



HKMA ANNUAL REPORT 2003 OPERATING EXPENSES IN 2003

	2003 (\$mn)	2002 (\$mn)
Exchange Fund Operating Expenses (prepared for Exchange Fund Accounts in the Annual Report in accordance with the Statements of Standard Accounting Practice)	1,179	1,162
Of which:		
HKMA Operating Expenses (2003 vs 2002: -6%)	614	654

- In the Exchange Fund Annual Accounts, the operating expenses of the Exchange Fund are shown as \$1,179 mn (page 103 of the 2003 HKMA Annual Report). This figure is computed in accordance with requirements under the Statements of Standard Accounting Practice of the Hong Kong Society of Accountants. It covers not only the operating expenses of the HKMA (which includes staff and premises costs, and general operating costs), but also market expenses and non-cash accounting items such as depreciation. Market expenses cover costs related to the investment process of the Exchange Fund, including trading and custodian costs and fees for the external managers.
- For the purpose of budgeting and reporting to the Exchange Fund Advisory Committee, items such as market expenses and depreciation are separated from the HKMA operating expenses. In 2003, the HKMA operating expenses amounted to \$614 mn, representing a reduction of 6% over 2002.



HKMA ANNUAL REPORT 2003 OPERATING EXPENSES IN 2003

	<u>2003</u> (\$mn)	<u>2002</u> (\$mn)	<u>2001</u> (\$mn)	<u>2003</u> vs <u>2002</u>
HKMA Operating Expenses				
Staff Costs	462	478	480	-3%
Premises Costs	72	84	108	-15%
General Operating Costs	<u>80</u>	<u>92</u>	<u>109</u>	<u>-13%</u>
Total	614	654	697	-6%
HKMA Capital Expenses	<u>3</u>	<u>10</u>	<u>29</u>	<u>-70%</u>
HKMA Total Expenses	<u>617</u>	<u>664</u>	<u>726</u>	<u>-7%</u>
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- In response to the request for further information on the HKMA administrative expenditure, and following the endorsement of the Exchange Fund Advisory Committee, the breakdown of the HKMA total expenses (including both operating and capital expenses) into the major block items for the past three years is shown above. A further breakdown of the expenses and details of the establishment of the HKMA by department is annexed to this slide.
- The HKMA has made considerable efforts to achieve efficiencies in all areas of expenses through process improvement or reprioritisation of work. As a result, there have been significant savings in the past two years on all four categories of costs.
- In 2003, the HKMA total expenses are \$617 mn, representing a reduction of 7% compared with 2002, or 15% compared with 2001.

(NB: staff costs in this table do not include leave accruals, which is a non-cash item required for accounting purposes under SSAP 34 from 2002. The 2002 figure is therefore different from that in the accounts for 2002.)

HONG KONG MONETARY AUTHORITY
Operating Expenses

Annex 1

	<u>2003</u> \$mn	<u>2002</u> \$mn
Staff Costs	462	478
Premises Costs	72	84
General Operating Costs:	80	92
Financial Information and Communication Services	25	25
External Relations	9	11
Professional and Other Services	20	26
Training	4	5
Office Equipment and Computer Maintenance	19	21
Others (including printing, stationery and insurance)	3	4
Total Operating Expenses	<u>614</u>	<u>654</u>
Capital Expenditure	3	10
Total Expenses	<u><u>617</u></u>	<u><u>664</u></u>

HONG KONG MONETARY AUTHORITY
Staff Establishment and Strength Comparison

Annex 2

Department	Functions	2003	
		Est.	Strength
Chief Executive's and Deputy Chief Executives' Offices	Top management of the HKMA	9	8
Banking Development	To formulate policies for the development of the banking industry, to conduct specialised supervision on the securities and e-banking activities of authorized institutions, to handle public complaints, to ensure adequate supply of banknotes and coins and to facilitate settlement for transactions executed by the HKMA for the Exchange Fund	89	87
Banking Policy	To formulate supervisory policies for promoting the safety and soundness of the banking sector	43	42
Banking Supervision	To supervise day-to-day operations of authorized institutions	132	129
Office of the General Counsel	To provide in-house legal support and advice	17	17
External	To help develop and promote Hong Kong as an international financial centre and to foster regional monetary co-operation through active participation in the international central banking and financial community	50	50
Monetary Management & Infrastructure	To maintain currency stability through monitoring of the market operations and development issues and to develop financial market infrastructure	31	31
Research	To conduct research and analysis on the economic and international financial market developments, both in Hong Kong and international economies	29	28
Reserves Management	To manage reserves to achieve investment returns in line with established guidelines and to enhance the quality of return by diversifying into different investment markets and assets types	46	46
Corporate Services	To provide support services in the form of administrative, finance, HR, IT, and secretariat services, and to handle media and community relations	151	143
Internal Audit	To provide audit services through assisting the management in controlling risks, monitoring compliance, and improving the efficiency of internal control systems and procedures	7	7
Total		604 ^	588

[^] Including 21 posts returned from Exchange Fund Investment Limited in 2003