenses. Gains and losses on sale and maturity of stock index futures contracts and bond futures contracts are included in the Income and Expenditure Account as investment gains and losses.

### (g) Fixed assets

Fixed assets, including land and building, plant and machinery, furniture, fixtures and equipment, motor vehicles, personal computers and capitalised systems development costs, are stated at cost less accumulated depreciation and are depreciated on a straight-line basis over their respective estimated useful lives of between 3 and 50 years.

### (h) Revenue recognition

Interest income is recognised on an accrual basis and dividend income is recognised when the share price goes ex-dividend.

### (i) Borrowing costs

Interest costs are recognised on an accrual basis. Discounts and premiums relating to borrowings are amortised on a straight-line basis over the respective remaining lives of the instruments.

## 3. INCOME

### (a) Investment income

	Group		Fund	
	1999	1998	1999	1998
Interest income from debt securities	26,797	25,670	26,837	25,696
Other interest income	6,138	8,374	5,207	7,907
Dividend income from listed investments	6,969	1,770	6,969	1,770
Net exchange gains/(losses)	(9,858)	7,412	(9,858)	7,412
Net investment gains	74,736	50,992	74,630	51,010
<b>TOTAL</b>	<b>104,782</b>	<b>94,218</b>	<b>103,785</b>	<b>93,795</b>



## Exchange Fund – Notes on the Accounts (cont.)

(b) **Licence fees** are fees receivable from Authorised Institutions under the Banking Ordinance.

(c) **Others** include income from sale of withdrawn coins, Central Moneymarkets Unit fees and other operating income of subsidiary companies.

#### 4. EXPENDITURE

(a) **Note and coin expenses** represent reimbursements to the note-issuing banks in respect of note-issuing expenses, and expenses incurred directly by the Exchange Fund in issuing coins.

(b) **Operating expenses**

	Group		Fund	
	1999	1998	1999	1998
Staff costs	531	454	430	389
Premises and equipment expenses	141	115	126	104
Depreciation charges	85	64	60	49
Provisions for bad and doubtful loans	7	17	-	-
Other operating expenses	406	287	289	257
<b>TOTAL</b>	<b>1,170</b>	<b>937</b>	<b>905</b>	<b>799</b>

The numbers of senior staff (Executive Directors and above) of the Hong Kong Monetary Authority (“HKMA”) whose emoluments fell within the following bands were:

HK\$	1999	1998
1,000,000 or below	1	2
3,000,001 to 3,500,000	4	4
3,500,001 to 4,000,000	2	1
4,000,001 to 4,500,000	1	1
4,500,001 to 5,000,000	1	1
5,000,001 to 5,500,000	1	1
6,000,001 to 6,500,000	1	1
8,500,001 to 9,000,000	1	1
	<b>12</b>	<b>12</b>

(c) **Interest** comprises the interest cost of, and amortisation of discounts and premiums on, Exchange Fund Bills and Notes, and interest on notes issued by The Hong Kong Mortgage Corporation Limited and placements by other HKSAR government funds (see Note 13) and other institutions.





## Exchange Fund – Notes on the Accounts (cont.)

### 5. CASH AND SHORT-TERM FUNDS

	Group		Fund	
	1999	1998	1999	1998
Cash and money at call and short notice	16,510	12,268	16,494	12,259
Treasury bills and commercial papers				
Listed outside Hong Kong	10,735	91	10,735	91
Unlisted	109,291	120,642	109,291	120,642
Placements with banks and other financial institutions in respect of resale agreements	30,527	328	30,527	328
Others	-	5	-	5
<b>TOTAL</b>	<b>167,063</b>	<b>133,334</b>	<b>167,047</b>	<b>133,325</b>

### 6. INVESTMENTS

	Group		Fund	
	1999	1998	1999	1998
Debt securities				
Listed in Hong Kong	10,975	3,121	11,472	3,121
Listed outside Hong Kong	408,887	393,107	408,887	393,107
Unlisted	55,554	80,047	55,657	80,653
Equities				
Listed in Hong Kong	218,806	161,426	218,806	161,426
Listed outside Hong Kong	44,091	39,097	44,091	39,097
Unlisted	-	16	-	16
Gold	151	149	151	149
<b>TOTAL</b>	<b>738,464</b>	<b>676,963</b>	<b>739,064</b>	<b>677,569</b>



## Exchange Fund – Notes on the Accounts (cont.)

## 7. FIXED ASSETS

	Group		Fund	
	1999	1998	1999	1998
<b>Costs</b>				
As at beginning of the year	421	354	315	263
Additions	75	70	56	55
Disposals	(2)	(3)	(2)	(3)
As at end of the year	494	421	369	315
<b>Accumulated depreciation</b>				
As at beginning of the year	128	64	98	49
Charge for the year	85	64	60	49
Written back on disposal	(2)	-	(2)	-
As at end of the year	211	128	156	98
<b>Net book value as at end of the year</b>	<b>283</b>	<b>293</b>	<b>213</b>	<b>217</b>

## 8. OTHER ASSETS

		Group		Fund	
		1999	1998	1999	1998
Investments in subsidiary companies	(a)	-	-	2,145	2,145
Investments in associated company	(b)	11	31	22	43
Investment in the Bank for International Settlements	(c)	300	300	300	300
Thailand financing package	(d)	6,701	5,872	6,701	5,872
Loan to the International Monetary Fund	(e)	-	342	-	342
Staff housing loans	(f)	292	291	292	291
Others	(g)	10,294	12,329	10,048	12,145
<b>TOTAL</b>		<b>17,598</b>	<b>19,165</b>	<b>19,508</b>	<b>21,138</b>



## Exchange Fund – Notes on the Accounts (cont.)

### (a) Investments in subsidiary companies

Name of company	Place of incorporation and operation	Principal activities	Issued equity capital	Exchange Fund's interest in equity capital
Hong Kong Note Printing Limited	Hong Kong	Notes printing	HK\$255,000,000	55%
The Hong Kong Mortgage Corporation Limited	Hong Kong	Mortgage securitisation	HK\$2,000,000,000	100%
Exchange Fund Investment Limited	Hong Kong	Investment management	HK\$5,000,000	100%
Hong Kong Institute for Monetary Research	Hong Kong	Research	HK\$2	100%

Hong Kong Institute for Monetary Research was incorporated on 2 August 1999 to conduct research in the fields of monetary policy, banking and finance that are of strategic importance to Hong Kong and the Asian Region.

### (b) Investment in associated company

Name of company	Place of incorporation and operation	Principal activities	Issued equity capital	Exchange Fund's interest in equity capital
Hong Kong Interbank Clearing Limited	Hong Kong	Interbank clearing	HK\$10,000	50%



## Exchange Fund – Notes on the Accounts (cont.)

The breakdown of the investment is:

	Group		Fund	
	1999	1998	1999	1998
Shares at cost (HK\$5,000)	-	-	-	-
Loans	22	43	22	43
Accumulated deficit	(11)	(12)	-	-
<b>TOTAL</b>	<b>11</b>	<b>31</b>	<b>22</b>	<b>43</b>

(c) **Investment in the Bank for International Settlements** comprises 3,000 unlisted shares with a nominal value of 2,500 Swiss gold francs each (25% paid).

**(d) Thailand financing package**

On 21 September 1997, the HKMA participated in a financing package organised for Thailand by the International Monetary Fund (“IMF”). The financing package is in the form of a Currency Swap Agreement (“the Agreement”) between the Bank of Thailand (“BOT”) and a number of Asian central banks and multinational institutions, including the HKMA and the IMF. Under the Agreement, the HKMA, on behalf of the Exchange Fund, entered into swap transactions to exchange US dollars for Thai Baht up to a maximum of US\$1 billion for a maximum period of five years. At the end of the agreed period for each swap transaction, the exchange of currencies will be reversed and the US dollars to be received by the HKMA will be equivalent to the original principal swapped plus interest at market rate. The transaction is accounted for as a US dollar loan to reflect its economic substance. As at 31 December 1999, the outstanding principal and accrued interest due from BOT under the Agreement amounted to US\$862 million (1998 - US\$758 million) and US\$11 million (1998 - US\$7 million) respectively.

**(e) Loan to the International Monetary Fund**

On 27 January 1997, the HKMA participated in the New Arrangements to Borrow (“NAB”), a standby credit facility to the IMF for coping with instability in the international monetary system. In respect of this, the HKMA undertakes to lend foreign currencies up to HK\$3,623 million equivalent to the IMF, in the form of a term loan of five year maturity bearing prevailing market interest rates. As at 31 December 1999, there was no outstanding balance due from the IMF under the NAB (1998 - HK\$342 million).

(f) **Staff housing loans** amounted to HK\$291.9 million as at 31 December 1999 (1998 - HK\$290.7 million).

The portion of the loans repayable within one year amounted to HK\$9.1 million (1998 - HK\$8.7 million).



## Exchange Fund – Notes on the Accounts (cont.)

- (g) **Others** include interest receivable, prepaid expenses and the difference between the Hong Kong dollar face value of the Certificates of Indebtedness and coins in circulation and the market value of the US dollars required for their redemption.

### 9. TOTAL ASSETS

	Group		Fund	
	1999	1998	1999	1998
Foreign currency assets	758,233	701,239	755,115	701,239
Hong Kong dollar assets	256,173	220,163	247,641	211,036
<b>TOTAL</b>	<b>1,014,406</b>	<b>921,402</b>	<b>1,002,756</b>	<b>912,275</b>

The Exchange Fund holds Hong Kong dollar and foreign currency assets. A large proportion of the Fund's foreign currency assets is held in US dollars. Apart from the US dollar assets, the Fund also holds assets denominated in fully convertible foreign currencies.

As at 31 December 1999, total foreign currency assets and forward foreign exchange transactions are as follows:

	Group		Fund	
	1999	1998	1999	1998
Foreign currency assets excluding forward transactions	758,233	701,239	755,115	701,239
Net forward transactions	249	(127)	249	(127)
<b>TOTAL</b>	<b>758,482</b>	<b>701,112</b>	<b>755,364</b>	<b>701,112</b>
US\$ million equivalent	97,573	90,498	97,172	90,498

The Exchange Fund's assets are held in deposit, trustee and safe-keeping accounts with banks, central banks and custodial organisations situated in Hong Kong and other major financial centres.

Starting from 1 October 1998, specific US dollar assets of the Exchange Fund have been designated to back the monetary base, which comprises Certificates of Indebtedness, coins in circulation, the balance of the banking system and Exchange Fund Bills and Notes. While specific assets of the Exchange Fund have been earmarked for backing the monetary base, all Exchange Fund assets have continued to be available for the purpose of supporting the Hong Kong dollar exchange rate under the linked exchange rate system.



## Exchange Fund – Notes on the Accounts (cont.)

As at 31 December 1999, the position of the Currency Board Account is as follows:

	1999	1998
<b>Monetary base</b>		
Certificates of Indebtedness	118,195	86,465
Coins in circulation	5,777	5,778
Balance of the banking system	7,960	2,527
Exchange Fund Bills and Notes	101,828	98,334
Interest payable on Exchange Fund Notes	626	620
Net accounts receivable	-	(6)
<b>TOTAL (a)</b>	<b>234,386</b>	<b>193,718</b>
<b>Backing assets</b>		
Investment in designated US dollar assets	255,720	207,394
Interest receivable on designated US dollar assets	1,267	2,290
<b>TOTAL (b)</b>	<b>256,987</b>	<b>209,684</b>
<b>Backing ratio [(b) / (a)] x 100%</b>	<b>109.64%</b>	<b>108.24%</b>

## 10. CERTIFICATES OF INDEBTEDNESS AND COINS IN CIRCULATION

As backing for the banknote issues, each note-issuing bank is required to hold a non-interest bearing Certificate of Indebtedness issued by the Financial Secretary. Payments for the issuance and redemption of notes against these Certificates are made in US dollars at a fixed rate of US\$1=HK\$7.80. Consistent with the requirement for backing banknote issuance with US dollars, a new arrangement for coins in circulation became effective from 1 April 1999 whereby the issue and withdrawal of coins are conducted against US dollars at a fixed rate of US\$1=HK\$7.80.

## 11. BALANCE OF THE BANKING SYSTEM

Under the interbank payment system based on Real Time Gross Settlement principles, all licensed banks maintain a Hong Kong dollar clearing account with the HKMA for the account of the Exchange Fund. The aggregate balance in these accounts represents the total level of liquidity in the interbank market. Under the Convertibility Undertaking which came into effect from 7 September 1998, the HKMA undertook to convert Hong Kong dollars in the clearing accounts maintained by licensed banks with the HKMA into US dollars at the fixed exchange rate of HK\$7.75 to US\$1. Starting from 1 April 1999 the exchange rate under the Convertibility Undertaking moves from HK\$7.75 to HK\$7.80 over a 500-day period in accordance with a scheme announced by the HKMA on 26 November 1998.



## Exchange Fund – Notes on the Accounts (cont.)

### 12. EXCHANGE FUND BILLS AND NOTES

Exchange Fund Bills are issued by the Exchange Fund for maturities not exceeding one year. Exchange Fund Notes are issued by the Exchange Fund with 2-year, 3-year, 5-year, 7-year and 10-year maturities. In the table below, Exchange Fund Notes are categorised according to their remaining term to maturity.

	Group		Fund	
	1999	1998	1999	1998
Exchange Fund Bills	66,620	63,165	66,620	63,165
Exchange Fund Notes				
Maturing within 1 year	7,257	6,050	7,257	6,050
Maturing after 1 year but within 5 years	20,049	19,208	20,049	19,208
Maturing after 5 years	7,902	9,911	7,902	9,911
<b>TOTAL</b>	<b>101,828</b>	<b>98,334</b>	<b>101,828</b>	<b>98,334</b>

### 13. PLACEMENTS BY OTHER HKSAR GOVERNMENT FUNDS

These represent placements by other HKSAR government funds with the Exchange Fund. In 1999, interest on these placements amounted to HK\$45,891 million (1998 - HK\$30,434 million). The breakdown of placements by other HKSAR government funds is:

	Group		Fund	
	1999	1998	1999	1998
<b>Placements with interest payable at predetermined fixed rates</b>				
General Revenue Account	1,718	2,030	1,718	2,030
Capital Investment Fund	1,633	5,112	1,633	5,112
Loan Fund	6,488	510	6,488	510
Capital Works Reserve Fund	1,526	1,015	1,526	1,015
Innovation and Technology Fund	62	-	62	-
	<b>11,427</b>	<b>8,667</b>	<b>11,427</b>	<b>8,667</b>
<b>Placements with interest payable at rates determined by reference to the investment income of the Exchange Fund</b>				
General Revenue Account	116,397	159,020	116,397	159,020
Land Fund	213,159	211,383	213,159	211,383
Capital Works Reserve Fund	36,278	36,397	36,278	36,397
Civil Service Pension Reserve Fund	10,123	9,079	10,123	9,079
Disaster Relief Fund	25	16	25	16
Innovation and Technology Fund	4,797	-	4,797	-
	<b>380,779</b>	<b>415,895</b>	<b>380,779</b>	<b>415,895</b>
<b>TOTAL</b>	<b>392,206</b>	<b>424,562</b>	<b>392,206</b>	<b>424,562</b>



## Exchange Fund – Notes on the Accounts (cont.)

## 14. PLACEMENTS BY OTHER INSTITUTIONS

	Group		Fund	
	1999	1998	1999	1998
Placements by other Hong Kong statutory bodies	9,986	4,647	9,986	4,647
Others	19,113	16,754	19,113	12,572
<b>TOTAL</b>	<b>29,099</b>	<b>21,401</b>	<b>29,099</b>	<b>17,219</b>

## 15. OTHER LIABILITIES

Other liabilities include interest payable on Exchange Fund Notes, notes issued by The Hong Kong Mortgage Corporation Limited and placements by other HKSAR government funds, other accrued expenses, provision for Tracker Fund loyalty bonus (see Note 16) and the revaluation differences of placements by other HKSAR government funds for which interest is payable at predetermined fixed rates.

## 16. TRACKER FUND LOYALTY BONUS SCHEME

The Tracker Fund of Hong Kong, a collective investment fund designed to provide investment results that closely correspond to the performance of the Hang Seng Index, made an initial offer of its units to subscribers in October 1999. The proceeds of the initial offer were used to buy shares from the Exchange Fund.

Under the terms of the issue of the Tracker Fund of Hong Kong, qualified Tracker Fund Unitholders will be eligible to receive loyalty bonuses in two tranches, on 12 November 2000 and 12 November 2001 respectively, in the form of Tracker Fund Units (“Units”), based on a predetermined formula, the cost of which is to be borne by the Exchange Fund. The Exchange Fund has acquired a sufficient number of Units to meet its maximum liability under the Scheme. As at 31 December 1999, provision for the loyalty bonus amounted to HK\$2,746 million (1998 - nil), which represented the market value of the Units required to satisfy entitlements to loyalty bonus Units, on the assumption that those Unitholders who currently hold Units will continue to hold those Units until the bonus vesting date. The provision for the loyalty bonus payable within one year amounted to HK\$1,144 million (1998 - nil).

## 17. STAFF RETIREMENT SCHEME

The HKMA operates a defined contribution scheme, under which contributions applicable each year are charged to the Income and Expenditure Account. Contributions to this staff retirement scheme amounted to HK\$20.6 million in 1999 (1998 - HK\$19.8 million). The assets of the staff retirement scheme are held separate from the Exchange Fund.





## Exchange Fund – Notes on the Accounts (cont.)

### 18. CAPITAL COMMITMENTS

Capital expenditure authorised but not provided for in these accounts amounted to:

	Group		Fund	
	1999	1998	1999	1998
Contracted	1	5	-	4
Not contracted	310	135	88	114
<b>TOTAL</b>	<b>311</b>	<b>140</b>	<b>88</b>	<b>118</b>

### 19. OFF-BALANCE SHEET ITEMS

	Group		Fund	
	1999	1998	1999	1998
Forward foreign exchange contracts				
Outstanding contract amount	96,387	34,792	96,387	34,792
Gross replacement costs	1,008	242	1,008	242
Interest rate swap contracts				
Notional principal	28,391	37,741	21,700	33,600
Gross replacement costs	622	1,796	532	1,635
Stock index futures contracts				
Notional principal	30,843	25,303	30,843	25,303
Gross replacement costs	8	2	8	2
Bond futures contracts				
Notional principal	81	-	81	-
Gross replacement costs	-	-	-	-



## Exchange Fund – Notes on the Accounts (cont.)

## 20. CONTINGENT LIABILITIES

At 31 December 1999, the Group had the following contingent liabilities:

- (a) The Fund has a contingent liability, amounting to 5.6 million Swiss gold francs or HK\$118.7million equivalent as at 31 December 1999 (1998 - 5.6 million Swiss gold francs or HK\$116.9 million equivalent), in respect of the uncalled portion of its 3,000 shares held in the Bank for International Settlements.
- (b) Under the Fixed Adjustable Rate Mortgage Programme Agreement, The Hong Kong Mortgage Corporation Limited has committed to purchase agreed amounts of eligible loans from approved sellers on a first come, first served loan-by-loan basis. As at 31 December 1999, the outstanding commitment amount to purchase such loans was HK\$3,453 million (1998 - HK\$3,112 million).
- (c) Under the Mortgage Insurance Programme, The Hong Kong Mortgage Corporation Limited offers mortgage insurance that covers approved sellers for any credit loss up to 15% of loan-to-valuation on residential mortgages in excess of 70% of loan-to-valuation. Under this programme, The Hong Kong Mortgage Corporation Limited reinsures the risk exposure with the approved mortgage reinsurers on a back-to-back basis. As at 31 December 1999, the risk in force was HK\$530 million (1998 - nil).
- (d) Under the Guaranteed Mortgage-Backed Pass-Through Securitisation (“MBS”) Programme, The Hong Kong Mortgage Corporation Limited sold mortgages to an independent Special Purpose Corporation (“SPC”) in October and December 1999 subject to certain guarantees. As at 31 December 1999, the maximum liability in respect of these guarantees under the MBS programme amounted to HK\$1,601 million (1998 - nil).

## 21. COMPARATIVE FIGURES

The presentation and classification of items in the financial statements have been changed in the following aspects.

- (a) Due to the adoption of Statement of Standard Accounting Practice No. 24 “Accounting for investments in securities”, changes have been made in Notes 3(a), 5 and 6 in the following aspects. In Note 3(a) interest income has been analysed between “Interest income from debt securities” and “Other interest income”. In Note 5, treasury bills and commercial papers have been analysed into “Listed outside Hong Kong” and “Unlisted”. In Note 6, debt securities have been analysed into “Listed in Hong Kong”, “Listed outside Hong Kong” and “Unlisted”.
- (b) Due to the materiality of the amounts relating to the resale agreements, these amounts have been separately identified in Note 5.

Comparative figures have also been reclassified to conform with the current year’s presentation.

