

## The Exchange Fund

- Report of the Director of Audit
- Exchange Fund Financial Statements

# Report of the Director of Audit



**Audit Commission**  
The Government of the Hong Kong Special Administrative Region

## Independent Auditor's Report To the Financial Secretary

### *Opinion*

I certify that I have audited the financial statements of the Exchange Fund and its subsidiaries ("the Group") set out on pages 177 to 279, which comprise the balance sheets of the Exchange Fund and of the Group as at 31 December 2025, and their income and expenditure accounts, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In my opinion, the financial statements give a true and fair view of the financial position of the Fund and of the Group as at 31 December 2025, and of their financial performance and cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with the directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance (Cap. 66).

### *Basis for opinion*

I conducted my audit in accordance with the directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the Group in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### *Key audit matters*

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements for the year ended 31 December 2025. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

## Report of the Director of Audit (continued)

Key audit matter	How the matter was addressed in my audit
<p><b>Valuation of financial assets and financial liabilities at fair value</b>  Refer to notes 2.5, 2.6 and 37.1 to the financial statements.</p>	
<p>As at 31 December 2025, the Group had financial assets totalling HK\$4,013,750 million and financial liabilities totalling HK\$1,337,959 million valued at fair value.</p> <p>For 85% of these financial assets and all these financial liabilities, their fair values were quoted prices in active markets for identical assets or liabilities (Level 1 inputs) or were estimated using valuation techniques with inputs based on observable market data (Level 2 inputs).</p> <p>For the remaining 15% of these financial assets, their fair values were estimated using valuation techniques with inputs not based on observable market data (Level 3 inputs). Such financial assets totalled HK\$589,682 million, including mainly unlisted investment funds.</p> <p>Given the substantial amount and the estimations involved, valuation of financial assets and financial liabilities at fair value was a key audit matter.</p>	<p>The audit procedures on valuation of financial assets and financial liabilities at fair value included:</p> <ul style="list-style-type: none"> <li>– obtaining an understanding of the procedures, including relevant controls, for valuing different categories of financial assets and financial liabilities;</li> <li>– evaluating and testing the controls, including relevant application controls of the computer systems;</li> <li>– obtaining external confirmations on the valuation, existence, rights and obligations and completeness of the financial assets and financial liabilities;</li> <li>– where quoted market prices were used, verifying the prices to independent sources;</li> <li>– where valuation techniques with inputs based on observable market data were used, evaluating the appropriateness of the valuation methodologies and the reasonableness of the assumptions, and verifying the inputs to independent sources; and</li> <li>– where valuation techniques with inputs not based on observable market data were used, evaluating the appropriateness of the valuation methodologies and the reasonableness of the assumptions and inputs.</li> </ul>
<p><b>Valuation of investment properties at fair value</b>  Refer to notes 2.11, 17 and 18 to the financial statements.</p>	
<p>The Group's investment properties were stated at their fair values, totalling HK\$23,457 million as at 31 December 2025. The Group also had interests in associates and joint ventures whose principal activities were holding non-Hong Kong investment properties. The fair values of these investment properties, whether held by the Group directly or by associates or joint ventures, were mainly determined based on valuations by independent professional valuers. Such valuations involved significant judgments and estimates, including the valuation methodologies and the assumptions used.</p>	<p>The audit procedures on valuation of investment properties at fair value included:</p> <ul style="list-style-type: none"> <li>– obtaining and reviewing the valuation reports of investment properties held by the Group directly or by associates or joint ventures, and verifying that the fair values were based on the valuations stated in the valuation reports;</li> <li>– assessing the independence and qualifications of the valuers; and</li> <li>– evaluating the appropriateness of the valuation methodologies and the reasonableness of the assumptions and inputs.</li> </ul>

## Report of the Director of Audit (continued)

### **Other information**

The Monetary Authority is responsible for the other information. The other information comprises all the information included in the 2025 Annual Report of the Hong Kong Monetary Authority, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Responsibilities of the Monetary Authority and the Audit Sub-Committee of the Exchange Fund Advisory Committee for the financial statements**

The Monetary Authority is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRS Accounting Standards as issued by the HKICPA and the directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance, and for such internal control as the Monetary Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Monetary Authority is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Audit Sub-Committee of the Exchange Fund Advisory Committee is responsible for overseeing the Group's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

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

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

## Report of the Director of Audit (continued)

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Monetary Authority;
- conclude on the appropriateness of the Monetary Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the financial statements. I am responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. I remain solely responsible for my audit opinion.

I communicate with the Audit Sub-Committee of the Exchange Fund Advisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Audit Sub-Committee of the Exchange Fund Advisory Committee with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Audit Sub-Committee of the Exchange Fund Advisory Committee, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Prof. LAM Chi Yuen Nelson**  
Director of Audit

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24 April 2026

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# Exchange Fund – Income and Expenditure Account

for the year ended 31 December 2025

(Expressed in millions of Hong Kong dollars)	Note	Group		Fund	
		2025	2024	2025	2024
<b>INCOME</b>					
Interest income		129,185	139,694	121,233	129,279
Dividend income		17,524	16,222	13,381	15,391
(Loss)/Income from investment properties		(61)	66	–	–
Net investment gains		159,849	117,199	128,626	88,231
Net exchange gain/(loss)		44,486	(39,937)	38,496	(35,576)
Investment income	4(a)	350,983	233,244	301,736	197,325
Bank licence fees		–	62	–	62
Other income		983	859	184	140
<b>TOTAL INCOME</b>		<b>351,966</b>	<b>234,165</b>	<b>301,920</b>	<b>197,527</b>
<b>EXPENDITURE</b>					
Interest expense on placements by Fiscal Reserves, HKSAR Government funds and statutory bodies	4(b)	(52,567)	(45,137)	(52,567)	(45,137)
Other interest expense	4(c)	(44,273)	(65,779)	(41,445)	(58,849)
Operating expenses	4(d)	(11,640)	(8,922)	(5,638)	(5,339)
Note and coin expenses	4(e)	(297)	(316)	(297)	(316)
Charge for impairment allowances	4(f)	(32)	(15)	(2)	(3)
<b>TOTAL EXPENDITURE</b>		<b>(108,809)</b>	<b>(120,169)</b>	<b>(99,949)</b>	<b>(109,644)</b>
<b>SURPLUS BEFORE SHARE OF PROFIT/(LOSS) OF ASSOCIATES AND JOINT VENTURES</b>					
		243,157	113,996	201,971	87,883
Share of profit/(loss) of associates and joint ventures, net of tax		1,996	(822)	–	–
<b>SURPLUS BEFORE TAXATION</b>		<b>245,153</b>	<b>113,174</b>	<b>201,971</b>	<b>87,883</b>
Income tax credit	5	130	197	–	–
<b>SURPLUS FOR THE YEAR</b>		<b>245,283</b>	<b>113,371</b>	<b>201,971</b>	<b>87,883</b>
<b>SURPLUS FOR THE YEAR ATTRIBUTABLE TO:</b>					
Owner of the Fund		245,173	113,233	201,971	87,883
Non-controlling interests		110	138	–	–
		<b>245,283</b>	<b>113,371</b>	<b>201,971</b>	<b>87,883</b>

The notes on pages 185 to 279 form part of these financial statements.

## Exchange Fund – Statement of Comprehensive Income

for the year ended 31 December 2025

(Expressed in millions of Hong Kong dollars)	Group		Fund	
	2025	2024	2025	2024
<b>SURPLUS FOR THE YEAR</b>	<b>245,283</b>	113,371	<b>201,971</b>	87,883
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>				
<b>Items that will not be reclassified to income and expenditure account</b>				
Equity securities measured at fair value through other comprehensive income				
– fair value changes	<b>350</b>	72	<b>350</b>	72
<b>Items that are or may be reclassified subsequently to income and expenditure account</b>				
Debt securities measured at fair value through other comprehensive income				
– fair value changes	<b>57</b>	15	–	–
Cash flow hedges				
– fair value changes	<b>3</b>	(20)	–	–
Net insurance finance (expense)/income	<b>(122)</b>	197	–	–
Deferred tax	<b>18</b>	(53)	–	–
Exchange difference on translation of financial statements of subsidiaries, associates and joint ventures	<b>2,330</b>	(1,282)	–	–
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>	<b>2,636</b>	(1,071)	<b>350</b>	72
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>247,919</b>	112,300	<b>202,321</b>	87,955
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:</b>				
Owner of the Fund	<b>247,787</b>	112,175	<b>202,321</b>	87,955
Non-controlling interests	<b>132</b>	125	–	–
	<b>247,919</b>	112,300	<b>202,321</b>	87,955

The notes on pages 185 to 279 form part of these financial statements.

# Exchange Fund – Balance Sheet

as at 31 December 2025

(Expressed in millions of Hong Kong dollars)	Note	Group		Fund	
		2025	2024	2025	2024
<b>ASSETS</b>					
Cash and money at call	7	212,926	207,009	207,792	202,830
Placements with banks and other financial institutions	8	286,392	182,243	221,706	130,095
Financial assets measured at fair value through income and expenditure account	9	3,995,711	3,902,643	3,459,427	3,398,963
Financial assets measured at fair value through other comprehensive income	10	11,386	5,157	1,786	1,436
Derivative financial instruments	11(a)	3,182	4,720	1,327	3,695
Debt securities measured at amortised cost	12	20,309	15,106	–	–
Loan portfolio	13	87,495	106,045	–	–
Gold	14	2,246	1,355	2,246	1,355
Other assets	15	35,808	114,443	30,126	108,499
Interests in subsidiaries	16	–	–	233,296	230,503
Interests in associates and joint ventures	17	36,736	31,684	154	154
Investment properties	18	23,457	21,132	–	–
Property, plant and equipment	19	4,048	4,073	3,321	3,445
<b>TOTAL ASSETS</b>		<b>4,719,696</b>	4,595,610	<b>4,161,181</b>	4,080,975
<b>LIABILITIES AND EQUITY</b>					
Certificates of Indebtedness	20	635,029	598,944	635,029	598,944
Government-issued currency notes and coins in circulation	20	12,946	12,994	12,946	12,994
Balance of the banking system	21	57,027	44,802	57,027	44,802
Placements by banks and other financial institutions	22	71,709	72,112	71,709	72,112
Placements by Fiscal Reserves	23	688,925	669,738	688,925	669,738
Placements by HKSAR Government funds and statutory bodies	24	273,759	391,073	273,759	391,073
Placements by subsidiaries	25	–	–	67,323	45,665
Exchange Fund Bills and Notes issued	26	1,335,121	1,383,658	1,335,121	1,383,658
Derivative financial instruments	11(a)	2,838	2,641	2,185	744
Bank loans	27	16,524	14,861	–	–
Other debt securities issued	28	155,859	148,931	–	–
Other liabilities	29	121,948	156,194	79,899	126,308
<b>Total liabilities</b>		<b>3,371,685</b>	3,495,948	<b>3,223,923</b>	3,346,038

## Exchange Fund – Balance Sheet (continued)

as at 31 December 2025

(Expressed in millions of Hong Kong dollars)	Group		Fund	
	2025	2024	2025	2024
Accumulated surplus	1,346,341	1,101,168	935,965	733,994
Revaluation reserve	1,373	966	1,293	943
Hedging reserve	2	(1)	–	–
Insurance finance reserve	282	386	–	–
Translation reserve	(1,845)	(4,153)	–	–
Other reserves	207	–	–	–
Total equity attributable to owner of the Fund	1,346,360	1,098,366	937,258	734,937
Non-controlling interests	1,651	1,296	–	–
<b>Total equity</b>	<b>1,348,011</b>	<b>1,099,662</b>	<b>937,258</b>	<b>734,937</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,719,696</b>	<b>4,595,610</b>	<b>4,161,181</b>	<b>4,080,975</b>

### Eddie Yue

Monetary Authority

24 April 2026

The notes on pages 185 to 279 form part of these financial statements.

# Exchange Fund – Statement of Changes in Equity

for the year ended 31 December 2025

(Expressed in millions of Hong Kong dollars)	Attributable to owner of the Fund						Total attributable to owner of the Fund	Non- controlling interests	Total
	Accumulated surplus	Revaluation reserve	Hedging reserve	Insurance finance reserve	Translation reserve	Other reserves (note 16)			
<b>Group</b>									
At 1 January 2024	987,935	879	19	242	(2,884)	–	986,191	1,250	987,441
Surplus for the year	113,233	–	–	–	–	–	113,233	138	113,371
Other comprehensive loss for the year	–	87	(20)	144	(1,269)	–	(1,058)	(13)	(1,071)
Total comprehensive income for the year	113,233	87	(20)	144	(1,269)	–	112,175	125	112,300
Capital distribution to non-controlling interests	–	–	–	–	–	–	–	(78)	(78)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(1)	(1)
At 31 December 2024	1,101,168	966	(1)	386	(4,153)	–	1,098,366	1,296	1,099,662
At 1 January 2025	<b>1,101,168</b>	<b>966</b>	<b>(1)</b>	<b>386</b>	<b>(4,153)</b>	<b>–</b>	<b>1,098,366</b>	<b>1,296</b>	<b>1,099,662</b>
Surplus for the year	<b>245,173</b>	–	–	–	–	–	<b>245,173</b>	<b>110</b>	<b>245,283</b>
Other comprehensive income for the year	–	<b>407</b>	<b>3</b>	<b>(104)</b>	<b>2,308</b>	–	<b>2,614</b>	<b>22</b>	<b>2,636</b>
Total comprehensive income for the year	<b>245,173</b>	<b>407</b>	<b>3</b>	<b>(104)</b>	<b>2,308</b>	–	<b>247,787</b>	<b>132</b>	<b>247,919</b>
Capital injection from non-controlling interests	–	–	–	–	–	<b>207</b>	<b>207</b>	<b>248</b>	<b>455</b>
Capital distribution to non-controlling interests	–	–	–	–	–	–	–	<b>(5)</b>	<b>(5)</b>
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	<b>(20)</b>	<b>(20)</b>
At 31 December 2025	<b>1,346,341</b>	<b>1,373</b>	<b>2</b>	<b>282</b>	<b>(1,845)</b>	<b>207</b>	<b>1,346,360</b>	<b>1,651</b>	<b>1,348,011</b>

## Exchange Fund – Statement of Changes in Equity (continued)

for the year ended 31 December 2025

(Expressed in millions of Hong Kong dollars)	Accumulated surplus	Revaluation reserve	Total attributable to owner of the Fund
<b>Fund</b>			
At 1 January 2024	646,111	871	646,982
Surplus for the year	87,883	–	87,883
Other comprehensive income for the year	–	72	72
Total comprehensive income for the year	87,883	72	87,955
At 31 December 2024	733,994	943	734,937
At 1 January 2025	<b>733,994</b>	<b>943</b>	<b>734,937</b>
Surplus for the year	<b>201,971</b>	–	<b>201,971</b>
Other comprehensive income for the year	–	<b>350</b>	<b>350</b>
Total comprehensive income for the year	<b>201,971</b>	<b>350</b>	<b>202,321</b>
At 31 December 2025	<b>935,965</b>	<b>1,293</b>	<b>937,258</b>

The notes on pages 185 to 279 form part of these financial statements.

# Exchange Fund – Statement of Cash Flows

for the year ended 31 December 2025

(Expressed in millions of Hong Kong dollars)	Note	Group		Fund	
		2025	2024	2025	2024
<b>Cash flows from operating activities</b>					
Surplus before taxation		245,153	113,174	201,971	87,883
<b>Adjustments for:</b>					
Interest income	4(a)	(129,185)	(139,694)	(121,233)	(129,279)
Dividend income	4(a)	(17,524)	(16,222)	(13,381)	(15,391)
Change in fair value of investment properties	4(a)	1,186	1,039	–	–
Interest expense	4(b) & 4(c)	96,840	110,916	94,012	103,986
Depreciation	4(d)	639	488	453	348
Charge for impairment allowances	4(f)	32	15	2	3
Share of (profit)/loss of associates and joint ventures		(1,996)	822	–	–
Loss on disposal of property, plant and equipment		2	–	–	–
Exchange differences and other non-cash items		(16,417)	12,318	(5,903)	4,682
Interest received		129,939	138,928	121,878	128,628
Dividends received		17,062	16,522	10,000	11,624
Interest paid		(124,878)	(151,620)	(120,843)	(144,220)
Income tax paid		(288)	(121)	–	–
		200,565	86,565	166,956	48,264
Changes in fair value of derivatives and other debt securities issued		4,238	(4,391)	3,816	(4,029)
Changes in:					
– placements with banks and other financial institutions		(11,626)	14,328	(19,612)	23,860
– financial assets measured at fair value through income and expenditure account		(41,531)	(19,239)	(19,156)	15,044
– loan portfolio		18,786	13,937	–	–
– gold		(891)	(279)	(891)	(279)
– other assets		78,631	(71,616)	78,190	(72,313)
– Certificates of Indebtedness, government-issued currency notes and coins in circulation		36,037	5,762	36,037	5,762
– balance of the banking system		12,225	(148)	12,225	(148)
– placements by banks and other financial institutions		(403)	(27,008)	(403)	(27,008)
– placements by Fiscal Reserves		19,187	(25,688)	19,187	(25,688)
– placements by HKSAR Government funds and statutory bodies		(117,314)	(77,583)	(117,314)	(77,583)
– placements by subsidiaries		–	–	21,658	14,479
– net Exchange Fund Bills and Notes issued		(48,537)	139,196	(48,537)	139,196
– other liabilities		(5,743)	(5,134)	(19,517)	(10,479)
<b>Net cash from operating activities</b>		<b>143,624</b>	<b>28,702</b>	<b>112,639</b>	<b>29,078</b>

## Exchange Fund – Statement of Cash Flows (continued)

for the year ended 31 December 2025

(Expressed in millions of Hong Kong dollars)	Note	Group		Fund	
		2025	2024	2025	2024
<b>Cash flows from investing activities</b>					
Proceeds from sale or redemption of financial assets measured at fair value through other comprehensive income		763	282	–	–
Purchase of financial assets measured at fair value through other comprehensive income		(6,478)	(1,512)	–	–
Purchase of financial assets measured at fair value through income and expenditure account		(176)	–	–	–
Proceeds from sale or redemption of debt securities measured at amortised cost		3,143	5,849	–	–
Purchase of debt securities measured at amortised cost		(8,202)	(6,434)	–	–
Investments in subsidiaries		–	–	(12,500)	(12,800)
Decrease in loans to subsidiaries		–	–	9,707	1,190
(Increase)/Decrease in interests in associates and joint ventures		(1,478)	455	–	5
Additions of investment properties		(1,355)	(606)	–	–
Additions of property, plant and equipment		(449)	(691)	(266)	(381)
Dividends received from subsidiaries		–	–	2,919	4,040
<b>Net cash used in investing activities</b>		<b>(14,232)</b>	<b>(2,657)</b>	<b>(140)</b>	<b>(7,946)</b>
<b>Cash flows from financing activities</b>					
Bank loans raised	30(c)	3,076	390	–	–
Repayment of bank loans	30(c)	(3,103)	(186)	–	–
Proceeds from issue of other debt securities	30(c)	70,399	103,114	–	–
Redemption of other debt securities issued	30(c)	(66,172)	(117,659)	–	–
Principal portion of lease payments	30(c)	(175)	(145)	(125)	(104)
Capital injection from non-controlling interests		455	–	–	–
Capital distribution to non-controlling interests		(5)	(78)	–	–
Dividends paid to non-controlling interests		(20)	(1)	–	–
<b>Net cash from/(used in) financing activities</b>		<b>4,455</b>	<b>(14,565)</b>	<b>(125)</b>	<b>(104)</b>
<b>Net increase in cash and cash equivalents</b>		<b>133,847</b>	<b>11,480</b>	<b>112,374</b>	<b>21,028</b>
<b>Cash and cash equivalents at 1 January</b>		<b>412,948</b>	<b>406,238</b>	<b>367,160</b>	<b>350,885</b>
<b>Effect of foreign exchange rate changes</b>		<b>5,905</b>	<b>(4,770)</b>	<b>5,897</b>	<b>(4,753)</b>
<b>Cash and cash equivalents at 31 December</b>	30(a)	<b>552,700</b>	<b>412,948</b>	<b>485,431</b>	<b>367,160</b>

The notes on pages 185 to 279 form part of these financial statements.

# Exchange Fund – Notes to the Financial Statements

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

## 1 PRINCIPAL ACTIVITIES

The Monetary Authority, under delegated authority from the Financial Secretary as Controller of the Exchange Fund (the Fund), manages the Fund in accordance with the provisions of the Exchange Fund Ordinance (Cap. 66). The principal activities of the Fund are safeguarding the exchange value of the currency of Hong Kong and maintaining the stability and integrity of Hong Kong's monetary and financial systems.

The assets of the Fund are managed as four portfolios: the Backing Portfolio, the Investment Portfolio, the Long-Term Growth Portfolio and the Strategic Portfolio. The assets of the Backing Portfolio fully match the Monetary Base, under Hong Kong's Currency Board system. The Investment Portfolio is invested primarily in the bond and equity markets of the member countries of the Organisation for Economic Co-operation and Development (OECD). The Long-Term Growth Portfolio holds private equity and real asset investments. The Strategic Portfolio holds shares in Hong Kong Exchanges and Clearing Limited acquired by the Government of the Hong Kong Special Administrative Region of the People's Republic of China (HKSAR) for the account of the Fund for strategic purposes. Operating segment information is set out in note 31.

## 2 MATERIAL ACCOUNTING POLICIES

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with HKFRS Accounting Standards, which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), and accounting principles generally accepted in Hong Kong. Material accounting policies adopted by the Fund and its subsidiaries (together referred to as the Group) are set out below.

The HKICPA has issued certain new or amended HKFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on the changes, if any, in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### 2.2 Basis of preparation of the financial statements

The Group financial statements include the financial statements of the Group as well as the Group's interests in associates and joint ventures. The principal activities of the principal subsidiaries, associates and joint ventures are shown in notes 16 and 17.

## Exchange Fund – Notes to the Financial Statements (continued)

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

The measurement basis used in the preparation of the financial statements is historical cost except for the following assets and liabilities that are measured at fair value:

- derivative financial instruments (note 2.6);
- financial assets and financial liabilities measured at fair value through income and expenditure account (note 2.6);
- financial assets measured at fair value through other comprehensive income (note 2.6);
- loan portfolio transferring significant insurance risk (note 2.6);
- gold (note 2.10); and
- investment properties (note 2.11).

The preparation of financial statements in conformity with HKFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

Judgements made by management in the application of HKFRS Accounting Standards that have significant effect on the financial statements and major sources of estimation uncertainty are disclosed in note 2.18.

### 2.3 Subsidiaries and non-controlling interests

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Group financial statements from the date that control commences until the date that control ceases.

Intra-group balances, transactions and cash flows and any unrealised profits and losses arising from intra-group transactions are eliminated in full in preparing the Group financial statements.

## Exchange Fund – Notes to the Financial Statements (continued)

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Fund, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the Group balance sheet within equity, separately from equity attributable to the owner of the Fund. Non-controlling interests in the results of the Group are presented on the face of the Group income and expenditure account and statement of comprehensive income as an allocation of the surplus or deficit and total comprehensive income or loss for the year between non-controlling interests and the owner of the Fund.

In the balance sheet of the Fund, its investments in subsidiaries are stated at cost less impairment losses, if any (note 2.14).

In an acquisition of a subsidiary, when a group of assets acquired and liabilities assumed does not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Such acquisition does not give rise to any goodwill.

### 2.4 Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, through its power to participate in the financial and operating policy decisions.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

An interest in an associate or a joint venture is accounted for in the Group financial statements under the equity method and is initially recorded at cost, adjusted for any excess or deficit of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment, if any. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the net assets of the associate or the joint venture and any impairment loss relating to the investment.

The Group income and expenditure account and statement of comprehensive income include the Group's share of the post-tax results of the associates and the joint ventures for the year. When the Group's share of losses exceeds its interest in the associates or the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates or the joint ventures. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associates or the joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates or the joint ventures.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the associate or the joint venture, with a resulting gain or loss being recognised in the Group income and expenditure account. Any interest retained in the associate or the joint venture at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (note 2.6).

In the balance sheet of the Fund, interests in associates and joint ventures are stated at cost less impairment losses, if any (note 2.14).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.5 Fair value measurement

The Group measures most financial instruments, all investment properties and gold at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are disclosed in note 37.2.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) in the principal market for the asset or liability; or
- (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group measures fair values using the following fair value hierarchy that reflects the significance of inputs used in making the measurements:

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

For assets and liabilities that are recognised in the financial statements, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the reporting date.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.6 Financial assets and financial liabilities

#### 2.6.1 Initial recognition and measurement

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial instruments are recognised on trade date, the date on which the Group commits to purchase or sell the instruments.

At initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through income and expenditure account, transaction costs that are directly attributable to the acquisition of the financial assets or the issue of the financial liabilities. Transaction costs of financial assets and financial liabilities at fair value through income and expenditure account are expensed immediately.

#### 2.6.2 Classification and subsequent measurement

The Group classifies its financial assets into three categories for determining the subsequent measurement methods, on the basis of both the Group's business model for managing the assets and the contractual cash flow characteristics of the assets. The three measurement categories are:

- fair value through income and expenditure account (which is equivalent to the term "fair value through profit or loss" under HKFRS 9 "Financial Instruments");
- fair value through other comprehensive income; and
- amortised cost.

The Group classifies its financial liabilities as subsequently measured at fair value through income and expenditure account, or other financial liabilities.

Financial liabilities measured at fair value through income and expenditure account include those that are irrevocably designated by the Group at initial recognition as at fair value through income and expenditure account when doing so results in more relevant information because either:

- (a) the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial liabilities measured at fair value through income and expenditure account also include contracts that contain embedded derivatives which significantly modify the cash flows otherwise required.

The Group reclassifies a financial asset when and only when it changes its business model for managing the asset, except for equity securities elected to be measured at fair value through other comprehensive income at initial recognition (note 2.6.2.2). A financial liability is not reclassified.

An analysis of the Group's financial assets and financial liabilities by category is set out in note 6.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.6.2.1 Debt securities

The Group classifies its debt securities as measured at: (a) amortised cost; (b) fair value through other comprehensive income; or (c) fair value through income and expenditure account, depending on the Group's business model in managing them and their contractual cash flow characteristics.

#### (a) Debt securities measured at amortised cost

Debt securities are measured at amortised cost if they are held within a business model whose objective is to hold them for collection of contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Debt securities in this category are initially recognised at fair value plus directly attributable transaction costs and subsequently carried at amortised cost. Interest income on these debt securities is recognised in the income and expenditure account using the effective interest method.

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

The measurement of loss allowances for debt securities measured at amortised cost is based on the expected credit loss model as described in note 2.9.

#### (b) Debt securities measured at fair value through other comprehensive income

Debt securities are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling them and the contractual cash flows represent solely payments of principal and interest. Debt securities in this category are initially recognised at fair value plus directly attributable transaction costs and subsequently carried at fair value. Movements in the carrying amount of these securities are recognised in other comprehensive income, except for interest income, foreign exchange gains or losses, and impairment losses or reversals which are recognised in the income and expenditure account. Upon derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income and expenditure account.

The measurement of loss allowances for debt securities measured at fair value through other comprehensive income is based on the expected credit loss model as described in note 2.9. The loss allowances are recognised in other comprehensive income and do not reduce the carrying amount of such debt securities in the balance sheet.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (c) Debt securities measured at fair value through income and expenditure account

Debt securities that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income are measured at fair value through income and expenditure account. Debt securities in this category are initially recognised at fair value with transaction costs immediately charged to the income and expenditure account, and subsequently carried at fair value. Changes in fair value of these securities are recognised in the income and expenditure account in the period in which they arise.

#### 2.6.2.2 Equity securities and investment funds

Equity securities are measured at fair value through income and expenditure account, unless an election is made to designate them at fair value through other comprehensive income upon initial recognition.

For equity securities measured at fair value through income and expenditure account, changes in fair value are recognised in the income and expenditure account in the period in which they arise.

The Group classifies certain equity securities, which are held for strategic or longer term investment purposes, as measured at fair value through other comprehensive income. The election of fair value through other comprehensive income is made upon initial recognition on an instrument-by-instrument basis and once made is irrevocable. Gains and losses on these equity securities are recognised in other comprehensive income, which are not transferred subsequently to the income and expenditure account, including when they are derecognised. Dividends on such investments are recognised in the income and expenditure account unless the dividends clearly represent a recovery of part of the cost of the investment.

Investment funds are measured at fair value through income and expenditure account. Changes in fair value of these funds are recognised in the income and expenditure account in the period in which they arise.

#### 2.6.2.3 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair values. Fair values are obtained from market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through income and expenditure account. These embedded derivatives are measured at fair value through income and expenditure account.

## Exchange Fund – Notes to the Financial Statements (continued)

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either (a) hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge) or (b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided that certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income and expenditure account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income and expenditure account over the period to maturity.

### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income and expenditure account.

Amounts accumulated in equity are reclassified to the income and expenditure account in the periods in which the hedged item will affect the income and expenditure account.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity existing at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income and expenditure account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the income and expenditure account.

### (c) Derivatives not qualified as hedges for accounting purposes

Derivative instruments entered into as economic hedges that do not qualify for hedge accounting are held at fair value through income and expenditure account. Changes in the fair value of such derivative instruments are recognised in the income and expenditure account.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.6.2.4 Loan portfolio transferring significant insurance risk

There are contracts issued by the Group with a feature combining a loan component with an agreement to compensate the borrowers by waiving the borrowers' outstanding debt if a specified uncertain future event adversely affects the borrowers. These contracts, with both loan and insurance components in entirety, are measured at fair value through income and expenditure account. Changes in fair value of these contracts are recognised in the income and expenditure account in the period in which they arise.

### 2.6.2.5 Other financial assets

Other financial assets are measured at amortised cost. This category includes cash and money at call, placements with banks and other financial institutions, and remaining loan portfolio. The measurement of loss allowances for these financial assets is based on the expected credit loss model as described in note 2.9.

### 2.6.2.6 Financial liabilities measured at fair value through income and expenditure account

The following financial liabilities are measured at fair value through income and expenditure account:

- Exchange Fund Bills and Notes (EFBN) issued which, on initial recognition, are irrevocably designated by the Group as at fair value through income and expenditure account; and
- other debt securities issued, which contain embedded derivatives that significantly modify the cash flows otherwise required.

Financial liabilities measured at fair value through income and expenditure account are initially recognised at fair value. Changes in fair value are recognised in the income and expenditure account, except for those changes arising from changes in the Group's own credit risk. Any changes in fair value of liabilities due to changes in the Group's own credit risk are recognised in other comprehensive income and the amount of such changes recognised in other comprehensive income is not transferred subsequently to the income and expenditure account upon derecognition.

### 2.6.2.7 Other financial liabilities

Other financial liabilities are financial liabilities other than those measured at fair value through income and expenditure account.

Other financial liabilities repayable on demand are stated at the principal amount payable. These include Certificates of Indebtedness, government-issued currency notes and coins in circulation (note 2.6.2.8), balance of the banking system, placements by Fiscal Reserves (Operating and Capital Reserves), placements by the Bond Fund, placements by the Deposit Protection Scheme Fund and placements by The Hong Kong Mortgage Corporation Limited.

Other financial liabilities with a fixed maturity and a predetermined rate are carried at amortised cost using the effective interest method. These include placements by banks and other financial institutions, placements by HKSAR Government funds and statutory bodies (other than the Bond Fund and the Deposit Protection Scheme Fund), placements by subsidiaries (other than The Hong Kong Mortgage Corporation Limited), bank loans and other debt securities issued (other than those which contain embedded derivatives).

## Exchange Fund – Notes to the Financial Statements (continued)

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

Placements by Fiscal Reserves (Future Fund) which are repayable on 31 December 2030 (unless otherwise directed by the Financial Secretary according to the terms of the placements) are stated at the principal amount payable. Interest payable on these placements is calculated at a composite rate determined annually (note 2.16.1) and compounded on an annual basis until maturity. If the composite rate is negative for a year, the negative return will first be offset against the balance of interest payable, with the excess portion (if any) written off against the principal amount payable. When the composite rate turns positive in subsequent years, the return will be used to recover fully or partially the amount written off.

### 2.6.2.8 Certificates of Indebtedness and government-issued currency notes 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, which is redeemable on demand. Payments for the issue and redemption of banknotes against these Certificates are made in US dollars at the fixed exchange rate of US\$1=HK\$7.80. Consistent with the requirement for backing banknote issues with US dollars, the issue and redemption of government-issued currency notes and coins are conducted with an agent bank against US dollars at the fixed exchange rate of US\$1=HK\$7.80.

The Group's liabilities in respect of Certificates of Indebtedness represent the US dollars payable to the note-issuing banks on redemption of the Certificates. The Group's liabilities in respect of government-issued currency notes and coins represent the US dollars payable to the agent bank when they are redeemed. Certificates of Indebtedness in issue and government-issued currency notes and coins in circulation are stated in the financial statements at the Hong Kong dollar equivalent of the US dollars required for their redemption using the closing exchange rate at the reporting date.

### 2.6.3 *Derecognition*

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, is cancelled or expires.

Liabilities for EFBN in issue are derecognised when they are repurchased as a result of market making activities. The repurchase is considered as redemption of the debt.

### 2.6.4 *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.7 Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained on the balance sheet without changes in their measurement. The proceeds from the sale are reported as liabilities in “placements by banks and other financial institutions” and are carried at amortised cost.

Conversely, securities purchased under agreements to resell (reverse repurchase agreements) are reported as receivables in “placements with banks and other financial institutions” and are carried at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest method.

### 2.8 Securities lending agreements

Where securities are loaned with the receipt of cash or other securities as collateral, they are retained on the balance sheet without changes in their measurement. Where cash collateral is received, a liability is recorded in respect of the cash received in “placements by banks and other financial institutions”. Securities received as collateral are not recognised in the financial statements.

### 2.9 Impairment of financial instruments

The Group applies a three-stage approach to measure expected credit losses and to recognise the corresponding loss allowances (provision in the case of loan commitments and financial guarantee contracts) and impairment losses or reversals, for financial instruments that are not measured at fair value through income and expenditure account, including mainly the following types of financial instruments:

- cash and money at call;
- placements with banks and other financial institutions;
- debt securities measured at amortised cost or fair value through other comprehensive income;
- loan portfolio measured at amortised cost;
- loan commitments; and
- financial guarantee contracts.

## Exchange Fund – Notes to the Financial Statements (continued)

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

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

### Stage 1: 12-month expected credit losses

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

### Stage 2: Lifetime expected credit losses – not credit impaired

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

### Stage 3: Lifetime expected credit losses – credit impaired

For financial instruments that have become credit impaired, lifetime expected credit losses are recognised and interest income is calculated by applying the effective interest rate to the amortised cost rather than the gross carrying amount.

#### 2.9.1 *Determining significant increases in credit risk*

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

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

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

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

## Exchange Fund – Notes to the Financial Statements (continued)

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

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

### 2.9.2 Measurement of expected credit losses

Expected credit losses of a financial instrument are an unbiased and probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument:

- for financial assets, a credit loss is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate. For a financial asset that is credit impaired at the reporting date, the Group measures the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate;
- for undrawn loan commitments, a credit loss is the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- for financial guarantee contracts, a credit loss is the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Further details on the expected credit losses calculation are set out in note 36.3.3.

### 2.10 Gold

Gold is carried at fair value. Changes in the fair value of gold are recognised in the income and expenditure account in the period in which they arise.

### 2.11 Investment properties

Properties that are held for long-term rental yields, capital appreciation or both, and that are not occupied by the Group, are classified as investment properties.

Investment properties are recognised initially at cost, including related transaction costs. After initial recognition, investment properties are measured at fair value as assessed by independent professional valuers, or by the management based on the latest valuation made by the independent professional valuers. Fair value of the investment properties is measured based on the market or income approach. Under the market approach, the value is determined based on comparable transactions. For the income approach, the fair value is determined using valuation techniques including discounted cash flow and income capitalisation methods.

Any gain or loss arising from a change in fair value or the disposal of an investment property is recognised directly in the income and expenditure account. Rental income from investment properties is recognised in accordance with the accounting policies as set out in note 2.13.2.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.12 Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and any impairment losses (note 2.14):

- buildings held for own use situated on freehold land;
- leasehold land and buildings held for own use;
- plant and equipment, including plant, machinery, furniture, fixtures, equipment, motor vehicles and computers; and
- right-of-use assets arising from leases of premises (note 2.13.1).

Intangible assets including computer software licences and system development costs are included in property, plant and equipment.

Freehold land is not depreciated. For other items of property, plant and equipment, depreciation is calculated to write off their cost less their estimated residual value, if any, on a straight-line basis over their estimated useful lives as follows:

- |   |   |
|---|---|
| – leasehold land  | over the unexpired term of lease  |
| – buildings situated on freehold land                     | 39 years  |
| – buildings situated on leasehold land                    | over the shorter of the unexpired term of lease<br>and their estimated useful lives |
| – right-of-use assets                                     | over the shorter of the lease terms and their<br>estimated useful lives             |
| – plant and equipment                                     | 3 to 15 years   |
| – computer software licences and system development costs | 3 to 5 years  |

A gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income and expenditure account on the date of disposal.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.13 Leases

#### 2.13.1 As a lessee

A lease is recognised in the balance sheet as a right-of-use asset with a corresponding lease liability at the lease commencement date, except that payments associated with short-term leases having a lease term of 12 months or less and leases of low-value assets are charged to the income and expenditure account on a straight-line basis over the lease term.

A right-of-use asset, except that meeting the definition of investment property (note 2.11), is recognised as property, plant and equipment and measured at cost less accumulated depreciation and any impairment losses (note 2.12). The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the asset's estimated useful life. A right-of-use asset that meets the definition of investment property is presented in the balance sheet as an investment property.

The lease liability is recognised as other liabilities and is measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and hence are charged to the income and expenditure account in the accounting period in which they are incurred. The lease liability is subsequently adjusted by the effect of the interest on and the settlement of the lease liability, and the remeasurement arising from any reassessment of lease liability or lease modification.

Lease payments included in the measurement of the Group's lease liability mainly comprise:

- fixed payments, less any lease incentives receivable;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

#### 2.13.2 As a lessor

The Group enters into contracts as a lessor with respect to some of its properties. These contracts are classified as operating leases because the Group does not transfer substantially all the risks and rewards incidental to ownership of assets to the lessees. Rental income from operating leases is recognised in the income and expenditure account as other income (note 2.16.5) on a straight-line basis over the lease term.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.14 Impairment of other assets

The carrying amounts of other assets, including interests in subsidiaries, interests in associates and joint ventures, and property, plant and equipment, are reviewed at each reporting date to identify any indication of impairment.

If any such indication exists, an impairment loss is recognised in the income and expenditure account whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use.

### 2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash and money at call, placements with banks and other financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

### 2.16 Revenue and expenditure recognition

#### 2.16.1 *Interest income and expense*

Interest on the majority of the placements by Fiscal Reserves (Operating and Capital Reserves) and placements by HKSAR Government funds and statutory bodies is payable at a fixed rate determined annually (notes 23 and 24). Interest on these placements is recognised in the income and expenditure account on an accrual basis.

Interest on the placements by Fiscal Reserves (Future Fund) is payable at a composite rate which is determined annually and linked with the performance of certain portfolios of assets under the Fund (note 23). Interest on these placements is recognised in the income and expenditure account on an accrual basis.

Interest income and expense for all other interest-bearing financial assets and financial liabilities are recognised in the income and expenditure account on an accrual basis, using the effective interest method.

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 thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### 2.16.2 *Dividend income*

Dividend income from listed equity securities is recognised in the income and expenditure account when the share price is quoted ex-dividend. Dividend income from unlisted equity securities is recognised when the shareholder's right to receive payment is unconditionally established.

Dividends on equity securities measured at fair value through other comprehensive income that clearly represent a recovery of part of the cost of the investment are presented in other comprehensive income.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.16.3 *Net investment gains/(losses)*

Realised gains or losses on financial instruments other than equity securities measured at fair value through other comprehensive income are recognised in the income and expenditure account when the financial instruments are derecognised.

Changes in fair value of financial instruments measured at fair value through income and expenditure account are recognised as unrealised gains or losses in the income and expenditure account in the period in which they arise.

### 2.16.4 *Bank licence fees*

Bank licence fees are fees receivable from authorized institutions under the Banking Ordinance (Cap. 155) and are accounted for in the period when the fees become receivable.

### 2.16.5 *Other income*

Other income includes rental income and fee income from the provision of financial market infrastructure services. Rental income is recognised in accordance with the accounting policies as set out in note 2.13.2. Other income is accounted for in the period when it becomes receivable.

### 2.16.6 *Contributions to staff retirement schemes*

The Group operates several defined contribution schemes, including the Mandatory Provident Fund Scheme. Under these schemes, contributions payable each year are charged to the income and expenditure account. The assets of the staff retirement schemes are held separately from those of the Group.

### 2.16.7 *Income tax*

The Fund is not subject to Hong Kong profits tax as it is an integral part of the government. Income tax payable on profits of subsidiaries is recognised as an expense in the period in which profits arise.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the assets can be utilised. Deferred tax liabilities are provided in full. For investment properties that are measured at fair value, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date on the presumption that their carrying amounts are recovered entirely through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.17 Foreign currency translation

The financial statements are presented in Hong Kong dollars, which is the Group's and the Fund's functional currency.

Foreign currency transactions during the year are translated into Hong Kong dollars using the spot exchange rates at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars using the closing exchange rates at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the spot exchange rates at the transaction dates. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into Hong Kong dollars using the closing exchange rates at the dates when the fair value is determined.

All foreign currency translation differences are presented in aggregate as "net exchange gain/(loss)" in the income and expenditure account. Although it is not practicable to disclose separately the net exchange gain/(loss) on financial assets and financial liabilities measured at fair value through income and expenditure account or on derivative financial instruments, the majority of the exchange gains/(losses) relate to these two categories of financial instruments.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates at the reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income and expenditure account when the gain or loss on disposal is recognised.

### 2.18 Critical accounting estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements 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.

#### (a) Fair value of investment properties

The fair value of investment properties is revalued by independent professional valuers using property valuation techniques which involve certain assumptions of market conditions. Details of the fair value measurement of investment properties are set out in note 18.1.

#### (b) Fair value of financial instruments

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, where the measurement of fair value is more judgemental. Details of the fair value measurement of financial instruments are set out in note 37.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (c) Impairment allowances on loan portfolio measured at amortised cost

The Group reviews its loan portfolio to assess expected credit losses on a regular basis. In determining expected credit losses, the Group makes judgements as to whether there is any significant increase in credit risk since initial recognition. It is required to exercise judgements in making assumptions and estimates to incorporate relevant information about external credit ratings, past events, current conditions and forecast of economic conditions. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Information about the assumptions relating to measurement of expected credit losses is set out in note 36.3.3.

## 2.19 Related parties

For the purposes of these financial statements, a person or an entity is considered to be related to the Group if:

- (a) the person, or a close member of that person's family:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group.
- (b) any of the following conditions applies to the entity:
  - (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) the entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) the entity is a joint venture of another entity and the Group is an associate of that entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 2.20 Operating segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision maker. The Group comprises the following operating segments:

- management of funds under the Currency Board Operations, including the Backing Portfolio;
- management of funds representing the general reserve assets of the Fund, including the Investment Portfolio, the Long-Term Growth Portfolio and the Strategic Portfolio; and
- maintaining the stability and integrity of Hong Kong's monetary and financial systems, which includes banking supervision and monetary management, and the activities of The Hong Kong Mortgage Corporation Limited, Hong Kong Note Printing Limited, Hong Kong FMI Services Limited and CMU OmniClear Limited.

Details of the operating segments of the Group are set out in note 31.

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new or amended HKFRS Accounting Standards that are first effective for the current accounting period of the Group. None of them has a material impact on the accounting policies of the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 39).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 4 INCOME AND EXPENDITURE

#### (a) Investment income

	Group		Fund	
	2025	2024	2025	2024
Interest income:				
– from financial assets measured at fair value through income and expenditure account	109,723	116,753	108,434	115,608
– from financial assets measured at fair value through other comprehensive income	208	107	–	–
– from derivative financial instruments	242	332	52	53
– from financial assets measured at amortised cost	19,012	22,502	12,747	13,618
	129,185	139,694	121,233	129,279
Dividend income:				
– from financial assets measured at fair value through income and expenditure account	17,506	16,206	10,444	11,335
– from financial assets measured at fair value through other comprehensive income	18	16	18	16
– from subsidiaries	–	–	2,919	4,040
	17,524	16,222	13,381	15,391
(Loss)/Income from investment properties:				
– rental income	1,125	1,105	–	–
– change in fair value on revaluation	(1,186)	(1,039)	–	–
	(61)	66	–	–
Net investment gains/(losses):				
– on financial assets and financial liabilities measured at fair value through income and expenditure account	149,478	122,151	120,516	93,474
– on derivative financial instruments	9,381	(5,020)	7,219	(5,522)
– on loan portfolio measured at fair value through income and expenditure account	99	(211)	–	–
– on gold	891	279	891	279
	159,849	117,199	128,626	88,231
Net exchange gain/(loss)	44,486	(39,937)	38,496	(35,576)
<b>TOTAL</b>	<b>350,983</b>	<b>233,244</b>	<b>301,736</b>	<b>197,325</b>

Net investment gains included a gain of HK\$2,590 million (2024: HK\$631 million) on hedging instruments designated as fair value hedge and a loss of HK\$2,527 million (2024: HK\$531 million) on hedged items.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (b) Interest expense on placements by Fiscal Reserves, HKSAR Government funds and statutory bodies

	Group and Fund	
	2025	2024
Interest expense on placements by Fiscal Reserves:		
– at a fixed rate determined annually <sup>1</sup>	16,488	13,188
– at market-based rates	5	3
– at a composite rate determined annually <sup>2</sup>	21,290	16,148
	<b>37,783</b>	29,339
Interest expense on placements by HKSAR Government funds and statutory bodies:		
– at a fixed rate determined annually <sup>1</sup>	14,728	15,703
– at market-based rates	56	95
	<b>14,784</b>	15,798
<b>TOTAL</b>	<b>52,567</b>	45,137

<sup>1</sup> This rate was fixed at 4.4% per annum for 2025 (2024: 3.7%) – notes 23, 24 and 29.

<sup>2</sup> The composite rate was 7.0% per annum for 2025 (2024: 3.9%) – notes 23 and 29.

### (c) Other interest expense

	Group		Fund	
	2025	2024	2025	2024
Interest expense on Exchange Fund Bills and Notes issued	36,437	52,851	36,437	52,851
Interest expense on placements by subsidiaries	–	–	3,174	1,375
Interest expense on derivative financial instruments	36	166	36	165
Interest expense on lease liabilities	26	25	9	8
Interest expense on other financial instruments	7,774	12,737	1,789	4,450
<b>TOTAL</b>	<b>44,273</b>	65,779	<b>41,445</b>	58,849

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (d) Operating expenses

	Group		Fund	
	2025	2024	2025	2024
Staff costs				
Salaries and other staff costs	2,333	2,193	1,776	1,712
Retirement benefit costs	171	169	142	140
Premises and equipment expenses				
Depreciation	639	488	453	348
Other premises expenses	130	117	110	96
General operating costs				
Maintenance of office and computer equipment	303	251	268	221
Financial infrastructure operation	222	226	119	83
Professional, consulting and other services	242	194	127	112
Financial information and communication services	110	108	94	94
Public education and publicity	53	64	26	39
External relations	68	67	61	60
Training	13	12	8	9
Expenses relating to investment properties				
– Operating expenses	470	318	–	–
– Variable lease payment expenses	13	12	–	–
Others	208	100	251	152
Recovery of operating expenses for loans with full guarantee from the HKSAR Government (note 13)	(151)	(166)	–	–
Operating result of insurance business (note 4(d)(ii))	4,011	2,127	–	–
Investment management and custodian fees				
Management and custodian fees	1,643	1,513	1,249	1,294
Transaction costs	274	257	274	256
Withholding tax	577	608	577	608
Professional fees and others	311	264	103	115
<b>TOTAL</b>	<b>11,640</b>	<b>8,922</b>	<b>5,638</b>	<b>5,339</b>

(i) The aggregate emoluments of senior staff members (Executive Directors and above) of the Group are as follows:

	Group	
	2025	2024
Fixed pay	76.1	83.1
Variable pay	20.9	21.7
Other benefits	9.7	11.9
	<b>106.7</b>	<b>116.7</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

Other benefits shown above included provident funds, medical and life insurance, gratuity and annual leave accrued during the year. There were no other allowances or benefits-in-kind.

The numbers of senior staff members (Executive Directors and above) of the Group whose emoluments including other benefits fell within the following bands were shown in the table below. The number of senior staff posts was 18 (2024: 18).

HK\$	Group	
	2025	2024
500,000 or below	–	1
500,001 to 1,000,000	1	–
1,000,001 to 1,500,000	1	–
2,500,001 to 3,000,000	1	–
3,000,001 to 3,500,000	–	1
3,500,001 to 4,000,000	1	–
4,000,001 to 4,500,000	2	1
5,000,001 to 5,500,000	–	2
5,500,001 to 6,000,000	3	3
6,000,001 to 6,500,000	2	1
6,500,001 to 7,000,000	2	3
7,000,001 to 7,500,000	1	1
8,500,001 to 9,000,000	1	2
9,000,001 to 9,500,000	1	1
9,500,001 to 10,000,000	1	1
10,000,001 to 10,500,000	1	–
10,500,001 to 11,000,000	–	1
	<b>18</b>	18

(ii) Details of the operating result of insurance business are as follows:

	Group	
	2025	2024
Insurance revenue	<b>(1,704)</b>	(1,316)
Insurance service expenses	<b>3,113</b>	2,998
Net insurance finance expenses	<b>2,602</b>	445
	<b>4,011</b>	2,127

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (e) Note and coin expenses

These represent reimbursements to the note-issuing banks in respect of note-issuing expenses and expenses incurred directly by the Fund in issuing government-issued currency notes and coins.

### (f) Charge for impairment allowances

	Group		Fund	
	2025	2024	2025	2024
<b>Charge for impairment allowances</b>				
Placements with banks and other financial institutions (note 36.3.3(a))	4	4	2	3
Debt securities measured at amortised cost (note 36.3.3(b)(ii))	2	–	–	–
Loan portfolio measured at amortised cost (note 36.3.3(c))	31	26	–	–
Provision on loan commitments (note 36.3.3(d))	(5)	(15)	–	–
<b>TOTAL</b>	<b>32</b>	<b>15</b>	<b>2</b>	<b>3</b>

## 5 INCOME TAX CREDIT

### (a) Income tax credited to the income and expenditure account

	Group	
	2025	2024
<b>Current tax</b>		
Hong Kong profits tax:		
– current year	779	55
– (over-provision)/under-provision in prior years	(43)	1
Taxation outside Hong Kong:		
– current year	41	60
– over-provision in prior years	(10)	(19)
<b>Deferred tax</b>		
Credit for current year	(897)	(294)
<b>TOTAL</b>	<b>(130)</b>	<b>(197)</b>

No provision for Hong Kong profits tax has been made for the Fund as it is not subject to Hong Kong tax. The provision for Hong Kong profits tax relates to the tax liabilities of the Fund's subsidiaries. For 2025, it is calculated at 16.5% (2024: 16.5%) of the estimated assessable profits for the year. Tax for subsidiaries incorporated outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries, which ranged from 15.0% to 25.0% (2024: 15.0% to 25.0%).

## Exchange Fund – Notes to the Financial Statements (continued)

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

Reconciliation between tax expense and accounting profit at applicable tax rates:

	Group	
	2025	2024
Surplus before taxation	245,153	113,174
Less: Surplus not subject to Hong Kong tax	(201,971)	(87,883)
Surplus subject to tax	43,182	25,291
Tax calculated at domestic tax rates in the respective countries	7,461	4,868
Tax effect of:		
– non-deductible expenses	2,468	2,455
– non-taxable income	(10,025)	(7,449)
– tax losses not recognised	14	5
– utilisation of tax losses previously not recognized	(31)	(10)
– over-provision in prior years	(53)	(18)
– others	36	(48)
Income tax credit	(130)	(197)

### (b) Tax (recoverable)/payable

	Note	Group	
		2025	2024
Tax recoverable	15	(98)	(94)
Tax payable	29	1,122	639
		1,024	545

### (c) Deferred tax

	Note	Group	
		2025	2024
Deferred tax assets	15	(712)	–
Deferred tax liabilities	29	366	535
		(346)	535

## Exchange Fund – Notes to the Financial Statements (continued)

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

The major components of net deferred tax liabilities and the movements during the year are as follows:

	Group						Net deferred tax liabilities
	Fair value changes on investment properties and financial instruments	Accelerated tax depreciation	Tax losses	Insurance contract liabilities	Others		
At 1 January 2024	478	32	(149)	450	(7)	804	
(Credited)/Charged to the income and expenditure account	(173)	36	(137)	(14)	(6)	(294)	
Charged to other comprehensive income	–	–	–	53	–	53	
Exchange differences	(28)	–	–	–	–	(28)	
At 31 December 2024	277	68	(286)	489	(13)	535	
At 1 January 2025	<b>277</b>	<b>68</b>	<b>(286)</b>	<b>489</b>	<b>(13)</b>	<b>535</b>	
(Credited)/Charged to the income and expenditure account	<b>(2)</b>	<b>8</b>	<b>(248)</b>	<b>(652)</b>	<b>(3)</b>	<b>(897)</b>	
Credited to other comprehensive income	–	–	–	<b>(18)</b>	–	<b>(18)</b>	
Exchange differences	<b>34</b>	–	–	–	–	<b>34</b>	
At 31 December 2025	<b>309</b>	<b>76</b>	<b>(534)</b>	<b>(181)</b>	<b>(16)</b>	<b>(346)</b>	

There was no significant unprovided deferred tax as at 31 December 2025 and 2024.

## Exchange Fund – Notes to the Financial Statements (continued)

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

## 6 CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Group – 2025					
	Total	Derivative financial instruments	Financial assets and liabilities measured at fair value through income and expenditure account	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Other financial liabilities
Cash and money at call	212,926	–	–	–	212,926	–
Placements with banks and other financial institutions	286,392	–	–	–	286,392	–
Financial assets measured at fair value through income and expenditure account	3,995,711	–	3,995,711	–	–	–
Financial assets measured at fair value through other comprehensive income	11,386	–	–	11,386	–	–
Derivative financial instruments	3,182	3,182	–	–	–	–
Debt securities measured at amortised cost	20,309	–	–	–	20,309	–
Loan portfolio	87,495	–	3,471	–	84,024	–
Others	33,130	–	–	–	33,130	–
<b>FINANCIAL ASSETS</b>	<b>4,650,531</b>	<b>3,182</b>	<b>3,999,182</b>	<b>11,386</b>	<b>636,781</b>	<b>–</b>
Certificates of Indebtedness	635,029	–	–	–	–	635,029
Government-issued currency notes and coins in circulation	12,946	–	–	–	–	12,946
Balance of the banking system	57,027	–	–	–	–	57,027
Placements by banks and other financial institutions	71,709	–	–	–	–	71,709
Placements by Fiscal Reserves	688,925	–	–	–	–	688,925
Placements by HKSAR Government funds and statutory bodies	273,759	–	–	–	–	273,759
Exchange Fund Bills and Notes issued	1,335,121	–	1,335,121	–	–	–
Derivative financial instruments	2,838	2,838	–	–	–	–
Bank loans	16,524	–	–	–	–	16,524
Other debt securities issued	155,859	–	–	–	–	155,859
Others	82,484	–	–	–	–	82,484
<b>FINANCIAL LIABILITIES</b>	<b>3,332,221</b>	<b>2,838</b>	<b>1,335,121</b>	<b>–</b>	<b>–</b>	<b>1,994,262</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Group – 2024					
	Total	Derivative financial instruments	Financial assets and financial liabilities measured at fair value through income and expenditure account	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Other financial liabilities
Cash and money at call	207,009	–	–	–	207,009	–
Placements with banks and other financial institutions	182,243	–	–	–	182,243	–
Financial assets measured at fair value through income and expenditure account	3,902,643	–	3,902,643	–	–	–
Financial assets measured at fair value through other comprehensive income	5,157	–	–	5,157	–	–
Derivative financial instruments	4,720	4,720	–	–	–	–
Debt securities measured at amortised cost	15,106	–	–	–	15,106	–
Loan portfolio	106,045	–	2,597	–	103,448	–
Others	112,711	–	–	–	112,711	–
<b>FINANCIAL ASSETS</b>	<b>4,535,634</b>	<b>4,720</b>	<b>3,905,240</b>	<b>5,157</b>	<b>620,517</b>	<b>–</b>
Certificates of Indebtedness	598,944	–	–	–	–	598,944
Government-issued currency notes and coins in circulation	12,994	–	–	–	–	12,994
Balance of the banking system	44,802	–	–	–	–	44,802
Placements by banks and other financial institutions	72,112	–	–	–	–	72,112
Placements by Fiscal Reserves	669,738	–	–	–	–	669,738
Placements by HKSAR Government funds and statutory bodies	391,073	–	–	–	–	391,073
Exchange Fund Bills and Notes issued	1,383,658	–	1,383,658	–	–	–
Derivative financial instruments	2,641	2,641	–	–	–	–
Bank loans	14,861	–	–	–	–	14,861
Other debt securities issued	148,931	–	–	–	–	148,931
Others	128,440	–	–	–	–	128,440
<b>FINANCIAL LIABILITIES</b>	<b>3,468,194</b>	<b>2,641</b>	<b>1,383,658</b>	<b>–</b>	<b>–</b>	<b>2,081,895</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund – 2025					
	Total	Derivative financial instruments	Financial assets and financial liabilities measured at fair value through income and expenditure account	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Other financial liabilities
Cash and money at call	207,792	–	–	–	207,792	–
Placements with banks and other financial institutions	221,706	–	–	–	221,706	–
Financial assets measured at fair value through income and expenditure account	3,459,427	–	3,459,427	–	–	–
Financial assets measured at fair value through other comprehensive income	1,786	–	–	1,786	–	–
Derivative financial instruments	1,327	1,327	–	–	–	–
Others	30,010	–	–	–	30,010	–
<b>FINANCIAL ASSETS</b>	<b>3,922,048</b>	<b>1,327</b>	<b>3,459,427</b>	<b>1,786</b>	<b>459,508</b>	<b>–</b>
Certificates of Indebtedness	635,029	–	–	–	–	635,029
Government-issued currency notes and coins in circulation	12,946	–	–	–	–	12,946
Balance of the banking system	57,027	–	–	–	–	57,027
Placements by banks and other financial institutions	71,709	–	–	–	–	71,709
Placements by Fiscal Reserves	688,925	–	–	–	–	688,925
Placements by HKSAR Government funds and statutory bodies	273,759	–	–	–	–	273,759
Placements by subsidiaries	67,323	–	–	–	–	67,323
Exchange Fund Bills and Notes issued	1,335,121	–	1,335,121	–	–	–
Derivative financial instruments	2,185	2,185	–	–	–	–
Others	79,746	–	–	–	–	79,746
<b>FINANCIAL LIABILITIES</b>	<b>3,223,770</b>	<b>2,185</b>	<b>1,335,121</b>	<b>–</b>	<b>–</b>	<b>1,886,464</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund – 2024					
	Total	Derivative financial instruments	Financial assets and financial liabilities measured at fair value through income and expenditure account	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Other financial liabilities
Cash and money at call	202,830	–	–	–	202,830	–
Placements with banks and other financial institutions	130,095	–	–	–	130,095	–
Financial assets measured at fair value through income and expenditure account	3,398,963	–	3,398,963	–	–	–
Financial assets measured at fair value through other comprehensive income	1,436	–	–	1,436	–	–
Derivative financial instruments	3,695	3,695	–	–	–	–
Others	108,402	–	–	–	108,402	–
<b>FINANCIAL ASSETS</b>	<b>3,845,421</b>	<b>3,695</b>	<b>3,398,963</b>	<b>1,436</b>	<b>441,327</b>	<b>–</b>
Certificates of Indebtedness	598,944	–	–	–	–	598,944
Government-issued currency notes and coins in circulation	12,994	–	–	–	–	12,994
Balance of the banking system	44,802	–	–	–	–	44,802
Placements by banks and other financial institutions	72,112	–	–	–	–	72,112
Placements by Fiscal Reserves	669,738	–	–	–	–	669,738
Placements by HKSAR Government funds and statutory bodies	391,073	–	–	–	–	391,073
Placements by subsidiaries	45,665	–	–	–	–	45,665
Exchange Fund Bills and Notes issued	1,383,658	–	1,383,658	–	–	–
Derivative financial instruments	744	744	–	–	–	–
Others	126,157	–	–	–	–	126,157
<b>FINANCIAL LIABILITIES</b>	<b>3,345,887</b>	<b>744</b>	<b>1,383,658</b>	<b>–</b>	<b>–</b>	<b>1,961,485</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 7 CASH AND MONEY AT CALL

	Group		Fund	
	2025	2024	2025	2024
<b>At amortised cost</b>				
Balance with central banks	2,734	2,661	2,734	2,661
Balance with banks	210,192	204,348	205,058	200,169
<b>TOTAL</b>	<b>212,926</b>	<b>207,009</b>	<b>207,792</b>	<b>202,830</b>

### 8 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Fund	
	2025	2024	2025	2024
<b>At amortised cost</b>				
Placements in respect of reverse repurchase agreements:				
– with central banks	16,014	7,876	16,014	7,876
– with banks and other financial institutions	37,159	6,843	37,159	6,843
Other placements:				
– with central banks	–	4,661	–	4,661
– with banks	233,231	162,871	168,538	110,718
	<b>286,404</b>	<b>182,251</b>	<b>221,711</b>	<b>130,098</b>
Less: allowances for expected credit losses	(12)	(8)	(5)	(3)
<b>TOTAL</b>	<b>286,392</b>	<b>182,243</b>	<b>221,706</b>	<b>130,095</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 9 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME AND EXPENDITURE ACCOUNT

	Group		Fund	
	2025	2024	2025	2024
<b>At fair value</b>				
<b>Debt securities</b>				
<b>Treasury bills and commercial papers</b>				
Listed outside Hong Kong	94,476	20,790	94,476	20,790
Unlisted	1,316,202	1,141,710	1,316,202	1,141,710
<b>Certificates of deposit</b>				
Listed outside Hong Kong	11,727	–	11,727	–
Unlisted	17,321	127,885	17,321	127,885
<b>Other debt securities</b>				
Listed in Hong Kong	11,562	11,282	11,552	11,272
Listed outside Hong Kong	1,357,923	1,466,003	1,357,923	1,466,003
Unlisted	55,294	57,352	55,103	57,352
<b>Total debt securities</b>	<b>2,864,505</b>	<b>2,825,022</b>	<b>2,864,304</b>	<b>2,825,012</b>
<b>Equity securities</b>				
Listed in Hong Kong	171,078	132,936	171,078	132,936
Listed outside Hong Kong	304,394	310,416	301,777	304,848
Unlisted	128,177	144,041	122,268	136,167
<b>Total equity securities</b>	<b>603,649</b>	<b>587,393</b>	<b>595,123</b>	<b>573,951</b>
<b>Investment funds</b>				
Unlisted	527,557	490,228	–	–
<b>TOTAL</b>	<b>3,995,711</b>	<b>3,902,643</b>	<b>3,459,427</b>	<b>3,398,963</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 10 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Fund	
	2025	2024	2025	2024
<b>At fair value</b>				
<b>Debt securities</b>				
Listed in Hong Kong	5,022	1,846	–	–
Listed outside Hong Kong	3,915	1,759	–	–
Unlisted	663	116	–	–
	9,600	3,721	–	–
<b>Equity securities</b>				
Unlisted	1,786	1,436	1,786	1,436
<b>TOTAL</b>	<b>11,386</b>	<b>5,157</b>	<b>1,786</b>	<b>1,436</b>

The Group's investment in unlisted equity securities as at 31 December 2025 represents a holding of 4,285 shares (2024: 4,285 shares) in the Bank for International Settlements. As at 31 December 2025 and 2024, the nominal value of each share is 5,000 Special Drawing Rights (SDRs) and is 25% paid up (note 34(a)).

### 11 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments refer to financial contracts whose value depends on the value of one or more underlying assets or indices with settlement at a future date.

The Group uses derivative financial instruments to manage its exposures to market risk and facilitate the implementation of investment strategies. The principal derivative financial instruments used are interest rate and currency swap contracts, forward foreign exchange contracts and equity index option contracts, which are primarily over-the-counter derivatives, as well as exchange-traded futures contracts.

Market risk arising from derivative financial instruments is included as part of the overall market risk exposure. The credit risk arising from these transactions is marked against the overall credit exposure to individual counterparties. The financial risk management approaches are outlined in note 36.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (a) Fair values of derivative financial instruments

An analysis of the fair values of derivative financial instruments held by product type is set out below:

	Group				Fund			
	2025		2024		2025		2024	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivatives categorised as held for trading</b>								
Interest rate derivatives								
Interest rate swap contracts	1,370	157	1,467	314	1,155	138	1,074	311
Interest rate futures contracts	1	1	10	4	1	1	10	4
Interest rate cap contracts	2	–	–	–	–	–	–	–
Equity derivatives								
Equity index futures contracts	71	311	82	137	71	311	82	137
Equity index option contracts	–	–	27	8	–	–	27	8
Currency derivatives								
Forward foreign exchange contracts	72	1,290	2,335	206	64	1,200	2,328	47
Currency swap contracts	87	146	153	8	–	–	–	–
Bond derivatives								
Bond futures contracts	17	123	75	125	17	123	75	125
Total return swap contracts	3	46	–	–	3	46	–	–
Commodity derivatives								
Commodity futures contracts	16	366	99	112	16	366	99	112
	<b>1,639</b>	<b>2,440</b>	4,248	914	<b>1,327</b>	<b>2,185</b>	3,695	744
<b>Derivatives designated as hedging instruments in fair value hedges</b>								
Interest rate derivatives								
Interest rate swap contracts	817	169	212	597	–	–	–	–
Currency derivatives								
Currency swap contracts	724	229	259	1,128	–	–	–	–
	<b>1,541</b>	<b>398</b>	471	1,725	–	–	–	–
<b>Derivatives designated as hedging instruments in cash flow hedges</b>								
Currency derivatives								
Currency swap contracts	2	–	1	2	–	–	–	–
<b>TOTAL</b>	<b>3,182</b>	<b>2,838</b>	4,720	2,641	<b>1,327</b>	<b>2,185</b>	3,695	744

The fair value hedges consist of currency and interest rate swap contracts that are used to protect against changes in the fair value of certain fixed-rate debt securities issued due to movements in market interest rates and foreign exchange rates. The currency swap contracts under cash flow hedges are used to hedge the portion of foreign exchange risks arising from variability of cash flows from foreign currency denominated debt securities issued.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (b) Notional amounts of derivative financial instruments

An analysis of the notional amounts of derivative financial instruments held at the reporting date based on the remaining periods to settlement is set out below. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent the amounts at risk.

	Group									
	Notional amounts with remaining life of									
	Total	2025				2024				
3 months or less		1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	
<b>Derivatives categorised as held for trading</b>										
Interest rate derivatives										
Interest rate swap contracts	41,149	1,341	4,362	23,801	11,645	34,681	3,441	2,523	18,433	10,284
Interest rate futures contracts	19,498	576	14,166	4,756	–	36,682	10,043	13,712	12,927	–
Interest rate cap contracts	170	–	–	170	–	–	–	–	–	–
Equity derivatives										
Equity index futures contracts	54,465	54,465	–	–	–	51,454	51,454	–	–	–
Equity index option contracts	–	–	–	–	–	1,662	–	1,662	–	–
Currency derivatives										
Forward foreign exchange contracts	108,721	105,008	3,713	–	–	124,627	121,268	2,124	1,235	–
Currency swap contracts	16,333	634	2,681	11,291	1,727	8,110	1,353	871	5,672	214
Bond derivatives										
Bond futures contracts	128,444	128,444	–	–	–	219,788	219,788	–	–	–
Total return swap contracts	3,157	3,157	–	–	–	–	–	–	–	–
Commodity derivatives										
Commodity futures contracts	18,001	13,773	4,191	37	–	15,472	11,134	4,338	–	–
	389,938	307,398	29,113	40,055	13,372	492,476	418,481	25,230	38,267	10,498
<b>Derivatives designated as hedging instruments in fair value hedges</b>										
Interest rate derivatives										
Interest rate swap contracts	124,594	20,344	35,746	65,374	3,130	110,629	17,211	25,563	65,275	2,580
Currency derivatives										
Currency swap contracts	51,268	5,040	8,064	34,913	3,251	52,465	9,180	9,995	29,333	3,957
	175,862	25,384	43,810	100,287	6,381	163,094	26,391	35,558	94,608	6,537
<b>Derivatives designated as hedging instruments in cash flow hedges</b>										
Currency derivatives										
Currency swap contracts	389	156	–	233	–	388	–	–	388	–
<b>TOTAL</b>	<b>566,189</b>	<b>332,938</b>	<b>72,923</b>	<b>140,575</b>	<b>19,753</b>	<b>655,958</b>	<b>444,872</b>	<b>60,788</b>	<b>133,263</b>	<b>17,035</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund									
	Notional amounts with remaining life of									
	Total	2025				2024				
3 months or less		1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	
<b>Derivatives categorised as held for trading</b>										
Interest rate derivatives										
Interest rate swap contracts	25,770	1,061	2,128	11,797	10,784	24,323	3,141	600	11,292	9,290
Interest rate futures contracts	19,498	576	14,166	4,756	-	36,682	10,043	13,712	12,927	-
Equity derivatives										
Equity index futures contracts	54,465	54,465	-	-	-	51,454	51,454	-	-	-
Equity index option contracts	-	-	-	-	-	1,662	-	1,662	-	-
Currency derivatives										
Forward foreign exchange contracts	99,756	99,756	-	-	-	120,507	120,507	-	-	-
Bond derivatives										
Bond futures contracts	128,444	128,444	-	-	-	219,788	219,788	-	-	-
Total return swap contracts	3,157	3,157	-	-	-	-	-	-	-	-
Commodity derivatives										
Commodity futures contracts	18,001	13,773	4,191	37	-	15,472	11,134	4,338	-	-
<b>TOTAL</b>	<b>349,091</b>	<b>301,232</b>	<b>20,485</b>	<b>16,590</b>	<b>10,784</b>	<b>469,888</b>	<b>416,067</b>	<b>20,312</b>	<b>24,219</b>	<b>9,290</b>

## 12 DEBT SECURITIES MEASURED AT AMORTISED COST

	Group	
	2025	2024
<b>At amortised cost</b>		
<b>Debt securities</b>		
Listed in Hong Kong	6,958	5,716
Listed outside Hong Kong	10,411	6,191
Unlisted	2,947	3,204
	<b>20,316</b>	<b>15,111</b>
Less: allowances for expected credit losses	(7)	(5)
<b>TOTAL</b>	<b>20,309</b>	<b>15,106</b>

Fair value information of the above debt securities is provided in note 37.2.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 13 LOAN PORTFOLIO

	Group	
	2025	2024
<b>At fair value</b>		
Mortgage loans	3,435	2,573
Other loans	36	24
	<b>3,471</b>	2,597
<b>At amortised cost</b>		
Loans with full guarantee from the HKSAR Government		
– Special 100% guarantee under the SME Financing Guarantee Scheme <sup>1</sup>	63,158	82,555
– Dedicated 100% Loan Guarantee Schemes <sup>1</sup>	356	228
Mortgage loans	2,861	2,817
Other loans	17,804	18,100
	<b>84,179</b>	103,700
Less: allowances for expected credit losses	(155)	(252)
	<b>84,024</b>	103,448
<b>TOTAL</b>	<b>87,495</b>	106,045

<sup>1</sup> The Hong Kong Mortgage Corporation Limited, a wholly-owned subsidiary of the Fund, launched the special 100% loan guarantee under the SME Financing Guarantee Scheme (100% SFGS) in April 2020 and the Dedicated 100% Loan Guarantee Schemes (DLGS) in April 2023 through a subsidiary, HKMC Insurance Limited. The loans, which are fully guaranteed by the HKSAR Government, are originated by the participating lenders and sold to The Hong Kong Mortgage Corporation Limited without recourse upon origination. Accordingly, the default losses of these loans are covered by the HKSAR Government's guarantee and no impairment allowance is recognised in view of the minimal default risk of the HKSAR Government.

### 14 GOLD

	Group and Fund	
	2025	2024
<b>At fair value</b>		
<b>Gold</b>		
66,798 ounces (2024: 66,798 ounces)	2,246	1,355

The fair value of gold is based on quoted price in an active market. It is classified under Level 1 of the fair value hierarchy.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 15 OTHER ASSETS

	Group		Fund	
	2025	2024	2025	2024
Unsettled sales and redemption of securities	<b>7,894</b>	91,227	<b>7,894</b>	91,227
Interest and dividends receivable	<b>18,127</b>	18,847	<b>15,378</b>	15,561
Prepayments, receivables and other assets	<b>7,505</b>	2,968	<b>6,616</b>	1,486
Staff housing loans	<b>238</b>	225	<b>238</b>	225
Reinsurance contract assets	<b>1,234</b>	1,082	–	–
Tax recoverable	<b>98</b>	94	–	–
Deferred tax assets	<b>712</b>	–	–	–
<b>TOTAL</b>	<b>35,808</b>	114,443	<b>30,126</b>	108,499

### 16 INTERESTS IN SUBSIDIARIES

	Fund	
	2025	2024
Unlisted shares, at cost	<b>40,262</b>	27,762
Loans to subsidiaries	<b>193,034</b>	202,741
<b>TOTAL</b>	<b>233,296</b>	230,503

## Exchange Fund – Notes to the Financial Statements (continued)

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

The following is a list of the principal subsidiaries which are wholly owned by the Fund (except for Hong Kong Note Printing Limited<sup>1</sup>, CMU OmniClear Holdings Limited<sup>2</sup> and its wholly owned subsidiary, CMU OmniClear Limited) as at 31 December 2025:

Name of company	Principal activities	Issued share capital
The Hong Kong Mortgage Corporation Limited	Investment in mortgages and loans	HK\$39,000,000,000
HKMC Annuity Limited <sup>3</sup>	Long term insurance	HK\$25,000,000,000
HKMC Insurance Limited <sup>3</sup>	General insurance	HK\$15,000,000,000
HKMC Mortgage Management Limited <sup>3</sup>	Loan purchase, origination and servicing	HK\$1,000,000
Hong Kong Note Printing Limited	Banknote printing	HK\$255,000,000
Hong Kong FMI Services Limited	Operating the financial market infrastructure	HK\$167,000,000
Hong Kong Academy of Finance Limited	Financial leadership development	HK\$150,000,000
CMU OmniClear Holdings Limited	Investment holding	HK\$1,255,000,000
CMU OmniClear Limited <sup>4</sup>	Operations and business development activities of the Central Moneymarkets Unit	HK\$800,000,000
BNR Finance Company Limited	Investment holding	HK\$1
BNR Investment Company Limited	Investment holding	HK\$1
Catalyst Investment Company Limited	Investment holding	HK\$1
Debt Capital Solutions Company Limited	Investment holding	HK\$1
Drawbridge Investment Limited	Investment holding	HK\$1
Eight Finance Investment Company Limited	Investment holding	HK\$1
Green 2021 Investment Company Limited	Investment holding	HK\$1
Pine Gate Investment Company Limited	Investment holding	HK\$1
Stewardship Investment Company Limited	Investment holding	HK\$1
Stratosphere Finance Company Limited	Investment holding	HK\$1
Real Avenue Investment Company Limited	Investment properties holding	HK\$1
Real Boulevard Investment Company Limited	Investment properties holding	HK\$1
Real Gate Investment Company Limited	Investment properties holding	HK\$1
Real Horizon Investment Company Limited	Investment properties holding	HK\$1
Real Plaza Investment Company Limited	Investment properties holding	HK\$1
Real Summit Investment Company Limited	Investment properties holding	HK\$1
Real Zenith Investment Company Limited	Investment properties holding	HK\$1

<sup>1</sup> 55% equity interest held by the Fund.

<sup>2</sup> 80% equity interest held by the Fund.

<sup>3</sup> Subsidiaries indirectly held by the Fund through The Hong Kong Mortgage Corporation Limited.

<sup>4</sup> Subsidiary indirectly held by the Fund through CMU OmniClear Holdings Limited.

## Exchange Fund – Notes to the Financial Statements (continued)

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

The place of incorporation and operation of the above subsidiaries are in Hong Kong.

The Fund has committed to inject additional funds up to HK\$20 billion (2024: HK\$20 billion) to The Hong Kong Mortgage Corporation Limited as equity for the purpose of financing The Hong Kong Mortgage Corporation Limited's additional capital injection to HKMC Annuity Limited for maintaining its margin of solvency above a certain level. During the year, capital injection of HK\$12.5 billion (2024: Nil) to The Hong Kong Mortgage Corporation Limited was made under this arrangement and there was no outstanding commitment as at 31 December 2025 (2024: HK\$12.5 billion). After the end of the reporting period, the Fund committed in January 2026 to inject additional funds up to HK\$25 billion to The Hong Kong Mortgage Corporation Limited for the same purpose.

The Fund has provided The Hong Kong Mortgage Corporation Limited with a revolving credit facility of HK\$80 billion (2024: HK\$80 billion) at prevailing market interest rates. As at 31 December 2025, there was no outstanding balance due from The Hong Kong Mortgage Corporation Limited under this facility (2024: Nil).

In October 2025, the Fund established CMU OmniClear Holdings Limited to wholly own CMU OmniClear Limited, established in 2024 to carry out the operations and business development activities of the Central Moneymarkets Unit. In December 2025, CMU OmniClear Holdings Limited issued new shares to a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited as a strategic shareholder at a consideration of HK\$455 million. This transaction led to a dilution of the Fund's interest to 80%, and resulted in an increase in the Group's other reserves by HK\$207 million as at 31 December 2025.

The Fund has provided CMU OmniClear Limited with an interest-free credit facility of HK\$900 million (2024: Nil). As at 31 December 2025, there was no outstanding balance due from CMU OmniClear Limited under this facility (2024: Nil).

Loans to other subsidiaries are unsecured, interest-free and repayable on demand.

Placements by subsidiaries are disclosed in note 25.

The financial statements of the Fund's subsidiaries are audited by firms other than the Audit Commission. The aggregate assets and liabilities of these subsidiaries not audited by the Audit Commission amounted to approximately 17% (2024: 16%) and 7% (2024: 6%) of the Group's total assets and total liabilities, respectively.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 17 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	Group		Fund	
	2025	2024	2025	2024
Associates <sup>1</sup>	5,815	4,072	154	154
Joint ventures <sup>2</sup>	30,921	27,612	–	–
<b>TOTAL</b>	<b>36,736</b>	<b>31,684</b>	<b>154</b>	<b>154</b>

<sup>1</sup> Investment in an associate, comprising unlisted shares, is held directly by the Fund. In the Fund's balance sheet, the investment is stated at cost of HK\$5,000 (2024: HK\$5,000).

<sup>2</sup> The Fund does not directly hold investment in joint ventures.

#### 17.1 Interests in associates

The Group holds investments in six associates. One associate, incorporated in Hong Kong, provides interbank clearing services. The other five associates, incorporated outside Hong Kong, hold non-Hong Kong investment properties and investment funds. The Group holds equity interests in these associates ranging from 16% to 50%.

Aggregate information of the Group's associates, which are not individually material, is summarised below:

	Group	
	2025	2024
Share of profit for the year	1,255	284
Share of other comprehensive income/(loss)	504	(35)
Share of total comprehensive income	1,759	249
Aggregate carrying amount of interests in associates	5,815	4,072

As at 31 December 2025, the Group has no outstanding investment commitments to associates (2024: Nil).

The Fund has provided an associate with non-revolving credit facilities for developing financial infrastructure. The facilities are unsecured and interest-free. The facility of HK\$22 million which has expired in June 2025 is repayable by October 2035. During the year, there was no loan drawdown or repayment (2024: HK\$7 million drawn and HK\$12 million repaid respectively). As at 31 December 2025, there was no outstanding commitment of the facilities (2024: Nil) and the outstanding balance due from this associate under the facilities was HK\$154 million (2024: HK\$154 million).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 17.2 Interests in joint ventures

The Group holds investments in 21 joint ventures, which are all incorporated outside Hong Kong. The principal activities of these joint ventures are holding non-Hong Kong investment properties. The Group holds equity interests in these joint ventures ranging from 25% to 51%. Although the Group's equity interest in some of these joint ventures exceeds 50%, they are categorised as joint ventures because important business decisions relating to these joint ventures are required to be made with the consent of all parties. As at 31 December 2025, the aggregate interest in these joint ventures amounted to 0.66% (2024: 0.60%) of the Group's total assets.

Aggregate information of the Group's joint ventures, which are not individually material, is summarised below:

	Group	
	2025	2024
Share of profit/(loss) for the year	741	(1,106)
Share of other comprehensive income/(loss)	1,046	(982)
Share of total comprehensive income/(loss)	1,787	(2,088)
Aggregate carrying amount of interests in joint ventures	30,921	27,612

The Group's share of outstanding investment commitments to joint ventures is shown below:

	Group	
	2025	2024
Commitments to contribute funds	6,444	6,803

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 18 INVESTMENT PROPERTIES

	Group	
	2025	2024
<b>At fair value</b>		
At 1 January	21,132	22,449
Additions	1,355	606
Change in fair value on revaluation	(1,186)	(1,039)
Exchange differences	2,156	(884)
At 31 December	<b>23,457</b>	21,132

The carrying amount of the Group's investment properties is analysed as follows:

	Group	
	2025	2024
Held outside Hong Kong		
on freehold	11,726	9,962
on long-term lease (over 50 years)	11,731	11,170
<b>TOTAL</b>	<b>23,457</b>	21,132

The Group's investment properties are leased to third parties under operating leases. The gross rental income received and receivable by the Group and the related expenses in respect of these investment properties are summarised as follows:

	Group	
	2025	2024
Gross rental income	1,125	1,105
Direct expenses	(483)	(330)
Net rental income	<b>642</b>	775

## Exchange Fund – Notes to the Financial Statements (continued)

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

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group	
	2025	2024
Within one year	837	861
After one year but not later than two years	866	906
After two years but not later than three years	670	740
After three years but not later than four years	634	545
After four years but not later than five years	729	530
After five years	7,410	8,757
<b>TOTAL</b>	<b>11,146</b>	<b>12,339</b>

As at 31 December 2025, investment properties with a fair value of HK\$23,058 million (2024: HK\$20,762 million) were pledged to secure general banking facilities granted to the Group (note 27).

### 18.1 Fair value measurement of investment properties

The Group's investment properties are revalued by independent professional valuers who hold recognised and relevant professional qualifications with recent experience in the location and category of the investment properties being valued. The valuers have valued the Group's investment properties on an open market value basis at each reporting date based on market approach with reference to market transaction or quotes/bids from third parties, or if no reliable market data is available, income approach with reference to comparable market evidence. For all properties, their current use equates to the highest and best use. There has been no change to the valuation technique during the year.

Under the income approach, the valuation which is considered as the fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of the current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including the terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The significant unobservable inputs used in the income approach are the selection of discount rates which ranged from 5.00% to 8.00% (2024: 4.63% to 8.05%), equivalent yields which ranged from 5.68% to 6.61% (2024: 5.68% to 6.20%) and terminal capitalisation rates which ranged from 4.00% to 6.00% (2024: 4.25% to 6.80%). Significant increases or decreases in any of those inputs in isolation would result in significantly lower or higher fair value measurements, respectively.

All of the Group's investment properties are classified under Level 3 of the fair value hierarchy. There were no transfers into or out of Level 3 during the year. The net losses recognised in the income and expenditure account relating to revaluation of investment properties held at the reporting date were HK\$1,186 million (2024: HK\$1,039 million).

## Exchange Fund – Notes to the Financial Statements (continued)

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

## 19 PROPERTY, PLANT AND EQUIPMENT

	Group				
	Owned assets			Right-of-use assets	
	Premises	Plant and equipment	Computer software licences and system development costs	Premises	Total
<b>Cost</b>					
At 1 January 2024	3,857	2,196	1,096	889	8,038
Additions	14	468	209	231	922
Disposals/write-offs	(1)	(16)	–	(24)	(41)
At 31 December 2024	3,870	2,648	1,305	1,096	8,919
At 1 January 2025	<b>3,870</b>	<b>2,648</b>	<b>1,305</b>	<b>1,096</b>	<b>8,919</b>
Additions	<b>3</b>	<b>256</b>	<b>216</b>	<b>141</b>	<b>616</b>
Disposals/write-offs	<b>(1)</b>	<b>(54)</b>	<b>–</b>	<b>(3)</b>	<b>(58)</b>
At 31 December 2025	<b>3,872</b>	<b>2,850</b>	<b>1,521</b>	<b>1,234</b>	<b>9,477</b>
<b>Accumulated depreciation</b>					
At 1 January 2024	1,779	1,632	516	472	4,399
Charge for the year	87	170	52	179	488
Written back on disposals/write-offs	(1)	(16)	–	(24)	(41)
At 31 December 2024	1,865	1,786	568	627	4,846
At 1 January 2025	<b>1,865</b>	<b>1,786</b>	<b>568</b>	<b>627</b>	<b>4,846</b>
Charge for the year	<b>89</b>	<b>251</b>	<b>96</b>	<b>203</b>	<b>639</b>
Written back on disposals/write-offs	<b>(1)</b>	<b>(52)</b>	<b>–</b>	<b>(3)</b>	<b>(56)</b>
At 31 December 2025	<b>1,953</b>	<b>1,985</b>	<b>664</b>	<b>827</b>	<b>5,429</b>
<b>Net book value</b>					
<b>At 31 December 2025</b>	<b>1,919</b>	<b>865</b>	<b>857</b>	<b>407</b>	<b>4,048</b>
At 31 December 2024	2,005	862	737	469	4,073

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund				
	Owned assets			Right-of-use assets	
	Premises	Plant and equipment	Computer software licences and system development costs	Premises	Total
<b>Cost</b>					
At 1 January 2024	3,843	1,158	1,096	593	6,690
Additions	–	172	209	206	587
Disposals/write-offs	–	(1)	–	–	(1)
At 31 December 2024	3,843	1,329	1,305	799	7,276
At 1 January 2025	<b>3,843</b>	<b>1,329</b>	<b>1,305</b>	<b>799</b>	<b>7,276</b>
Additions	–	<b>58</b>	<b>208</b>	<b>63</b>	<b>329</b>
At 31 December 2025	<b>3,843</b>	<b>1,387</b>	<b>1,513</b>	<b>862</b>	<b>7,605</b>
<b>Accumulated depreciation</b>					
At 1 January 2024	1,768	821	516	379	3,484
Charge for the year	87	83	52	126	348
Written back on disposals/write-offs	–	(1)	–	–	(1)
At 31 December 2024	1,855	903	568	505	3,831
At 1 January 2025	<b>1,855</b>	<b>903</b>	<b>568</b>	<b>505</b>	<b>3,831</b>
Charge for the year	<b>88</b>	<b>124</b>	<b>96</b>	<b>145</b>	<b>453</b>
At 31 December 2025	<b>1,943</b>	<b>1,027</b>	<b>664</b>	<b>650</b>	<b>4,284</b>
<b>Net book value</b>					
<b>At 31 December 2025</b>	<b>1,900</b>	<b>360</b>	<b>849</b>	<b>212</b>	<b>3,321</b>
At 31 December 2024	1,988	426	737	294	3,445

## Exchange Fund – Notes to the Financial Statements (continued)

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

The net book value of owned premises comprises:

	Group		Fund	
	2025	2024	2025	2024
In Hong Kong				
Leasehold land and the building situated thereon (leasehold between 10 and 50 years)	1,898	1,984	1,879	1,967
Outside Hong Kong				
Freehold land and the building situated thereon	21	21	21	21
<b>TOTAL</b>	<b>1,919</b>	<b>2,005</b>	<b>1,900</b>	<b>1,988</b>

## 20 CERTIFICATES OF INDEBTEDNESS, GOVERNMENT-ISSUED CURRENCY NOTES AND COINS IN CIRCULATION

	Group and Fund			
	Certificates of Indebtedness		Government-issued currency notes and coins in circulation	
	2025	2024	2025	2024
Carrying amount	635,029	598,944	12,946	12,994
<b>Reconciliation with face value:</b>				
Hong Kong dollar face value	636,375	601,415	12,973	13,047
Linked exchange rate for calculating the US dollars required for redemption	US\$1=HK\$7.80	US\$1=HK\$7.80	US\$1=HK\$7.80	US\$1=HK\$7.80
US dollars required for redemption	US\$81,587 million	US\$77,104 million	US\$1,663 million	US\$1,673 million
Market exchange rate for translation into Hong Kong dollars	US\$1=HK\$7.78350	US\$1=HK\$7.76795	US\$1=HK\$7.78350	US\$1=HK\$7.76795
Carrying amount	635,029	598,944	12,946	12,994

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 21 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 Hong Kong Monetary Authority (HKMA) for the account of the Fund. The aggregate amount in these clearing accounts, which must not have a negative balance, represents the total level of liquidity in the interbank market.

Under the weak-side Convertibility Undertaking, the HKMA undertakes to convert Hong Kong dollars in these clearing accounts into US dollars at the fixed exchange rate of US\$1=HK\$7.85. Likewise, under the strong-side Convertibility Undertaking, licensed banks can convert US dollars into Hong Kong dollars in these accounts, as the HKMA undertakes to buy US dollars at the fixed exchange rate of US\$1=HK\$7.75. Within the Convertibility Zone bounded by the two Convertibility Undertakings, the HKMA may choose to conduct market operations in a manner consistent with Currency Board principles. Such operations can result in matching changes in the balances of these accounts.

The balance of the banking system is repayable on demand and non-interest-bearing.

### 22 PLACEMENTS BY BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Fund	
	2025	2024
<b>At amortised cost</b>		
Placements by banks and other financial institutions in respect of repurchase agreements	<b>1,907</b>	2,328
Other placements:		
– by central banks	<b>51,580</b>	21,284
– by banks	<b>18,222</b>	48,500
<b>TOTAL</b>	<b>71,709</b>	72,112

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 23 PLACEMENTS BY FISCAL RESERVES

	Group and Fund	
	2025	2024
<b>Placements by Operating and Capital Reserves</b>		
<b>(i) with interest payable at a fixed rate determined annually</b>		
General Revenue Account	<b>208,768</b>	176,186
Capital Works Reserve Fund	<b>118,419</b>	123,518
Civil Service Pension Reserve Fund	<b>60,478</b>	57,929
Innovation and Technology Fund	<b>23,764</b>	23,980
Lotteries Fund	<b>24,242</b>	23,808
Capital Investment Fund	<b>11,571</b>	12,769
Loan Fund	<b>6,434</b>	5,636
Disaster Relief Fund	<b>150</b>	146
	<b>453,826</b>	423,972
<b>(ii) with interest payable at market-based rates</b>		
General Revenue Account	<b>4</b>	4
	<b>453,830</b>	423,976
<b>Placements by Future Fund with interest payable at a composite rate determined annually</b>		
Land Fund	<b>230,295</b>	240,962
General Revenue Account	<b>4,800</b>	4,800
	<b>235,095</b>	245,762
<b>TOTAL</b>	<b>688,925</b>	669,738

Fiscal Reserves comprise Operating and Capital Reserves and the Future Fund.

Placements by Operating and Capital Reserves are repayable on demand. Interest on the majority of these placements is payable at a fixed rate determined in January each year. The rate is the average annual investment return of the Fund's Investment Portfolio for the past six years or the average annual yield of three-year Government Bond for the previous year subject to a minimum of zero percent, whichever is the higher. This rate was fixed at 4.4% per annum for 2025 (2024: 3.7%).

The Future Fund was established on 1 January 2016. Placements by Future Fund comprise an initial endowment from the balance of the Land Fund, periodic top-ups from the General Revenue Account and ad-hoc transfers from the Land Fund as directed by the Financial Secretary. These placements are divided into two portions: one linked with the performance of the Investment Portfolio and another linked with the performance of the Long-Term Growth Portfolio. Interest on these placements is payable at a composite rate which is computed annually, on a weighted average basis, with reference to the above-mentioned fixed rate determined for placements by Operating and Capital Reserves and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The composite rate for 2025 was 7.0% (2024: 3.9%). In accordance with the directive made by the Financial Secretary in October 2022, the repayment date of placements by Future Fund and the interest thereon (note 29) was extended from 31 December 2025 to 31 December 2030 unless otherwise directed by the Financial Secretary according to the terms of the placements.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 24 PLACEMENTS BY HKSAR GOVERNMENT FUNDS AND STATUTORY BODIES

	Group and Fund	
	2025	2024
<b>Placements with interest payable at a fixed rate<sup>1</sup> determined annually</b>		
Bond Fund	178,958	229,944
Elite Athletes Development Fund	6,167	5,907
Employees Retraining Board	10,042	11,054
Environment and Conservation Fund	6,167	6,182
Hong Kong Housing Authority	40,959	39,233
Hospital Authority	–	13,578
Language Fund	–	7,007
Research Endowment Fund	9,397	52,541
Trading Funds	10,087	9,662
Other funds <sup>2</sup>	9,909	13,916
	<b>271,686</b>	<b>389,024</b>
<b>Placements with interest payable at market-based rates</b>		
Deposit Protection Scheme Fund	2,073	2,049
<b>TOTAL</b>	<b>273,759</b>	<b>391,073</b>

<sup>1</sup> The rate is the average annual investment return of the Fund's Investment Portfolio for the past six years or the average annual yield of three-year Government Bond for the previous year subject to a minimum of zero percent, whichever is the higher. This rate was fixed at 4.4% per annum for 2025 (2024: 3.7%).

<sup>2</sup> This is a collective placement by 12 HKSAR Government funds (2024: 16 HKSAR Government funds).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 25 PLACEMENTS BY SUBSIDIARIES

	Fund	
	2025	2024
<b>Placements by:</b>		
HKMC Annuity Limited <sup>1</sup>	50,838	29,875
HKMC Insurance Limited <sup>2</sup>	16,485	15,790
<b>TOTAL</b>	<b>67,323</b>	<b>45,665</b>

<sup>1</sup> Placements by HKMC Annuity Limited are unsecured, interest-bearing and have fixed repayment terms from 6 to 10 years.

<sup>2</sup> Placements by HKMC Insurance Limited are unsecured, interest-bearing and have a fixed repayment term of 6 years.

### 26 EXCHANGE FUND BILLS AND NOTES ISSUED

	Group and Fund	
	2025	2024
<b>At fair value</b>		
<b>Exchange Fund Bills and Notes issued</b>		
Exchange Fund Bills	1,322,209	1,368,440
Exchange Fund Notes	14,407	15,418
	<b>1,336,616</b>	<b>1,383,858</b>
<b>Exchange Fund Bills held</b>	<b>(1,495)</b>	<b>(200)</b>
<b>TOTAL</b>	<b>1,335,121</b>	<b>1,383,658</b>

EFBN issued are unsecured obligations of the Fund and are one of the components of the Monetary Base in the Currency Board Account. Exchange Fund Bills are issued by the Fund for maturities not exceeding one year. Exchange Fund Notes are issued by the Fund with maturities of 2 years or more.

Since January 2015, the Fund has ceased to issue Exchange Fund Notes with tenors of three years or above to avoid overlapping with Government Bonds of the same tenors. To maintain the overall size of Exchange Fund paper, the Fund has issued additional Exchange Fund Bills to replace maturing Exchange Fund Notes of those tenors.

Exchange Fund Bills held by the Fund as a result of market making activities are considered as redemption of the bills issued and are netted off.

## Exchange Fund – Notes to the Financial Statements (continued)

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

An analysis of the nominal value of EFBN issued at the beginning and the end of year is set out below:

	Group and Fund			
	2025		2024	
	Exchange Fund Bills	Exchange Fund Notes	Exchange Fund Bills	Exchange Fund Notes
Issued by the Currency Board Operations segment				
Nominal value at 1 January	1,378,017	15,600	1,236,980	18,400
Issuance	4,259,619	4,800	4,184,601	4,800
Redemption	(4,310,071)	(6,000)	(4,043,564)	(7,600)
Nominal value at 31 December	1,327,565	14,400	1,378,017	15,600
Long positions held by the Financial Stability and Other Activities segment				
Nominal value at 31 December	(1,500)	–	(200)	–
Total nominal value	1,326,065	14,400	1,377,817	15,600
Carrying amount, at fair value	1,320,714	14,407	1,368,240	15,418
Difference	5,351	(7)	9,577	182

The fair value changes of EFBN issued are attributable to changes in benchmark interest rates.

## 27 BANK LOANS

	Group	
	2025	2024
<b>At amortised cost</b>		
Bank loans repayable:		
Within one year	4,304	1,845
After one year but not later than two years	7,939	3,894
After two years but not later than five years	4,281	9,122
<b>TOTAL</b>	<b>16,524</b>	<b>14,861</b>

As at 31 December 2025, the banking facilities of the Group were secured by mortgage over the investment properties with a fair value of HK\$23,058 million (2024: HK\$20,762 million) (note 18).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 28 OTHER DEBT SECURITIES ISSUED

	Group	
	2025	2024
Debt securities issued, carried at amortised cost	7,215	6,431
Debt securities issued, designated as hedged items under fair value hedge	148,644	142,500
<b>TOTAL</b>	<b>155,859</b>	148,931

An analysis of the nominal value of other debt securities issued at the beginning and the end of year is set out below:

	Group	
	2025	2024
Total debt securities issued		
Nominal value at 1 January	150,529	164,438
Issuance	70,479	103,508
Redemption	(66,172)	(117,659)
Exchange differences	50	242
Nominal value at 31 December	154,886	150,529
Carrying amount	155,859	148,931
Difference	(973)	1,598

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 29 OTHER LIABILITIES

	Group		Fund	
	2025	2024	2025	2024
Accrued interest on placements by Fiscal Reserves (Future Fund) <sup>1</sup>	<b>49,166</b>	77,376	<b>49,166</b>	77,376
Accrued interest on placements by a subsidiary	–	–	<b>5,095</b>	3,580
Other interest payable	<b>3,323</b>	3,938	<b>332</b>	461
Unsettled purchases of securities	<b>19,458</b>	37,055	<b>19,458</b>	37,055
Accrued charges and other liabilities	<b>11,033</b>	10,785	<b>5,659</b>	7,579
Insurance contract liabilities	<b>36,678</b>	25,046	–	–
Lease liabilities	<b>792</b>	805	<b>189</b>	257
Tax payable	<b>1,122</b>	639	–	–
Deferred tax liabilities	<b>366</b>	535	–	–
Provision for expected credit losses on loan commitments	<b>10</b>	15	–	–
<b>TOTAL</b>	<b>121,948</b>	156,194	<b>79,899</b>	126,308

<sup>1</sup> In accordance with the directives made by the Financial Secretary in December 2015 and October 2022, the accrued interest on placements by Future Fund should be rolled over and compounded at the composite rate (note 23) on an annual basis and shall only be paid upon maturity of the placements (i.e. 31 December 2030) unless otherwise directed by the Financial Secretary according to the terms of the placements.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 30 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

#### (a) Components of cash and cash equivalents

	Group		Fund	
	2025	2024	2025	2024
Cash and money at call	212,926	207,009	207,792	202,830
Placements with banks and other financial institutions	255,689	163,162	193,554	121,553
Treasury bills and commercial papers	75,540	11,391	75,540	11,391
Certificates of deposit	8,545	31,386	8,545	31,386
<b>TOTAL</b>	<b>552,700</b>	<b>412,948</b>	<b>485,431</b>	<b>367,160</b>

#### (b) Reconciliation of cash and cash equivalents

	Note	Group		Fund	
		2025	2024	2025	2024
<b>Amounts shown in the balance sheet</b>					
Cash and money at call	7	212,926	207,009	207,792	202,830
Placements with banks and other financial institutions	8	286,404	182,251	221,711	130,098
Treasury bills and commercial papers	9	1,410,678	1,162,500	1,410,678	1,162,500
Certificates of deposit	9	29,048	127,885	29,048	127,885
		1,939,056	1,679,645	1,869,229	1,623,313
Less: Amounts with original maturity beyond 3 months		(1,386,356)	(1,266,697)	(1,383,798)	(1,256,153)
<b>Cash and cash equivalents in the statement of cash flows</b>		<b>552,700</b>	<b>412,948</b>	<b>485,431</b>	<b>367,160</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (c) Reconciliation of liabilities arising from financing activities

The table below shows changes in the liabilities arising from financing activities, which are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

	Group			Fund
	Bank loans (note 27)	Other debt securities issued (note 28)	Lease liabilities (note 29)	Lease liabilities (note 29)
At 1 January 2024	15,359	162,363	802	226
Changes from financing cash flows				
Bank loans raised	390	–	–	–
Repayment of bank loans	(186)	–	–	–
Proceeds from issue of other debt securities	–	103,114	–	–
Redemption of other debt securities issued	–	(117,659)	–	–
Principal portion of lease payments	–	–	(145)	(104)
Non-cash changes				
Increase in lease liabilities relating to new leases	–	–	157	135
Amortisation	25	340	25	8
Exchange differences	(727)	242	(9)	–
Change in fair value	–	531	–	–
Other changes				
Interest portion of lease payments	–	–	(25)	(8)
At 31 December 2024	14,861	148,931	805	257
At 1 January 2025	<b>14,861</b>	<b>148,931</b>	<b>805</b>	<b>257</b>
<b>Changes from financing cash flows</b>				
Bank loans raised	<b>3,076</b>	–	–	–
Repayment of bank loans	<b>(3,103)</b>	–	–	–
Proceeds from issue of other debt securities	–	<b>70,399</b>	–	–
Redemption of other debt securities issued	–	<b>(66,172)</b>	–	–
Principal portion of lease payments	–	–	<b>(175)</b>	<b>(125)</b>
<b>Non-cash changes</b>				
Increase in lease liabilities relating to new leases	–	–	<b>134</b>	<b>57</b>
Amortisation	<b>191</b>	<b>124</b>	<b>26</b>	<b>9</b>
Exchange differences	<b>1,499</b>	<b>50</b>	<b>28</b>	–
Change in fair value	–	<b>2,527</b>	–	–
<b>Other changes</b>				
Interest portion of lease payments	–	–	<b>(26)</b>	<b>(9)</b>
At 31 December 2025	<b>16,524</b>	<b>155,859</b>	<b>792</b>	<b>189</b>

The total cash outflows for leases of the Group and the Fund in 2025 were HK\$215 million (2024: HK\$185 million) and HK\$134 million (2024: HK\$112 million) respectively.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 31 OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker. As a central banking institution, the HKMA is responsible for managing the Fund and maintaining the monetary and banking stability of Hong Kong. The Group comprises operating segments as stated in note 2.20.

	Group							
	Currency Board Operations (note (a))		Reserves Management		Financial Stability and Other Activities		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
<b>Income</b>								
Interest and dividend income	93,674	98,230	46,291	48,950	6,744	8,736	146,709	155,916
Investment gains/(losses)	17,420	(8,525)	183,848	87,809	3,006	(1,956)	204,274	77,328
Other income	–	–	211	97	772	824	983	921
	<b>111,094</b>	89,705	<b>230,350</b>	136,856	<b>10,522</b>	7,604	<b>351,966</b>	234,165
<b>Expenditure</b>								
Interest expense	36,471	53,015	54,623	49,561	5,746	8,340	96,840	110,916
Other expenses	1,626	1,608	2,349	2,010	7,994	5,635	11,969	9,253
	<b>38,097</b>	54,623	<b>56,972</b>	51,571	<b>13,740</b>	13,975	<b>108,809</b>	120,169
<b>Surplus/(Deficit) before share of profit/ (loss) of associates and joint ventures</b>	<b>72,997</b>	35,082	<b>173,378</b>	85,285	<b>(3,218)</b>	(6,371)	<b>243,157</b>	113,996
Share of profit/(loss) of associates and joint ventures, net of tax	–	–	1,901	(892)	95	70	1,996	(822)
<b>Surplus/(Deficit) before taxation</b>	<b>72,997</b>	35,082	<b>175,279</b>	84,393	<b>(3,123)</b>	(6,301)	<b>245,153</b>	113,174

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Group									
	Currency Board Operations (note (a))		Reserves Management		Financial Stability and Other Activities		Re-allocation (notes (b) & (c))		Total	
	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
<b>Assets</b>										
Backing Assets										
Investment in designated US dollar assets	2,244,059	2,155,871	-	-	-	-	-	-	2,244,059	2,155,871
Interest receivable on designated										
US dollar assets	6,872	6,945	-	-	-	-	-	-	6,872	6,945
Net accounts (payable)/receivable	(10)	(18,202)	-	-	-	-	10	18,202	-	-
Other investments	-	-	2,108,352	2,068,708	322,663	247,995	1,584	(200)	2,432,599	2,316,503
Other assets	-	-	24,946	20,471	11,208	9,955	12	85,865	36,166	116,291
<b>TOTAL ASSETS</b>	<b>2,250,921</b>	<b>2,144,614</b>	<b>2,133,298</b>	<b>2,089,179</b>	<b>333,871</b>	<b>257,950</b>	<b>1,606</b>	<b>103,867</b>	<b>4,719,696</b>	<b>4,595,610</b>
<b>Liabilities</b>										
Monetary Base										
Certificates of Indebtedness	635,029	598,944	-	-	-	-	-	-	635,029	598,944
Government-issued currency notes and										
coins in circulation	12,946	12,994	-	-	-	-	-	-	12,946	12,994
Balance of the banking system	57,027	44,802	-	-	-	-	-	-	57,027	44,802
Exchange Fund Bills and Notes issued	1,336,616	1,383,858	-	-	-	-	(1,495)	(200)	1,335,121	1,383,658
Interest payable on Exchange Fund Notes	98	124	-	-	-	-	-	-	98	124
Net accounts (receivable)/payable	(3,060)	(85,692)	-	-	-	-	3,091	85,865	31	173
Placements by banks and other										
financial institutions	-	-	20,129	48,500	51,580	23,612	-	-	71,709	72,112
Placements by Fiscal Reserves	-	-	688,925	669,738	-	-	-	-	688,925	669,738
Placements by HKSAR Government										
funds and statutory bodies	-	-	271,686	389,024	2,073	2,049	-	-	273,759	391,073
Bank loans	-	-	16,524	14,861	-	-	-	-	16,524	14,861
Other debt securities issued	-	-	690	631	155,169	148,300	-	-	155,859	148,931
Other liabilities	-	-	74,898	99,650	49,749	40,686	10	18,202	124,657	158,538
<b>TOTAL LIABILITIES</b>	<b>2,038,656</b>	<b>1,955,030</b>	<b>1,072,852</b>	<b>1,222,404</b>	<b>258,571</b>	<b>214,647</b>	<b>1,606</b>	<b>103,867</b>	<b>3,371,685</b>	<b>3,495,948</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (a) Currency Board Operations

Starting from 1 October 1998, specific US dollar assets of the Fund have been designated to back the Monetary Base, which comprises Certificates of Indebtedness, government-issued currency notes and coins in circulation, balance of the banking system and EFBN issued. While specific assets of the Fund have been earmarked for backing the Monetary Base, all the Fund's assets are available for the purpose of supporting the Hong Kong dollar exchange rate under the Linked Exchange Rate system.

In accordance with an arrangement approved by the Financial Secretary in January 2000, assets can be transferred between the Backing Portfolio and general reserves when the Backing Ratio reaches either the upper trigger point (112.5%) or the lower trigger point (105%). This arrangement allows transfer of excess assets out of the Backing Portfolio to maximise their earning potential while ensuring that there are sufficient liquid assets in the Backing Portfolio. The Backing Ratio reached the upper trigger point of 112.5% in August 2025 and September 2024. Assets were transferred from the Backing Portfolio to general reserves and the Backing Ratio was brought down to around 110%. The Backing Ratio stood at 110.34% as at 31 December 2025 (2024: 109.56%).

### (b) Re-allocation of assets and liabilities

For the purpose of the Currency Board Operations segment, certain liabilities of the Fund are deducted from the Backing Assets and certain assets are deducted from the Monetary Base in order to allow proper computation of the Backing Ratio. The following items are re-allocation adjustments to reconcile the segmental information to the Group balance sheet:

- (i) the Backing Assets are presented on a net basis in the Currency Board Operations. As at 31 December 2025, deductions from the Backing Assets comprised liabilities of HK\$10 million (2024: HK\$18,202 million). The amount refers to accounts payable for bond futures contracts (2024: accounts payable for unsettled purchases of securities and redemption of Certificates of Indebtedness), which are included in "net accounts (payable)/receivable" to offset corresponding investments in the Backing Assets; and
- (ii) the Monetary Base is also presented on a net basis. As at 31 December 2025, deductions from the Monetary Base comprising assets of HK\$3,091 million (2024: HK\$85,865 million) consisted of three components:
  - as Hong Kong dollar interest rate swaps have been used as a means to manage the cost of issuing Exchange Fund Notes, unrealised gains of HK\$12 million (2024: Nil) on these interest rate swaps are included in "net accounts (receivable)/payable" to reduce the Monetary Base;
  - when Hong Kong dollar overnight advances secured on EFBN have been made to banks under the Discount Window Operations, the advances of HK\$3,079 million (2024: Nil) are included in "net accounts (receivable)/payable" to reduce the Monetary Base; and
  - EFBN issued on tender date but not yet settled are included in "net accounts (receivable)/payable" to reduce the Monetary Base. There was no such receivable as at 31 December 2025 (2024: HK\$85,865 million).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (c) Exchange Fund Bills and Notes held

EFBN held by the Financial Stability and Other Activities segment are treated as redemption of EFBN issued in the Currency Board Operations segment.

## 32 PLEDGED ASSETS

Assets are pledged as margin for futures contracts, over-the-counter derivative financial instruments and securities lending agreements and as collateral for securing general banking facilities. Securities lent do not include EFBN in issue. There are no financial assets pledged against contingent liabilities.

	Note	Group		Fund	
		2025	2024	2025	2024
<b>Assets pledged</b>					
Cash and money at call		6,000	5,967	6,000	5,967
Financial assets measured at fair value through income and expenditure account		8,286	6,099	8,286	6,099
Equity interests in associates		1,316	1,308	–	–
Equity interests in joint ventures		2,449	2,230	–	–
Investment properties	18	23,058	20,762	–	–
<b>Secured liabilities</b>					
Derivative financial instruments		1,744	174	1,744	174
Bank loans	27	16,524	14,861	–	–
Other debt securities issued		690	632	–	–

During the year, the Group entered into collateralised reverse repurchase agreements, repurchase agreements and securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations. The Group controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values to ensure that the Group collected sufficient financial collaterals to fully cover its counterparty credit exposure.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 33 COMMITMENTS

#### (a) Capital commitments

Capital expenditure authorised but not provided for in the financial statements at the reporting date is as follows:

	Group		Fund	
	2025	2024	2025	2024
Contracted for	44	64	33	35
Authorised but not yet contracted for	1,028	965	959	885
<b>TOTAL</b>	<b>1,072</b>	1,029	<b>992</b>	920

#### (b) Credit facility to the International Monetary Fund

The Fund has participated in the New Arrangements to Borrow (NAB), a standby credit facility provided to the International Monetary Fund (IMF) for the purpose of managing instability in the international monetary system. The facility is subject to periodic review and renewal. As at 31 December 2025, the Fund had an undertaking under the NAB to lend foreign currencies to the IMF up to HK\$7,247 million equivalent (2024: HK\$6,877 million equivalent), in the form of a loan bearing prevailing market interest rates. There was no outstanding principal due from the IMF under the NAB (2024: Nil).

#### (c) Credit facility to the Hong Kong Deposit Protection Board

The Fund has provided the Hong Kong Deposit Protection Board (HKDPB) with a standby credit facility of HK\$220 billion (2024: HK\$220 billion) at prevailing market interest rates for meeting the necessary liquidity required for payment of compensation in the event of a bank failure. As at 31 December 2025, there was no outstanding balance due from the HKDPB under this facility (2024: Nil).

#### (d) Repurchase agreements with other central banks

The Fund has entered into bilateral repurchase agreements with various central banks in Asia and Australasia amounting up to HK\$44,755 million equivalent (2024: HK\$44,666 million equivalent). The arrangement allows each organisation to enhance the liquidity of its foreign reserve portfolio with minimal additional risk. As at 31 December 2025, there was no outstanding transaction with any central bank under this arrangement (2024: Nil).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (e) Chiang Mai Initiative Multilateralisation Agreement

The Chiang Mai Initiative Multilateralisation (CMIM) was established under the aegis of the 10 Association of Southeast Asian Nations (ASEAN) member countries together with China, Japan and Korea (ASEAN+3) to provide short-term US dollars through currency swap transactions to participants facing balance-of-payments and liquidity difficulties with a total size of US\$240 billion (2024: US\$240 billion). Hong Kong, through the HKMA, participates in the CMIM and has undertaken to commit up to US\$8.4 billion (2024: US\$8.4 billion) out of the Fund. Hong Kong has the right to request liquidity support up to US\$8.4 billion (2024: US\$8.4 billion) from the CMIM in case of emergency. Up to 31 December 2025, there had been no request to activate the CMIM (2024: Nil).

### (f) Bilateral currency swap agreement

The People's Bank of China and the HKMA announced in July 2022 enhancements to the existing bilateral currency swap agreement. Its size was expanded from RMB500 billion/HK\$590 billion to RMB800 billion/HK\$940 billion. It has become a long-standing arrangement with no need for renewal. The arrangement helps enhance renminbi liquidity in Hong Kong to support the continued development of Hong Kong's offshore renminbi market. As at 31 December 2025, the amount drawn under the arrangement was RMB46 billion (2024: RMB20 billion).

### (g) Investment commitments

The Group's subsidiaries with principal activities of holding investments, including properties, had outstanding investment commitment of HK\$303 billion equivalent as at 31 December 2025 (2024: HK\$296 billion equivalent).

### (h) Other commitments

A subsidiary of the Group, The Hong Kong Mortgage Corporation Limited, had outstanding undrawn loan commitments of HK\$1,277 million as at 31 December 2025 (2024: HK\$476 million).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 34 CONTINGENT LIABILITIES

#### (a) Uncalled portion of investment in the Bank for International Settlements

As at 31 December 2025, the Fund had a contingent liability of up to 16.1 million SDRs or HK\$171 million equivalent (2024: 16.1 million SDRs or HK\$162 million equivalent), in respect of the uncalled portion of its 4,285 shares (2024: 4,285 shares) in the Bank for International Settlements (note 10).

SDR is an international reserve asset created by the IMF. Its value is based on a basket of five major currencies comprising US dollar, euro, renminbi, yen and pound sterling. As at 31 December 2025, 1 SDR was valued at US\$1.3695 (2024: US\$1.3018).

#### (b) Financial guarantees

Certain subsidiaries of the Fund have provided guarantees in respect of bank loans granted to joint ventures. The maximum liability as at 31 December 2025 was HK\$3,790 million equivalent (2024: HK\$4,730 million equivalent).

### 35 MATERIAL RELATED PARTY TRANSACTIONS

Transactions with related parties are conducted at rates determined by the Monetary Authority taking into account the nature of each transaction on a case-by-case basis.

All the material related party transactions and balances, including commitments, are disclosed in notes 4(b), 4(c), 4(d), 13, 16, 17, 23, 24, 25, 29 and 33(c).

The Exchange Fund Advisory Committee (EFAC) and its Sub-Committees advise the Financial Secretary in his control of the Fund. Members of EFAC and its Sub-Committees are appointed by the Financial Secretary. Transactions with companies related to members of EFAC and its Sub-Committees, if any, have been conducted as a normal part of the operation of the Group and on terms consistent with its ongoing operations.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36 FINANCIAL RISK MANAGEMENT

This note presents information about the nature and extent of risks to which the Group is exposed, in particular those arising from financial instruments, and the risk management framework of the Group. The principal financial risks the Group is exposed to are credit risk, market risk and liquidity risk.

#### 36.1 Governance

The Financial Secretary is advised by EFAC in his control of the Fund. EFAC is established under section 3(1) of the Exchange Fund Ordinance, which requires the Financial Secretary to consult the Committee in his exercise of control of the Fund. Members of EFAC are appointed in a personal capacity by the Financial Secretary under the delegated authority of the Chief Executive of the HKSAR for the expertise and experience that they can bring to the Committee. Such expertise and experience include knowledge of monetary, financial, investment management and economic affairs, as well as of accounting, management, business and legal matters.

EFAC is assisted in its work by five Sub-Committees, which monitor specific areas of the HKMA's work and report and make recommendations to the Financial Secretary through EFAC.

Among these Sub-Committees, the Investment Sub-Committee (ISC) monitors the HKMA's investment management work and makes recommendations on the investment policy and strategy of the Fund and on risk management and other related matters. Operating within the policies and guidelines endorsed by EFAC or its delegated authority, the Exchange Fund Investment Office (EFIO) of the HKMA conducts the day-to-day management of the Fund's investment activities, with the Risk and Compliance Department, which is independent of the front office functions of EFIO, carrying out the risk management activities of the Fund.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36.2 Investment management and control

Investment activities of the Fund are conducted in accordance with the investment benchmark derived from the Fund's investment objectives. The investment benchmark directs the strategic asset allocation of the Fund and is reviewed on a regular basis to ensure that it consistently meets the investment objectives. Changes to the investment benchmark, if required, must be endorsed by EFAC.

The Fund's target asset and currency mix are as follows:

	2025	2024
<b>Asset type</b>		
Bonds	70%	72%
Equities and related investments	30%	28%
	<b>100%</b>	100%
<b>Currency</b>		
US dollar and Hong Kong dollar	79%	80%
Others <sup>1</sup>	21%	20%
	<b>100%</b>	100%

<sup>1</sup> Other currencies included mainly euro, renminbi, pound sterling and yen.

In addition to the investment benchmark, EFAC determines the risk tolerance level governing the extent to which the Fund's asset and currency mix may deviate from the investment benchmark, taking into account the risk volatility of and correlation across the asset classes and markets that the Fund is allowed to invest in. Authority to take medium term investment decisions is delegated to senior management of EFIO.

The Risk and Compliance Department is responsible for risk management and compliance monitoring regarding the investments of the Fund. It monitors the risk exposure of the Fund, checks compliance of investment activities against established guidelines and reports and follows up any identified breaches.

### 36.3 Credit risk

Credit risk is the risk of financial loss when a counterparty or a borrower fails to meet its contractual obligations. The Group's credit risk arises principally from the investments of the Fund and the loan portfolio held by the subsidiaries.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36.3.1 Management of credit risk

The HKMA maintains effective credit risk management over the investments of the Fund. Based on the delegated authority of EFAC, the Credit, Rules and Compliance Committee (CRCC) was established within the HKMA with the following responsibilities: (i) to establish and maintain the Credit Exposure Policy to govern the investments of the Fund; (ii) to review the adequacy of the existing credit risk management practices and, where necessary, formulate proposals for amendments; (iii) to conduct analysis of credit risk issues; (iv) to establish and review credit limits for the approved issuers and counterparties; (v) to review and consider proposals of amendments to the Operational Rules for Exchange Fund Investments as appropriate, and make recommendations to the Monetary Authority for endorsement; and (vi) to monitor the compliance of the investments of the Fund with the established policies and limits, and report and follow up any identified breaches. The CRCC is chaired by the Deputy Chief Executive (Monetary) whose responsibilities are independent of the day-to-day investment activities of the Fund, and includes representatives from EFIO, the Risk and Compliance Department, the Monetary Management Department, and the Research Department of the HKMA.

In light of the rapidly evolving risk environment, the HKMA will remain vigilant in monitoring and managing the Fund's credit risk exposure, and will sustain the impetus for better credit risk management practices to support the investment activities of the Fund.

Credit limits are established in accordance with in-house methodologies as set out in the Operational Rules for Exchange Fund Investments and the Credit Exposure Policy to limit exposures to counterparty, issuer and geographical risks arising from the investments of the Fund.

#### (a) Counterparty risk

The Fund selects its counterparties in lending, placement, derivatives and trading transactions prudently and objectively. Since the Fund conducts transactions with a counterparty for a range of financial instruments, credit limits are established to limit the overall exposure to each authorised counterparty based on its credit ratings, financial strength and other relevant information.

Counterparty credit exposures are measured according to the risk nature of financial products involved in the transaction. Counterparty credit exposures of derivatives include an estimate for the potential future credit exposure of the derivative contracts, in addition to their positive mark-to-market replacement value.

#### (b) Issuer risk

Issuer risk arises from investments in debt securities. Credit limits for approved issuers are set to control the risk of loss arising from the default of debt securities issuers and to prevent undue risk concentration.

Moreover, to be qualified as an approved investment, a new market or financial instrument must meet the minimum credit, security and liquidity requirements of the Fund.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (c) Geographical risk

Geographical risk is broadly defined to include both the sovereign risk and the transfer risk. Sovereign risk denotes a government's ability and willingness to repay its obligations. Transfer risk is the risk that a borrower may not be able to secure foreign exchange to service its external obligations, for example, due to an action by the government to impose restrictions on the transfer of funds from local debtors to foreign creditors. Under the existing framework, geographical concentration limits are established to control the Fund's overall credit risk exposures to the economies endorsed by the CRCC.

The above credit limits are reviewed regularly. Credit exposure is monitored against these limits on a daily basis. To ensure prompt identification, proper approval and consistent monitoring of credit risk, the Fund has implemented a unified automated credit monitoring system which provides fully-integrated straight-through-processing linking the front, middle and back office functions. The pre-deal checking takes place in the front office prior to the commitment of any transaction to ensure that the intended transaction will not exceed the credit limits. The end-of-day compliance checking further verifies that the Fund complies with the established credit policies and procedures.

Any breaches of credit limits are reported to the CRCC and the ISC, and are followed up by the Risk and Compliance Department in a timely manner. The approval authorities to sanction these breaches are set out in the Credit Exposure Policy.

To manage the exposure to credit risk arising from the loan portfolio and mortgage insurance business, a prudent risk management framework is established to: (i) select Approved Sellers carefully; (ii) adopt prudent mortgage purchasing criteria and insurance eligibility criteria; (iii) conduct effective and in-depth due diligence reviews; (iv) implement robust project structures and financing documentation; (v) perform an ongoing monitoring and reviewing mechanism; and (vi) ensure adequate protection for higher-risk mortgages.

### 36.3.2 Exposure to credit risk

The maximum exposure to credit risk of the financial assets of the Group and the Fund at the reporting date is equal to their carrying amounts. The maximum exposures to credit risk of off-balance sheet exposures are as follows:

	Group		Fund	
	2025	2024	2025	2024
Loan commitments, guarantees and other credit related commitments	<b>343,597</b>	343,873	<b>418,283</b>	416,793

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36.3.3 Credit quality and expected credit losses measurement

In general, expected credit losses are calculated using three main parameters, i.e. probability of default, loss given default and exposure at default. The 12-month expected credit losses are calculated by multiplying the 12-month probability of default, loss given default and exposure at default. Lifetime expected credit losses are calculated using the lifetime probability of default instead. The probability of default represents the expected point-in-time probability of a default over either (i) the next 12 months (i.e. 12-month probability of default) or (ii) the remaining lifetime of the financial instrument (i.e. lifetime probability of default), based on conditions existing at the reporting date and forward-looking information that affect credit risk. The exposure at default represents the expected balance at default, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdown of a committed loan. The loss given default represents expected losses on the exposure at default given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

While cash and money at call, loans and loan commitments under 100% SFGS and DLGS, and financial guarantee contracts are subject to the impairment requirements, the Group has estimated that their expected credit losses are minimal and considers that no loss allowance is required. Credit quality and expected credit losses measurement for other financial instruments are analysed below.

#### (a) Placements with banks and other financial institutions

The Group has established an expected credit losses calculation methodology that is based on the probability of default assigned to each counterparty according to their external credit ratings and the related historical credit losses experience, adjusted for forward-looking information, to determine the amounts of loss allowances.

These financial assets are considered to have a low credit risk. The loss allowances are measured at amounts equal to 12-month expected credit losses.

The credit quality of placements with banks and other financial institutions is analysed below:

	Group		Fund	
	2025	2024	2025	2024
<b>Credit rating<sup>1</sup></b>				
AA- to AA+	106,693	83,828	94,336	75,233
A- to A+	165,524	86,225	123,823	54,104
Lower than A-	14,187	12,198	3,552	761
Gross carrying amount	286,404	182,251	221,711	130,098
Less: allowances for expected credit losses	(12)	(8)	(5)	(3)
<b>Carrying amount</b>	<b>286,392</b>	<b>182,243</b>	<b>221,706</b>	<b>130,095</b>

<sup>1</sup> This is the lowest of ratings designated by Moody's, Standard & Poor's and Fitch.

## Exchange Fund – Notes to the Financial Statements (continued)

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

The movements in loss allowances for placements with banks and other financial institutions during the year are as follows:

	Group	Fund
At 1 January 2024	4	–
Increase in loss allowances recognised in the income and expenditure account	4	3
At 31 December 2024	8	3
<b>At 1 January 2025</b>	<b>8</b>	<b>3</b>
Increase in loss allowances recognised in the income and expenditure account	4	2
<b>At 31 December 2025</b>	<b>12</b>	<b>5</b>

(b) Debt securities

The Group predominantly invests in liquid OECD member countries' government bonds and other quasi-government debt securities issues. As at 31 December 2025, approximately 54% (2024: 53%) of the debt securities held by the Group were rated "double-A" or above by Moody's, Standard & Poor's or Fitch.

For debt securities measured at amortised cost or fair value through other comprehensive income, the Group has established an expected credit losses calculation methodology that is based on the probability of default assigned to each issuer according to their external credit ratings and the related historical credit losses experience, adjusted for forward-looking information, to determine the amounts of loss allowances.

These debt securities are considered to have a low credit risk. The loss allowances are measured at amounts equal to 12-month expected credit losses.

## Exchange Fund – Notes to the Financial Statements (continued)

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

The credit quality of debt securities is analysed below:

(i) Debt securities measured at fair value

	Group		Fund	
	2025	2024	2025	2024
<b>Credit rating<sup>1</sup></b>				
<b>Debt securities measured at fair value through income and expenditure account</b>				
AAA	360,755	273,964	360,755	273,964
AA- to AA+	1,194,671	1,213,406	1,194,671	1,213,406
A- to A+	483,809	521,361	483,809	521,361
Lower than A- or un-rated <sup>2</sup>	825,270	816,291	825,069	816,281
<b>TOTAL</b>	<b>2,864,505</b>	<b>2,825,022</b>	<b>2,864,304</b>	<b>2,825,012</b>
<b>Debt securities measured at fair value through other comprehensive income</b>				
AAA	1,548	182	–	–
AA- to AA+	4,887	2,745	–	–
A- to A+	3,165	794	–	–
<b>TOTAL</b>	<b>9,600</b>	<b>3,721</b>	<b>–</b>	<b>–</b>

<sup>1</sup> This is the lowest of ratings designated by Moody's, Standard & Poor's and Fitch.

<sup>2</sup> This included mainly debt securities issued by the Bank for International Settlements which are not rated.

(ii) Debt securities measured at amortised cost

	Group	
	2025	2024
<b>Credit rating<sup>1</sup></b>		
AAA	1,858	666
AA- to AA+	11,135	6,790
A- to A+	7,109	7,153
Lower than A-	214	502
Gross carrying amount	20,316	15,111
Less: allowances for expected credit losses	(7)	(5)
<b>Carrying amount</b>	<b>20,309</b>	<b>15,106</b>

<sup>1</sup> This is the lowest of ratings designated by Moody's, Standard & Poor's and Fitch.

## Exchange Fund – Notes to the Financial Statements (continued)

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

There were no movements in loss allowances for debt securities measured at fair value through other comprehensive income in 2025 and 2024. The movements in loss allowances for debt securities measured at amortised cost during the year are as follows:

	Group	
	2025	2024
<b>At 1 January</b>	<b>5</b>	5
Increase in loss allowances recognised in the income and expenditure account	<b>2</b>	–
<b>At 31 December</b>	<b>7</b>	5

(c) Loan portfolio measured at amortised cost

The Group uses three categories for loans which reflect their credit risk and how the loss allowances are determined for each of those categories. These categories do not apply to loans under 100% SFGS nor DLGS because their expected credit losses are minimal in view of the full guarantee provided by the HKSAR Government.

A summary of the assumptions underpinning the Group's expected credit loss model on loans is as follows:

Category	Group definition of category	Basis for calculation of expected credit losses
Stage 1	Loans that have a low credit risk with borrowers having a strong capacity to meet the contractual obligations at the reporting date or there have not been significant increases in credit risk since initial recognition	12-month expected credit losses
Stage 2	Loans for which there have been significant increases in credit risk since initial recognition, where significant increases in credit risk are presumed when contractual payments are more than 30 days past due	Lifetime expected credit losses – not credit impaired
Stage 3	Loans that have objective evidence of impairment including those that exhibit characteristics of non-repayment or those with contractual payments that are 90 days past due	Lifetime expected credit losses – credit impaired

Loans will be written off when there is no reasonable expectation of recovery on the delinquent interest and/or principal repayments.

Over the term of the loans, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In determining the expected credit losses, the Group considers historical credit risk information with reference to external or internal credit ratings and applies forward-looking factors, such as macroeconomic data and credit outlook of the borrowers, to perform multi-scenario analysis.

## Exchange Fund – Notes to the Financial Statements (continued)

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

The credit quality of loan portfolio is analysed below:

	Group – 2025			
	Stage 1	Stage 2	Stage 3	Total
<b>Loan portfolio with external credit rating<sup>1</sup></b>				
BBB- to BBB+	2,526	–	–	2,526
BB- to BB +	3,207	–	–	3,207
Lower than BB-	3,095	83	53	3,231
Gross carrying amount	8,828	83	53	8,964
Less: allowances for expected credit losses	(41)	(4)	(38)	(83)
	8,787	79	15	8,881
<b>Loan portfolio with internal credit rating</b>				
Gross carrying amount	11,688	4	9	11,701
Less: allowances for expected credit losses	(72)	–	–	(72)
	11,616	4	9	11,629
<b>TOTAL</b>	<b>20,403</b>	<b>83</b>	<b>24</b>	<b>20,510</b>

  

	Group – 2024			
	Stage 1	Stage 2	Stage 3	Total
<b>Loan portfolio with external credit rating<sup>1</sup></b>				
BBB- to BBB+	2,642	–	–	2,642
BB- to BB+	3,942	–	–	3,942
Lower than BB-	3,807	152	195	4,154
Gross carrying amount	10,391	152	195	10,738
Less: allowances for expected credit losses	(49)	(9)	(132)	(190)
	10,342	143	63	10,548
<b>Loan portfolio with internal credit rating</b>				
Gross carrying amount	10,167	4	8	10,179
Less: allowances for expected credit losses	(60)	–	(2)	(62)
	10,107	4	6	10,117
<b>TOTAL</b>	<b>20,449</b>	<b>147</b>	<b>69</b>	<b>20,665</b>

<sup>1</sup> These are equivalent ratings of Moody's, Standard & Poor's or Fitch provided by an external institution.

## Exchange Fund – Notes to the Financial Statements (continued)

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

The movements in loss allowances for loan portfolio during the year are as follows:

	Group			
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2024	89	19	118	226
Increase/(Decrease) in loss allowances for change in net exposures	22	(2)	–	20
(Decrease)/Increase in loss allowances for change in credit risk	(6)	(2)	15	7
Transfers into Stage 1	6	(6)	–	–
Transfers into Stage 3	(1)	–	1	–
Exchange differences	(1)	–	–	(1)
At 31 December 2024	109	9	134	252
<b>At 1 January 2025</b>	<b>109</b>	<b>9</b>	<b>134</b>	<b>252</b>
Decrease in loss allowances for change in net exposures	(3)	(1)	–	(4)
Increase/(Decrease) in loss allowances for change in credit risk	1	(1)	35	35
Transfers into Stage 1	6	(4)	(2)	–
Transfers into Stage 2	(1)	1	–	–
Exchange differences	1	–	1	2
Write-offs	–	–	(130)	(130)
<b>At 31 December 2025</b>	<b>113</b>	<b>4</b>	<b>38</b>	<b>155</b>

(d) Loan commitments

The movements in provision for expected credit losses on loan commitments during the year are as follows:

	Group			
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2024	24	6	–	30
Decrease in provision for expected credit losses recognised in the income and expenditure account	(15)	–	–	(15)
Transfers into Stage 1	6	(6)	–	–
At 31 December 2024	15	–	–	15
<b>At 1 January 2025</b>	<b>15</b>	<b>–</b>	<b>–</b>	<b>15</b>
Decrease in provision for expected credit losses recognised in the income and expenditure account	(5)	–	–	(5)
<b>At 31 December 2025</b>	<b>10</b>	<b>–</b>	<b>–</b>	<b>10</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36.3.4 Concentration of credit risk

The majority of the Group's credit risk exposures are from the holding of highly liquid debt securities issued or guaranteed by OECD member countries' governments and other quasi-government entities. The maximum credit risk exposure by industry group is analysed below:

	Group		Fund	
	2025	2024	2025	2024
Governments and government agencies	<b>1,782,812</b>	1,804,321	<b>1,714,220</b>	1,718,621
Supra-nationals	<b>254,022</b>	227,738	<b>253,230</b>	227,157
States, provinces and public-sector entities	<b>366,921</b>	278,641	<b>442,901</b>	355,599
Financial institutions	<b>564,181</b>	567,768	<b>483,854</b>	501,432
Others <sup>1</sup>	<b>889,903</b>	919,650	<b>1,042,410</b>	1,086,916
<b>TOTAL</b>	<b>3,857,839</b>	3,798,118	<b>3,936,615</b>	3,889,725

<sup>1</sup> These included debt securities issued by the Bank for International Settlements.

## 36.4 Market risk

Market risk is the risk that changes in market variables such as interest rates, exchange rates and equity prices may affect the fair values or cash flows of investments.

### 36.4.1 Types of market risk

#### (a) Interest rate risk

Interest rate risk can be classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk since a substantial portion of its investments is in fixed-rate debt securities. These securities are subject to interest rate risk as their fair values will fall when market interest rates increase. Other significant financial assets and financial liabilities with a fixed interest rate, and therefore subject to interest rate risk, include placements with banks and other financial institutions and EFBN issued.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Because the Group has no significant floating-rate investments and liabilities, the Group's future cash flows are not materially affected by potential changes in market interest rates.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. A large portion of the Group's foreign currency assets is held in US dollars with the remaining mainly in other major international currencies. When the exchange rates of the relevant foreign currencies against the Hong Kong dollar fluctuate, the value of these foreign currency assets expressed in Hong Kong dollar will vary accordingly.

Due to the linked exchange rate of the US dollar relative to the Hong Kong dollar, the Group's currency risk principally arises from its assets and liabilities denominated in foreign currencies other than the US dollar.

### (c) Equity price risk

Equity price risk is the risk of loss arising from changes in prices or valuation. The Group's equity and related investments are subject to price risk since the value of these investments will decline if market prices or valuation fall.

The majority of the equity securities held by the Group are constituent stocks of major stock market indexes and companies with large market capitalisation.

#### 36.4.2 Management of market risk

The market risk of the Fund as a whole is regularly measured and monitored to prevent excessive risk exposure. The investment benchmark and tracking error limit of the Fund govern the asset allocation strategies. These, together with the volatility of asset markets, will affect the Fund's market risk exposure. The Fund uses derivative financial instruments to manage its exposures to market risk and facilitate the implementation of investment strategies. The market risk of the Fund is mainly measured and monitored using a Value-at-Risk (VaR) methodology.

VaR is calculated using the parametric approach based on a 95% confidence level and one-month time horizon. The result represents the maximum expected loss of the Fund over a one-month period under normal market conditions, with a 5% chance that the actual loss may exceed the calculated VaR. The Fund's absolute VaR and the relative VaR (i.e. the VaR of the Fund relative to its investment benchmark), expressed in dollar amounts, are measured by the Risk and Compliance Department and reported to management, the ISC and EFAC on a regular basis.

The relative VaR of the Fund is also used to calculate the actual tracking error of the Fund against its investment benchmark. This is regularly monitored against the tracking error limit endorsed by EFAC to ensure that the market risk exposure of the Fund is within its limit. The tracking error of a portfolio indicates how well the portfolio tracks its investment benchmark. The smaller the tracking error, the closer the portfolio tracks its benchmark. The tracking error limit is established to prevent the Fund from taking unduly large market risk with respect to its investment benchmark. The actual tracking error of the Fund is regularly reported to the ISC and EFAC, and any breach of the limit is followed up in a timely manner.

## Exchange Fund – Notes to the Financial Statements (continued)

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

VaR is a widely accepted measure of market risk within the financial services industry. It provides users with a single amount to measure market risk and takes into account multiple risks. VaR should however be assessed in the context of some of its inherent limitations. The calculation of VaR involves a number of assumptions that may or may not be valid in a real life scenario, in particular in extreme market conditions. The calculation of VaR assumes that future events can be predicted by historical data, and that changes in risk factors follow a normal distribution. The end-of-day basis does not reflect intraday exposures. In addition, the confidence level on which calculation of VaR is based needs to be taken into account as it indicates the possibility that a larger loss could be realised.

To compensate for some of the limitations of VaR, the HKMA also conducts stress tests to estimate the potential losses under extremely adverse market conditions. This serves to identify the major attributes of market risk under extreme market conditions, and helps to prevent the Fund from being exposed to excessive market risk. The results of the stress tests are also reported to the ISC and EFAC on a regular basis.

To manage the interest rate risk arising from the fixed-rate debt securities issued by the Group to fund the purchase of portfolios of loans, a major portion of the risk is hedged using fair value hedges in the form of interest rate swaps by swapping into floating-rate funding to better match the floating-rate assets.

The Fund's investment in less liquid assets (i.e. private equity and real assets) is grouped under the Long-Term Growth Portfolio. The investment risks of the less liquid assets are managed at the aggregate level through measures such as limits on allocation and aggregate general partner exposure. The target asset allocation of the Long-Term Growth Portfolio is determined concurrently with that of other asset classes, subject to prudent risk management principles and portfolio diversification strategy.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36.4.3 Exposure to market risk

#### (a) Interest rate risk

The interest rate gap position in respect of the Group's major interest-bearing assets and liabilities, including the net repricing effect of interest rate derivatives is shown below. The assets and liabilities are stated at carrying amounts at the reporting date and categorised by the earlier of contractual repricing dates or maturity dates.

	Group – 2025							Non-interest-bearing financial instruments
	Repricing period of interest-bearing financial instruments							
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years	Total	
<b>Assets</b>								
Cash and money at call	211,980	–	–	–	–	–	211,980	946
Placements with banks and other financial institutions	198,919	71,048	16,403	–	–	–	286,370	22
Financial assets measured at fair value through income and expenditure account	318,320	607,706	805,190	668,164	345,824	98,565	2,843,769	1,151,942
Financial assets measured at fair value through other comprehensive income	624	1,872	469	5,934	701	–	9,600	1,786
Debt securities measured at amortised cost	397	1,233	820	11,379	5,940	540	20,309	–
Loan portfolio	72,897	5,681	5,176	23	259	3,459	87,495	–
<b>Interest-bearing assets</b>	<b>803,137</b>	<b>687,540</b>	<b>828,058</b>	<b>685,500</b>	<b>352,724</b>	<b>102,564</b>	<b>3,459,523</b>	
<b>Liabilities</b>								
Placements by banks and other financial institutions	53,991	11,367	6,351	–	–	–	71,709	–
Placements by Fiscal Reserves with interest payable at market-based rates <sup>1</sup>	4	–	–	–	–	–	4	–
Placements by HKSAR Government funds and statutory bodies with interest payable at market-based rates <sup>1</sup>	2,073	–	–	–	–	–	2,073	–
Exchange Fund Bills and Notes issued	337,086	642,936	346,717	8,382	–	–	1,335,121	–
Bank loans	8,075	1,330	2,974	4,145	–	–	16,524	–
Other debt securities issued	2,677	24,372	43,677	75,259	5,209	4,665	155,859	–
<b>Interest-bearing liabilities</b>	<b>403,906</b>	<b>680,005</b>	<b>399,719</b>	<b>87,786</b>	<b>5,209</b>	<b>4,665</b>	<b>1,581,290</b>	
<b>Net interest-bearing assets</b>	<b>399,231</b>	<b>7,535</b>	<b>428,339</b>	<b>597,714</b>	<b>347,515</b>	<b>97,899</b>	<b>1,878,233</b>	
<b>Interest rate derivatives (net position, notional amounts)</b>	<b>11,403</b>	<b>(18,627)</b>	<b>5,992</b>	<b>(2,814)</b>	<b>5,051</b>	<b>(869)</b>	<b>136</b>	
<b>Interest rate sensitivity gap</b>	<b>410,634</b>	<b>(11,092)</b>	<b>434,331</b>	<b>594,900</b>	<b>352,566</b>	<b>97,030</b>	<b>1,878,369</b>	

<sup>1</sup> Placements by Fiscal Reserves, HKSAR Government funds and statutory bodies with interest payable at a fixed rate or a composite rate determined annually are excluded because their interest rates are not determined on the basis of market interest rates (notes 23 and 24). As at 31 December 2025, such placements amounted to HK\$960,607 million.

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Group – 2024							Non- interest- bearing financial instruments
	Repricing period of interest-bearing financial instruments							
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years	Total	
<b>Assets</b>								
Cash and money at call	206,102	–	–	–	–	–	206,102	907
Placements with banks and other financial institutions	143,828	36,472	1,922	–	–	–	182,222	21
Financial assets measured at fair value through income and expenditure account	464,164	490,785	691,880	715,417	321,530	121,944	2,805,720	1,096,923
Financial assets measured at fair value through other comprehensive income	272	233	592	2,527	97	–	3,721	1,436
Debt securities measured at amortised cost	505	1,286	2,170	8,698	2,447	–	15,106	–
Loan portfolio	91,335	3,887	7,858	33	872	2,060	106,045	–
<b>Interest-bearing assets</b>	<b>906,206</b>	<b>532,663</b>	<b>704,422</b>	<b>726,675</b>	<b>324,946</b>	<b>124,004</b>	<b>3,318,916</b>	
<b>Liabilities</b>								
Placements by banks and other financial institutions	56,437	15,675	–	–	–	–	72,112	–
Placements by Fiscal Reserves with interest payable at market-based rates <sup>1</sup>	4	–	–	–	–	–	4	–
Placements by HKSAR Government funds and statutory bodies with interest payable at market-based rates <sup>1</sup>	2,049	–	–	–	–	–	2,049	–
Exchange Fund Bills and Notes issued	335,147	696,960	342,134	9,417	–	–	1,383,658	–
Bank loans	5,145	3,753	–	5,963	–	–	14,861	–
Other debt securities issued	4,210	25,292	34,291	78,594	4,366	2,178	148,931	–
<b>Interest-bearing liabilities</b>	<b>402,992</b>	<b>741,680</b>	<b>376,425</b>	<b>93,974</b>	<b>4,366</b>	<b>2,178</b>	<b>1,621,615</b>	
<b>Net interest-bearing assets/(liabilities)</b>	<b>503,214</b>	<b>(209,017)</b>	<b>327,997</b>	<b>632,701</b>	<b>320,580</b>	<b>121,826</b>	<b>1,697,301</b>	
<b>Interest rate derivatives</b>								
<b>(net position, notional amounts)</b>	<b>(3,835)</b>	<b>(19,247)</b>	<b>7,425</b>	<b>10,802</b>	<b>3,174</b>	<b>844</b>	<b>(837)</b>	
<b>Interest rate sensitivity gap</b>	<b>499,379</b>	<b>(228,264)</b>	<b>335,422</b>	<b>643,503</b>	<b>323,754</b>	<b>122,670</b>	<b>1,696,464</b>	

<sup>1</sup> Placements by Fiscal Reserves, HKSAR Government funds and statutory bodies with interest payable at a fixed rate or a composite rate determined annually are excluded because their interest rates are not determined on the basis of market interest rates (notes 23 and 24). As at 31 December 2024, such placements amounted to HK\$1,058,758 million.

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund – 2025							Non- interest- bearing financial instruments
	Repricing period of interest-bearing financial instruments							
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years	Total	
<b>Assets</b>								
Cash and money at call	207,512	-	-	-	-	-	207,512	280
Placements with banks and other financial institutions	187,225	18,784	15,697	-	-	-	221,706	-
Financial assets measured at fair value through income and expenditure account	318,320	607,706	805,000	668,164	345,824	98,565	2,843,579	615,848
<b>Interest-bearing assets</b>	<b>713,057</b>	<b>626,490</b>	<b>820,697</b>	<b>668,164</b>	<b>345,824</b>	<b>98,565</b>	<b>3,272,797</b>	
<b>Liabilities</b>								
Placements by banks and other financial institutions	53,991	11,367	6,351	-	-	-	71,709	-
Placements by Fiscal Reserves with interest payable at market-based rates <sup>1</sup>	4	-	-	-	-	-	4	-
Placements by HKSAR Government funds and statutory bodies with interest payable at market-based rates <sup>1</sup>	2,073	-	-	-	-	-	2,073	-
Exchange Fund Bills and Notes issued	337,086	642,936	346,717	8,382	-	-	1,335,121	-
<b>Interest-bearing liabilities</b>	<b>393,154</b>	<b>654,303</b>	<b>353,068</b>	<b>8,382</b>	<b>-</b>	<b>-</b>	<b>1,408,907</b>	
<b>Net interest-bearing assets/(liabilities)</b>	<b>319,903</b>	<b>(27,813)</b>	<b>467,629</b>	<b>659,782</b>	<b>345,824</b>	<b>98,565</b>	<b>1,863,890</b>	
<b>Interest rate derivatives</b>								
<b>(net position, notional amounts)</b>	<b>7,708</b>	<b>(6,879)</b>	<b>(35)</b>	<b>(3,381)</b>	<b>3,456</b>	<b>(869)</b>	<b>-</b>	
<b>Interest rate sensitivity gap</b>	<b>327,611</b>	<b>(34,692)</b>	<b>467,594</b>	<b>656,401</b>	<b>349,280</b>	<b>97,696</b>	<b>1,863,890</b>	

<sup>1</sup> Placements by Fiscal Reserves, HKSAR Government funds and statutory bodies, and subsidiaries with interest payable at a fixed rate or a composite rate determined annually are excluded because their interest rates are not determined on the basis of market interest rates (notes 23, 24 and 25). As at 31 December 2025, such placements amounted to HK\$1,027,930 million.

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund – 2024						Total	Non- interest- bearing financial instruments
	Repricing period of interest-bearing financial instruments							
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years		
<b>Assets</b>								
Cash and money at call	202,616	–	–	–	–	–	202,616	214
Placements with banks and other financial institutions	119,997	8,544	1,554	–	–	–	130,095	–
Financial assets measured at fair value through income and expenditure account	464,164	490,785	691,880	715,417	321,530	121,944	2,805,720	593,243
<b>Interest-bearing assets</b>	<b>786,777</b>	<b>499,329</b>	<b>693,434</b>	<b>715,417</b>	<b>321,530</b>	<b>121,944</b>	<b>3,138,431</b>	
<b>Liabilities</b>								
Placements by banks and other financial institutions	56,437	15,675	–	–	–	–	72,112	–
Placements by Fiscal Reserves with interest payable at market-based rates <sup>1</sup>	4	–	–	–	–	–	4	–
Placements by HKSAR Government funds and statutory bodies with interest payable at market-based rates <sup>1</sup>	2,049	–	–	–	–	–	2,049	–
Exchange Fund Bills and Notes issued	335,147	696,960	342,134	9,417	–	–	1,383,658	–
<b>Interest-bearing liabilities</b>	<b>393,637</b>	<b>712,635</b>	<b>342,134</b>	<b>9,417</b>	<b>–</b>	<b>–</b>	<b>1,457,823</b>	
<b>Net interest-bearing assets/(liabilities)</b>	<b>393,140</b>	<b>(213,306)</b>	<b>351,300</b>	<b>706,000</b>	<b>321,530</b>	<b>121,944</b>	<b>1,680,608</b>	
<b>Interest rate derivatives (net position, notional amounts)</b>	<b>1,475</b>	<b>(7,574)</b>	<b>650</b>	<b>3,568</b>	<b>1,037</b>	<b>844</b>	<b>–</b>	
<b>Interest rate sensitivity gap</b>	<b>394,615</b>	<b>(220,880)</b>	<b>351,950</b>	<b>709,568</b>	<b>322,567</b>	<b>122,788</b>	<b>1,680,608</b>	

<sup>1</sup> Placements by Fiscal Reserves, HKSAR Government funds and statutory bodies, and subsidiaries with interest payable at a fixed rate or a composite rate determined annually are excluded because their interest rates are not determined on the basis of market interest rates (notes 23, 24 and 25). As at 31 December 2024, such placements amounted to HK\$1,104,423 million.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### (b) Currency risk

The currency exposure of the Group is summarised below:

	Group			
	2025		2024	
	Assets	Liabilities	Assets	Liabilities
Hong Kong dollar	347,930	2,577,709	381,058	2,756,984
US dollar	3,670,148	705,492	3,543,205	681,005
Others <sup>1</sup>	4,018,078	3,283,201	3,924,263	3,437,989
	701,618	88,484	671,347	57,959
<b>TOTAL</b>	<b>4,719,696</b>	<b>3,371,685</b>	4,595,610	3,495,948

	Fund			
	2025		2024	
	Assets	Liabilities	Assets	Liabilities
Hong Kong dollar	241,935	2,500,097	260,243	2,672,276
US dollar	3,308,050	670,914	3,230,422	652,068
Others <sup>1</sup>	3,549,985	3,171,011	3,490,665	3,324,344
	611,196	52,912	590,310	21,694
<b>TOTAL</b>	<b>4,161,181</b>	<b>3,223,923</b>	4,080,975	3,346,038

<sup>1</sup> Other currencies included mainly euro, renminbi, pound sterling and yen.

### (c) Equity price risk

As at 31 December 2025 and 2024, the majority of equity investments were reported as “financial assets measured at fair value through income and expenditure account” as shown in note 9.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36.4.4 Sensitivity analysis

The VaR positions of the Fund as at 31 December and during the year, based on a 95% confidence level and one-month time horizon, are as follows:

	Fund	
	2025	2024
<b>Value-at-Risk</b>		
At 31 December <sup>1</sup>	<b>34,293</b>	46,197
During the year		
Average	<b>45,242</b>	51,229
Maximum	<b>64,177</b>	55,377
Minimum	<b>34,293</b>	46,197

<sup>1</sup> The amount represented 0.8% of the Fund's investments which were subject to VaR measurement as at 31 December 2025 (2024: 1.1%).

### 36.5 Liquidity risk

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

#### 36.5.1 Management of liquidity risk

To ensure sufficient liquidity to meet liabilities and the ability to raise funds to meet exceptional needs, the Group invests primarily in liquid financial markets and instruments that are readily saleable to meet liquidity needs. There are internal investment restrictions to prevent undue concentrations in individual debt securities issues, debt securities issuers, and groups of closely related debt securities issuers. There are also limitations on the maximum proportion of assets that can be placed in fixed term deposits and less liquid assets, and requirements regarding the ability to convert foreign currency assets into cash. In addition, prudent liquidity control measures are imposed on the Fund's investments in less liquid credit assets such as asset-backed securities. All these restrictions and limits are designed to promote the liquidity of assets and consequently minimise the liquidity risk. The liquidity risk for the Fund's investment is monitored on an aggregate basis through appropriate portfolio mix with sufficient liquid assets to offset investments of less liquid assets. Compliance with these limits is monitored by the Risk and Compliance Department and any breaches are reported to the ISC and are promptly followed up.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36.5.2 Exposure to liquidity risk

The remaining contractual maturities at the reporting date of major financial liabilities, commitments and derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date on which the Group can be required to pay, are shown below:

	Group – 2025						Total
	Remaining maturity						
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years	
<b>Non-derivative cash outflows</b>							
Certificates of Indebtedness	635,029	–	–	–	–	–	635,029
Government-issued currency notes and coins in circulation	12,946	–	–	–	–	–	12,946
Balance of the banking system	57,027	–	–	–	–	–	57,027
Placements by banks and other financial institutions	54,262	11,420	6,446	–	–	–	72,128
Placements by Fiscal Reserves	453,830	–	–	235,095	–	–	688,925
Placements by HKSAR Government funds and statutory bodies	215,608	12,600	3,530	32,573	9,448	–	273,759
Exchange Fund Bills and Notes issued	337,404	645,248	349,733	8,614	–	–	1,340,999
Bank loans	94	66	4,853	13,215	–	–	18,228
Other debt securities issued	2,325	24,768	48,199	82,013	6,347	7,477	171,129
Lease liabilities	11	32	155	265	45	1,967	2,475
Other liabilities (excluding lease liabilities)	28,164	598	67	49,540	–	27	78,396
Loan commitments, guarantees and other credit related commitments	343,597	–	–	–	–	–	343,597
<b>TOTAL</b>	<b>2,140,297</b>	<b>694,732</b>	<b>412,983</b>	<b>421,315</b>	<b>15,840</b>	<b>9,471</b>	<b>3,694,638</b>
<b>Derivative cash outflows/(inflows)</b>							
Derivative financial instruments settled:							
– on net basis	843	180	(185)	129	43	39	1,049
– on gross basis							
Total outflows	61,641	42,007	15,314	48,621	5,365	–	172,948
Total inflows	(60,783)	(41,691)	(15,804)	(49,276)	(5,404)	–	(172,958)
<b>TOTAL</b>	<b>1,701</b>	<b>496</b>	<b>(675)</b>	<b>(526)</b>	<b>4</b>	<b>39</b>	<b>1,039</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Group – 2024						Total
	Remaining maturity						
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years	
<b>Non-derivative cash outflows</b>							
Certificates of Indebtedness	598,944	–	–	–	–	–	598,944
Government-issued currency notes and coins in circulation	12,994	–	–	–	–	–	12,994
Balance of the banking system	44,802	–	–	–	–	–	44,802
Placements by banks and other financial institutions	56,791	15,798	–	–	–	–	72,589
Placements by Fiscal Reserves	423,976	–	–	–	245,762	–	669,738
Placements by HKSAR Government funds and statutory bodies	268,522	4,520	27,700	80,243	10,088	–	391,073
Exchange Fund Bills and Notes issued	335,474	701,425	347,236	9,933	–	–	1,394,068
Bank loans	67	517	1,764	13,523	–	–	15,871
Other debt securities issued	4,111	25,336	38,539	87,211	5,253	3,073	163,523
Lease liabilities	12	32	141	314	48	1,837	2,384
Other liabilities (excluding lease liabilities)	45,472	686	50	88	77,385	6	123,687
Loan commitments, guarantees and other credit related commitments	343,873	–	–	–	–	–	343,873
<b>TOTAL</b>	<b>2,135,038</b>	<b>748,314</b>	<b>415,430</b>	<b>191,312</b>	<b>338,536</b>	<b>4,916</b>	<b>3,833,546</b>
<b>Derivative cash outflows/(inflows)</b>							
Derivative financial instruments settled:							
– on net basis	571	30	(6)	328	119	18	1,060
– on gross basis							
Total outflows	3,616	10,249	14,359	39,082	4,442	–	71,748
Total inflows	(3,368)	(10,120)	(14,221)	(39,022)	(4,324)	–	(71,055)
<b>TOTAL</b>	<b>819</b>	<b>159</b>	<b>132</b>	<b>388</b>	<b>237</b>	<b>18</b>	<b>1,753</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund – 2025						Total
	Remaining maturity						
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years	
<b>Non-derivative cash outflows</b>							
Certificates of Indebtedness	635,029	-	-	-	-	-	635,029
Government-issued currency notes and coins in circulation	12,946	-	-	-	-	-	12,946
Balance of the banking system	57,027	-	-	-	-	-	57,027
Placements by banks and other financial institutions	54,262	11,420	6,446	-	-	-	72,128
Placements by Fiscal Reserves	453,830	-	-	235,095	-	-	688,925
Placements by HKSAR Government funds and statutory bodies	215,608	12,600	3,530	32,573	9,448	-	273,759
Placements by subsidiaries	4,783	-	-	31,298	31,242	-	67,323
Exchange Fund Bills and Notes issued	337,404	645,248	349,733	8,614	-	-	1,340,999
Lease liabilities	6	18	91	81	-	-	196
Other liabilities (excluding lease liabilities)	26,084	511	17	52,614	-	-	79,226
Credit related commitments	418,283	-	-	-	-	-	418,283
<b>TOTAL</b>	<b>2,215,262</b>	<b>669,797</b>	<b>359,817</b>	<b>360,275</b>	<b>40,690</b>	<b>-</b>	<b>3,645,841</b>
<b>Derivative cash outflows/(inflows)</b>							
Derivative financial instruments settled:							
– on net basis	847	8	15	39	39	39	987
– on gross basis							
Total outflows	58,522	33,550	-	-	-	-	92,072
Total inflows	(57,719)	(33,210)	-	-	-	-	(90,929)
<b>TOTAL</b>	<b>1,650</b>	<b>348</b>	<b>15</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>2,130</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund – 2024						Total
	Remaining maturity						
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years	
<b>Non-derivative cash outflows</b>							
Certificates of Indebtedness	598,944	–	–	–	–	–	598,944
Government-issued currency notes and coins in circulation	12,994	–	–	–	–	–	12,994
Balance of the banking system	44,802	–	–	–	–	–	44,802
Placements by banks and other financial institutions	56,791	15,798	–	–	–	–	72,589
Placements by Fiscal Reserves	423,976	–	–	–	245,762	–	669,738
Placements by HKSAR Government funds and statutory bodies	268,522	4,520	27,700	80,243	10,088	–	391,073
Placements by subsidiaries	3,125	–	3,000	11,832	27,708	–	45,665
Exchange Fund Bills and Notes issued	335,474	701,425	347,236	9,933	–	–	1,394,068
Lease liabilities	7	20	93	149	–	–	269
Other liabilities (excluding lease liabilities)	45,196	459	–	2,411	77,376	–	125,442
Credit related commitments	416,793	–	–	–	–	–	416,793
<b>TOTAL</b>	<b>2,206,624</b>	<b>722,222</b>	<b>378,029</b>	<b>104,568</b>	<b>360,934</b>	<b>–</b>	<b>3,772,377</b>
<b>Derivative cash outflows/(inflows)</b>							
Derivative financial instruments settled:							
– on net basis	378	26	63	122	100	18	707
– on gross basis							
Total outflows	1,001	891	–	–	–	–	1,892
Total inflows	(966)	(879)	–	–	–	–	(1,845)
<b>TOTAL</b>	<b>413</b>	<b>38</b>	<b>63</b>	<b>122</b>	<b>100</b>	<b>18</b>	<b>754</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 36.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is inherent in all aspects of the Group's operations covering all business segments.

The Group's objective is to cost-effectively manage operational risk to prevent financial losses or damage to the Group's reputation.

The primary responsibility for the development and implementation of controls to address operational risk rests with line management, with oversight by an internal high-level Risk Committee. The Committee is chaired by the Chief Executive of the HKMA with the Deputy Chief Executives as members. The Risk Committee provides direction and guidance for line management in managing operational risk.

Operational risk management is supported by a formal risk assessment process. This is conducted annually and supplemented with quarterly updates. It requires each division to assess and rank the potential impact and likelihood of occurrence of financial and operational risks. It also requires divisions to review the procedures and controls in place for addressing the identified risks. This risk and control self-assessment is reviewed by the Internal Audit Division of the HKMA to ensure consistency and reasonableness before submission to the Risk Committee, which has the responsibility for ensuring that the identified risks are properly addressed. Results of this risk assessment are also taken into account, in conjunction with other risk factors, for the development of an annual Internal Audit work plan. According to the methodology approved by EFAC Audit Sub-Committee (ASC), the Internal Audit Division will audit the risk areas at various frequencies depending on the levels of risks and the results of past audits. It reports its findings regularly to the ASC and the Chief Executive of the HKMA and follows up on outstanding issues to ensure that they are resolved in a proper manner.

The Risk and Compliance Department oversees operational risk management of EFIO. Key elements of the oversight include identification and monitoring of key risk indicators; handling of incidents; and issuing regular operational risk reports to senior executives.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 37 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

#### 37.1 Fair value of financial instruments measured at fair value

##### 37.1.1 Fair value hierarchy

The carrying values of financial instruments measured at fair value at the reporting date across the three levels of the fair value hierarchy are shown below:

	Group – 2025			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets measured at fair value through income and expenditure account				
Treasury bills and commercial papers	125,922	1,284,756	–	1,410,678
Certificates of deposit	–	29,048	–	29,048
Other debt securities	1,315,637	108,951	191	1,424,779
Equity securities	474,074	72,898	56,677	603,649
Investment funds	–	–	527,557	527,557
	1,915,633	1,495,653	584,425	3,995,711
Financial assets measured at fair value through other comprehensive income				
Debt securities	8,937	663	–	9,600
Equity securities	–	–	1,786	1,786
	8,937	663	1,786	11,386
Derivative financial instruments	105	3,077	–	3,182
Loan portfolio	–	–	3,471	3,471
<b>TOTAL</b>	<b>1,924,675</b>	<b>1,499,393</b>	<b>589,682</b>	<b>4,013,750</b>
<b>Liabilities</b>				
Exchange Fund Bills and Notes issued	–	1,335,121	–	1,335,121
Derivative financial instruments	801	2,037	–	2,838
<b>TOTAL</b>	<b>801</b>	<b>1,337,158</b>	<b>–</b>	<b>1,337,959</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Group – 2024			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Financial assets measured at fair value through income and expenditure account				
Treasury bills and commercial papers	105,055	1,057,445	–	1,162,500
Certificates of deposit	–	127,885	–	127,885
Other debt securities	1,482,318	52,319	–	1,534,637
Equity securities	441,833	87,570	57,990	587,393
Investment funds	–	–	490,228	490,228
	2,029,206	1,325,219	548,218	3,902,643
Financial assets measured at fair value through other comprehensive income				
Debt securities	3,605	116	–	3,721
Equity securities	–	–	1,436	1,436
	3,605	116	1,436	5,157
Derivative financial instruments	266	4,454	–	4,720
Loan portfolio	–	–	2,597	2,597
<b>TOTAL</b>	2,033,077	1,329,789	552,251	3,915,117
<b>Liabilities</b>				
Exchange Fund Bills and Notes issued	–	1,383,658	–	1,383,658
Derivative financial instruments	378	2,263	–	2,641
<b>TOTAL</b>	378	1,385,921	–	1,386,299

## Exchange Fund – Notes to the Financial Statements (continued)

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

	Fund – 2025			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets measured at fair value through income and expenditure account				
Treasury bills and commercial papers	125,922	1,284,756	–	1,410,678
Certificates of deposit	–	29,048	–	29,048
Other debt securities	1,315,627	108,951	–	1,424,578
Equity securities	472,855	72,898	49,370	595,123
	1,914,404	1,495,653	49,370	3,459,427
Financial assets measured at fair value through other comprehensive income				
Equity securities	–	–	1,786	1,786
Derivative financial instruments	105	1,222	–	1,327
<b>TOTAL</b>	<b>1,914,509</b>	<b>1,496,875</b>	<b>51,156</b>	<b>3,462,540</b>
<b>Liabilities</b>				
Exchange Fund Bills and Notes issued	–	1,335,121	–	1,335,121
Derivative financial instruments	801	1,384	–	2,185
<b>TOTAL</b>	<b>801</b>	<b>1,336,505</b>	<b>–</b>	<b>1,337,306</b>

	Fund – 2024			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets measured at fair value through income and expenditure account				
Treasury bills and commercial papers	105,055	1,057,445	–	1,162,500
Certificates of deposit	–	127,885	–	127,885
Other debt securities	1,482,308	52,319	–	1,534,627
Equity securities	437,784	87,570	48,597	573,951
	2,025,147	1,325,219	48,597	3,398,963
Financial assets measured at fair value through other comprehensive income				
Equity securities	–	–	1,436	1,436
Derivative financial instruments	266	3,429	–	3,695
<b>TOTAL</b>	<b>2,025,413</b>	<b>1,328,648</b>	<b>50,033</b>	<b>3,404,094</b>
<b>Liabilities</b>				
Exchange Fund Bills and Notes issued	–	1,383,658	–	1,383,658
Derivative financial instruments	378	366	–	744
<b>TOTAL</b>	<b>378</b>	<b>1,384,024</b>	<b>–</b>	<b>1,384,402</b>

## Exchange Fund – Notes to the Financial Statements (continued)

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

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period during which they have occurred. During the year, there were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy (2024: Nil).

An analysis of the movement between opening and closing balances of Level 3 financial assets, measured at fair value using a valuation technique with significant unobservable inputs, is shown below:

	2025			
	Group		Fund	
	Measured at fair value through income and expenditure account	Measured at fair value through other comprehensive income	Measured at fair value through income and expenditure account	Measured at fair value through other comprehensive income
At 1 January 2025	550,815	1,436	48,597	1,436
Net gains recognised in the income and expenditure account	19,068	–	4,755	–
Net gains recognised in other comprehensive income	–	350	–	350
Purchases	63,392	–	3,107	–
Sales	(46,071)	–	(7,774)	–
Exchange differences	7	–	–	–
Transfers into Level 3	1,494	–	1,494	–
Transfers out of Level 3	(809)	–	(809)	–
At 31 December 2025	587,896	1,786	49,370	1,786
Net gains recognised in the income and expenditure account relating to revaluation of those assets held at the reporting date	19,683	–	5,364	–
	2024			
	Group		Fund	
	Measured at fair value through income and expenditure account	Measured at fair value through other comprehensive income	Measured at fair value through income and expenditure account	Measured at fair value through other comprehensive income
At 1 January 2024	528,199	1,364	49,922	1,364
Net gains recognised in the income and expenditure account	3,735	–	6,092	–
Net gains recognised in other comprehensive income	–	72	–	72
Purchases	69,940	–	3,100	–
Sales	(42,931)	–	(8,723)	–
Exchange differences	(37)	–	–	–
Transfers into Level 3	631	–	631	–
Transfers out of Level 3	(8,722)	–	(2,425)	–
At 31 December 2024	550,815	1,436	48,597	1,436
Net gains recognised in the income and expenditure account relating to revaluation of those assets held at the reporting date	5,170	–	6,022	–

In 2025 and 2024, certain financial instruments were transferred from Level 3 to Level 1, or between Level 2 and Level 3 of the fair value hierarchy, reflecting changes in transparency of observable market data for these instruments.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 37.1.2 Valuation techniques and key inputs

The fair value of financial instruments classified under Level 1 is based on quoted market prices in active markets for identical assets or liabilities at the reporting date.

In the absence of quoted market prices in active markets, the fair value of financial instruments classified under Level 2 is estimated using present value or other valuation techniques, with inputs based on market conditions existing at the reporting date. Specific valuation techniques and key inputs used to value these financial instruments include:

- (a) quoted market price or broker quotes for similar instruments;
- (b) derivative financial instruments are priced using models with observable market inputs including interest rate swap and foreign exchange contracts; and
- (c) commercial papers and debt securities are priced using discounted cash flow techniques with observable yield curves.

For unlisted investment funds and certain equity securities which are classified under Level 3, their fair values are estimated by making reference to valuation reports provided by external investment managers. It is not practicable to quote a range of key unobservable inputs.

For certain unlisted equity securities valued by the Group, which are classified under Level 3, their fair values are derived from Comparable Company Valuation Model, which derives the valuation of investments based on factors including their earnings/book value, price multiples of comparable public companies and a discount factor for a lack of liquidity. Significant unobservable inputs used under this valuation method include price multiples of similar companies and liquidity discount:

Significant unobservable inputs	Quantitative amount	
	2025	2024
Price multiples of similar companies	1.3 – 32.9	1.7 – 39.4
Liquidity discount	20%	20%

The shareholding in the Bank for International Settlements (note 10) is classified under Level 3. Its fair value is estimated based on the Group's interest in the net asset value of the Bank at the reporting date, discounted at 30% to reflect the discount rate used by the Bank for share repurchases.

Loan portfolio measured at fair value through income and expenditure account is classified under Level 3 with fair value determined by using an internal model based on income approach by discounting future cash flows which are dependent on the expected terms of the loans, annuity payout, premium and interest income, loan repayment and the value of collaterals (for example, the residential properties or insurance policies securing the loans).

If the fair values of these investments had increased/decreased by 10%, it would have resulted in an increase/a decrease in the Group's surplus for the year of HK\$58,790 million (2024: HK\$55,082 million) and in other comprehensive income of HK\$179 million (2024: HK\$144 million).

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 37.2 Fair value of debt securities not measured at fair value

The fair values of debt securities measured at amortised cost and other debt securities issued that were not measured at fair value are shown below:

		Group – 2025			
		Carrying value	Fair value		
	Note		Level 1	Level 2	Total
<b>Financial assets</b>					
Debt securities measured at amortised cost	12	20,309	17,484	2,993	20,477
<b>Financial liabilities</b>					
Other debt securities issued	28	155,859	–	156,018	156,018

  

		Group – 2024			
		Carrying value	Fair value		
	Note		Level 1	Level 2	Total
<b>Financial assets</b>					
Debt securities measured at amortised cost	12	15,106	11,615	3,205	14,820
<b>Financial liabilities</b>					
Other debt securities issued	28	148,931	–	148,696	148,696

In the absence of quoted market prices in active markets, the fair values of debt securities classified under Level 2 are estimated using present value or other valuation techniques, with inputs based on market conditions existing at the reporting date. The valuation technique for other debt securities issued is the use of discounted cash flow model based on a current yield curve appropriate for their remaining term to maturity.

All other financial instruments of the Group and the Fund are measured at fair value or carried at amounts not materially different from their fair values as at 31 December 2025 and 2024.

## Exchange Fund – Notes to the Financial Statements (continued)

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

### 38 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The Financial Secretary proposed in his 2026-27 Budget Speech in February 2026 that, in pursuance of the power vested in him under section 8 of the Exchange Fund Ordinance and on the premise that the Fund's function to maintain the stability and integrity of the local monetary and financial systems will not be compromised, a sum of HK\$150 billion would be transferred from the Fund to the Capital Works Reserve Fund in two tranches of HK\$75 billion each to support the infrastructure projects in the Northern Metropolis and other areas. The proposal was approved by EFAC and subsequently approved by the Chief Executive in Council of the HKSAR Government in April 2026.

### 39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2025

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2025 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 18 "Presentation and Disclosure in Financial Statements"	1 January 2027

#### **HKFRS 18 "Presentation and Disclosure in Financial Statements"**

HKFRS 18, which replaces HKAS 1 "Presentation of Financial Statements", introduces new requirements for presentation of specified categories and subtotals in the income and expenditure account, aggregation and disaggregation of information, as well as disclosures related to management-defined performance measures. The Group is in the process of assessing the possible impact of the standard on its financial statements. The new standard is effective for annual periods beginning on or after 1 January 2027 and will be applied retrospectively with restatement of comparatives unless impracticable. At this stage, the Group does not intend to adopt the standard before its effective date.

### 40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Financial Secretary on the advice of the Exchange Fund Advisory Committee on 24 April 2026.