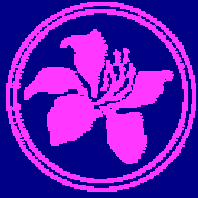


HONG KONG MONETARY AUTHORITY

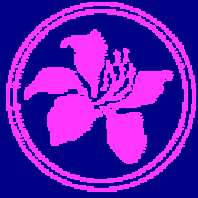
**Briefing to the Legislative Council
Panel on Financial Affairs**

5 November 2001



DISCUSSION TOPICS

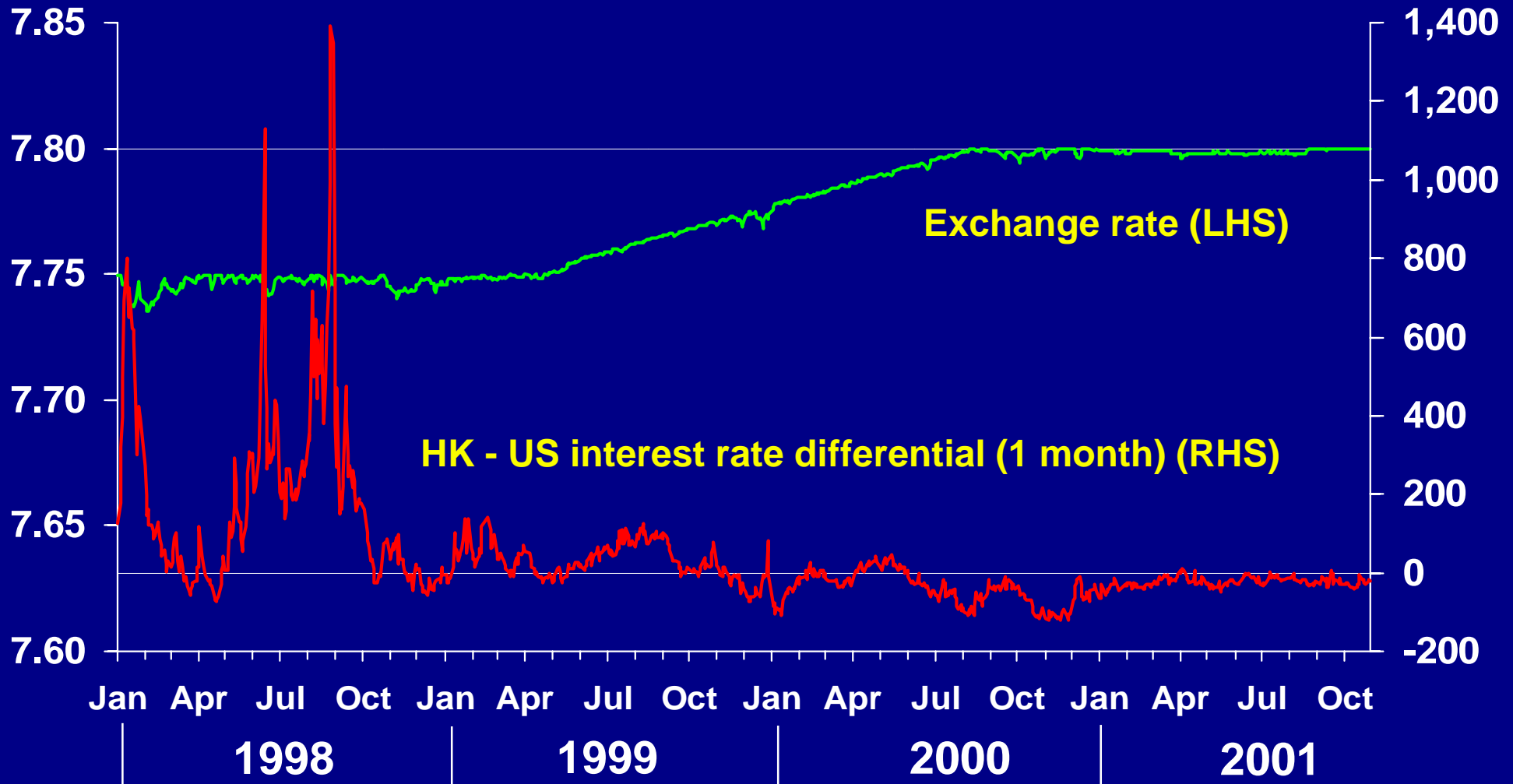
- **Currency**
- **Banking**
- **Financial Infrastructure**
- **Exchange Fund**

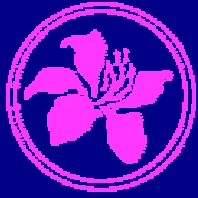


CURRENCY STABILITY - FACTS

HKD per USD

b.p.

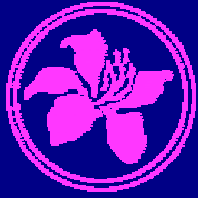




CURRENCY STABILITY - RISKS

General Risks

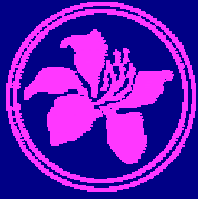
- Global recession
- Economic weakness in Asia
- Financial market volatility
- Exchange rate volatility
- Pressure on regional currencies



CURRENCY STABILITY - RISKS

Hong Kong Specific Risks

- Currency board of Argentina
- Hong Kong markets used for proxy hedge against Asian risks
- RMB exchange rate policy
- Public finances in Hong Kong
- Support for and confidence in the Link

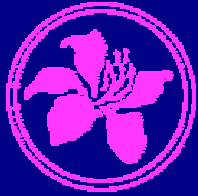




Pips

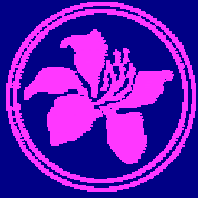
CURRENCY - MARKET EXPECTATIONS





CURRENCY - MARKET EXPECTATIONS





BANKING STABILITY - FACTS

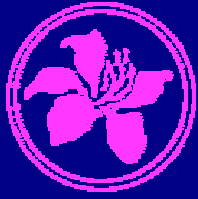
Capital adequacy ratio ^	:	18.0%
Liquidity ratio ^	:	45-55%
Net interest margin ^	:	2.17%
Classified loans ^	:	6.81%
Mortgage delinquency ratio “	:	1.28%
Credit card receivables - delinquency ratio “	:	1.13%
- charge-off ratio ◇	:	4.75%
Growth of total Hong Kong dollar deposits *	:	0.3%
Growth of total domestic lending *	:	- 1.7%

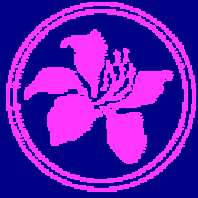
^ *Figure as at end-June 2001*

“ *Figure for September 2001*

◇ *Figure for the September 2001 quarter*

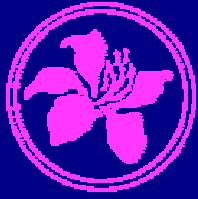
***** *Quarterly change between September and June 2001*

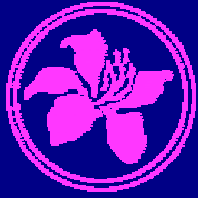




BANKING - REFORM MEASURES

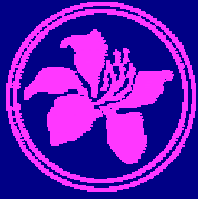
- **Interest Rate Deregulation**
- **Commercial Credit Reference Agency**
- **Deposit Insurance Scheme**
- **Banking Consolidation**
- **Three-building Condition**
- **Consumer Protection**

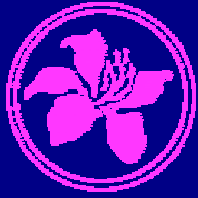




BANKING - CURRENT ISSUES

- **Terrorist Financing / Money Laundering**
- **Negative equity**
- **Bankruptcies**
- **New Capital Accord**
- **Banking (Amendment) Bill 2000**
- **Banking (Amendment) Bill 2001**

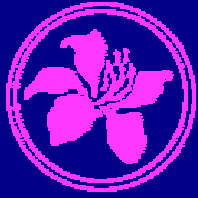




FINANCIAL INFRASTRUCTURE

Functioning smoothly

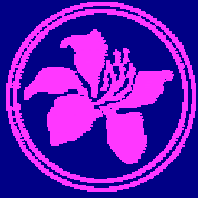
- Hong Kong's payment systems continued to function smoothly in the aftermath of 11 Sept
- The event highlights the importance of Hong Kong's US dollar clearing system in the reduction and diversification of risks
- We will encourage greater usage of the US dollar clearing system



FINANCIAL INFRASTRUCTURE

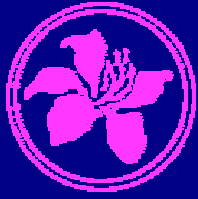
Projects

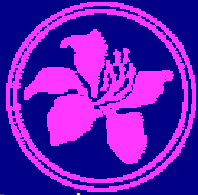
- Upgrade of CMU into an International Central Securities Depository (ICSD)
- Money settlement for CCASS items
- Joint cheque clearing with Mainland cities
- Development of the retail bond market through Hong Kong Mortgage Corporation debt issues



FINANCIAL INFRASTRUCTURE

- **Retail Payment Systems Review : results indicate that Hong Kong's retail payment systems function well**
- **Recommendations on : cash, cheques, credit and debit cards, stored value cards, and e-payment and e-legal tender**
- **Progressive approach to improve regulatory oversight for stability, efficiency and competitiveness of Hong Kong's retail payment systems**



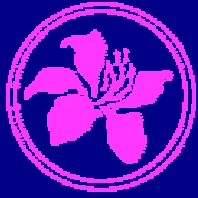


EXCHANGE FUND BALANCE SHEET

(HK\$ million)

	31 Dec 2000	31 Mar 2001	30 Sept 2001
ASSETS			
Foreign currency assets	856,680	911,880	901,312
Hong Kong dollar assets	<u>166,683</u>	<u>131,883</u>	<u>90,921</u>
Total Assets	1,023,363	1,043,763	992,233
LIABILITIES AND ACCUMULATED SURPLUS			
Monetary base*	215,140	216,469	231,858
Placements by other Hong Kong Special Administrative Region government funds	417,162	439,228	381,342
Placements by other institutions	45,049	81,853	69,253
Other liabilities	<u>38,913</u>	<u>10,315</u>	<u>13,528</u>
Total Liabilities	716,264	747,865	695,981
Accumulated surplus	<u>307,099</u>	<u>295,898</u>	<u>296,252</u>
Total liabilities and accumulated surplus	1,023,363	1,043,763	992,233

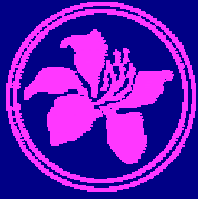
* The monetary base includes interest payable on Exchange Fund Notes and net accounts receivable which are not included here.

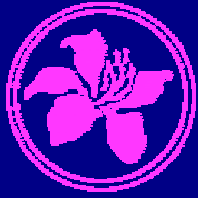


EXCHANGE FUND PERFORMANCE

(HK\$ billion)	2000 Full year	2001 Jan-Mar	2001 Apr-Sep	2001 Jan-Sep
Gain / (Loss) on HK equities*	(7.3)	(20.4)	(19.6)	(40.0)
Exchange gain / (loss)	(11.2)	(11.8)	5.4	(6.4)
Total return on bonds, etc	<u>63.6</u>	<u>17.6</u>	<u>22.6</u>	<u>40.2</u>
Investment income	45.1	(14.6)	8.4	(6.2)
Other income	0.2	0.1	0.1	0.2
Interest and expenses	<u>(11.0)</u>	<u>(2.8)</u>	<u>(5.1)</u>	<u>(7.9)</u>
Net investment income	34.3	(17.3)	3.4	(13.9)
Treasury's share	<u>(18.1)</u>	<u>6.1</u>	<u>(3.0)</u>	<u>3.1</u>
Increase / (decrease) in EF accumulated surplus	16.2	(11.2)	0.4	(10.8)

* including dividends

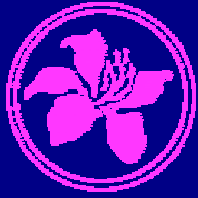




EXCHANGE FUND - HK Equity Portfolio

	<i>(HK\$ billion)</i>
Investment in August 1998	118.1
Income from Disposal and Dividends (end-Sep 2001)	138.4
Size of remaining portfolio (end-Sep 2001)	74.2
Disposal	24.6
Long Term Investment *	49.6

* *Including HK equities transferred from the Land Fund in 1998 (valued at HK\$9 billion in 1998)*



HONG KONG MONETARY AUTHORITY

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5 November 2001

EXCHANGE FUND BALANCE SHEET

(HK\$ million)	31 Dec 2000	31 Mar 2001	30 Sept 2001	31 Oct 2001
ASSETS				
Foreign currency assets	856,680	911,880	901,312	894,979
Hong Kong dollar assets	<u>166,683</u>	<u>131,883</u>	<u>90,921</u>	<u>90,882</u>
Total Assets	1,023,363	1,043,763	992,233	985,861
LIABILITIES AND ACCUMULATED SURPLUS				
Monetary base*	215,140	216,469	231,858	225,217
Placements by other Hong Kong Special Administrative Region government funds	417,162	439,228	381,342	375,572
Placements by other institutions	<u>38,913</u>	<u>10,315</u>	<u>13,528</u>	<u>14,574</u>
Other liabilities	716,264	747,865	695,981	682,536
Total Liabilities	<u>307,099</u>	<u>295,898</u>	<u>296,252</u>	<u>303,325</u>
 Accumulated surplus	 1,023,363	 1,043,763	 992,233	 985,861
 Total liabilities and accumulated surplus	 1,023,363	 1,043,763	 992,233	 985,861

* *The monetary base includes interest payable on Exchange Fund Notes and net accounts receivable which are not included here.*

EXCHANGE FUND PERFORMANCE

(HK\$ billion)	2000 Full year	2001 Jan-Mar	2001 Apr-Sep	2001 Jan-Sep	2001 Jan-Oct
Gain / (Loss) on HK equities*	(7.3)	(20.4)	(19.6)	(40.0)	(37.8)
Exchange gain / (loss)	(11.2)	(11.8)	5.4	(6.4)	(8.9)
Total return on bonds, etc	<u>63.6</u>	<u>17.6</u>	<u>22.6</u>	<u>40.2</u>	<u>52.8</u>
Investment income	45.1	(14.6)	8.4	(6.2)	6.1
Other income	0.2	0.1	0.1	0.2	0.2
Interest and expenses	<u>(11.0)</u>	<u>(2.8)</u>	<u>(5.1)</u>	<u>(7.9)</u>	<u>(8.7)</u>
Net investment income	34.3	(17.3)	3.4	(13.9)	(2.4)
Treasury's share	<u>(18.1)</u>	<u>6.1</u>	<u>(3.0)</u>	<u>3.1</u>	<u>(1.4)</u>
Increase / (decrease) in EF accumulated surplus	16.2	(11.2)	0.4	(10.8)	(3.8)

* including dividends

EXCHANGE FUND - HK Equity Portfolio

	<i>(HK\$ billion)</i>
Investment in August 1998	118.1
Income from Disposal and Dividends (end-Oct 2001)	139.7
Size of remaining portfolio (end-Oct 2001)	75.2
Disposal	25.9
Long Term Investment*	49.3

** Including HK equities transferred from the Land Fund in 1998 (valued at HK\$9 billion in 1998)*