

Exchange Fund Abridged Balance Sheet
as at 31 August 2012
(Expressed in millions of Hong Kong dollars)

	Notes	31 August 2012	31 July 2012
ASSETS			
Foreign currency assets	1	2,426,132	2,425,018
Hong Kong dollar assets	2	<u>134,511</u>	<u>182,770</u>
Total Assets		<u><u>2,560,643</u></u>	<u><u>2,607,788</u></u>
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	3, 7	270,907	266,661
Government-issued currency notes and coins in circulation	3, 5, 7	9,764	9,739
Balance of the banking system	3	148,665	148,645
Exchange Fund Bills and Notes	3, 6	658,837	693,935
Placements by banks and other financial institutions		21,246	-
Placements by Fiscal Reserves		647,946	661,555
Placements by HKSAR government funds and statutory bodies		151,373	151,963
Other liabilities	4	<u>60,540</u>	<u>90,114</u>
Total Liabilities		<u>1,969,278</u>	<u>2,022,612</u>
Accumulated Surplus		<u>591,365</u>	<u>585,176</u>
Total Liabilities and Fund Equity		<u><u>2,560,643</u></u>	<u><u>2,607,788</u></u>

Notes:

1. These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,189,954 million at the end of August 2012 and HK\$1,185,328 million at the end of July 2012.
2. These include lending collateralised by Exchange Fund paper under the Discount Window. There were no such advances at 31 August 2012 and 31 July 2012.
3. A component of the Monetary Base.
4. These include interest payable on Exchange Fund paper and accounts payable under Currency Board operations.
5. Commencing September 2002, ten dollar currency notes issued by the Government are included in this item.
6. In accordance with accounting principles generally accepted in Hong Kong, for the purpose of balance sheet presentation Exchange Fund Bills and Notes held as assets of the Exchange Fund are applied to offset the corresponding liabilities. Exchange Fund Bills and Notes thus extinguished amounted to HK\$2,000 million at the end of August 2012 (HK\$2,500 million at the end of July 2012). As a result, the Exchange Fund Bills and Notes on the Abridged Balance Sheet are smaller by this amount compared with those on the Currency Board Account.
7. In accordance with accounting principles generally accepted in Hong Kong, for the purpose of balance sheet presentation Certificates of Indebtedness and Government-issued currency notes and coins in circulation are stated at cost, which are the Hong Kong dollars equivalent of the US dollars required for their redemption at the exchange rate ruling at the balance sheet date. As a result, the figures for the Certificates of Indebtedness and Government-issued currency notes and coins in circulation are different from those shown in the Currency Board Account, which represent the Hong Kong dollar face value.

**Exchange Fund
Currency Board Account
as at 31 August 2012
(Expressed in millions of Hong Kong dollars)**

	Notes	31 August 2012 (Market Value)	31 July 2012 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		272,435	268,255
Government-issued currency notes and coins in circulation		9,819	9,797
Balance of the banking system		148,665	148,645
Exchange Fund Bills and Notes issued	3,4	660,837	696,435
Interest payable on Exchange Fund Notes		361	373
Net accounts (receivable)/payable	3,5,7	(1,842)	(37,449)
Total	1,3	1,090,275	1,086,056 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,197,995	1,229,902
Interest receivable on designated US dollar assets		1,262	1,922
Net accounts receivable/(payable)	6	(9,303)	(46,496)
Total	2	1,189,954	1,185,328 (b)
BACKING RATIO [(b) / (a)] * 100%	8	109.14%	109.14%

Notes :

1. Movements in the Monetary Base during the period were as follows:

	<u>HK\$ million</u>
Balance brought forward	1,086,056
Increase/(Decrease) in Certificates of Indebtedness	4,180
Increase/(Decrease) in Government-issued currency notes and coins in circulation	22
Net issue/(Net redemption) of Exchange Fund Bills and Notes	(35,517)
(Increase)/decrease in Exchange Fund Bills and Notes issued but not yet settled	35,603
Accrued interest on Exchange Fund Notes	129
Settlement of accrued interest on Exchange Fund Notes	(141)
Amortised discount/(premium) on Exchange Fund Bills and Notes	47
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(128)
Settlement of accrued interest income/(expenses) on interest rate swaps	35
Net interest expense/(income) on interest rate swaps	(34)
Revaluation losses/(gains) relating to interest rate swaps	3
Increase/(decrease) in balance of the banking system other than due to Discount Window Operations	20
Balance carried forward	<u>1,090,275</u>

2. Movements in the Backing Assets during the period were as follows:

	<u>HK\$ million</u>
Balance brought forward	1,185,328
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	4,180
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	22
Interest from investments	677
Revaluation gains/(losses) relating to investments	(253)
Balance carried forward	<u><u>1,189,954</u></u>

3. Discount Window Operations:

- (i) Discount Window Operations involve Hong Kong dollar overnight advances made to banks by way of crediting their accounts maintained with the HKMA (which is part of the balance of the banking system) on discounting Exchange Fund Bills and Notes. In accordance with generally accepted accounting practice, the Exchange Fund Bills and Notes discounted with the HKMA are not accounted for as reductions in the liabilities of the HKMA but are regarded as securities held against the advances so made.
- (ii) For the purpose of this Account, the advances to banks secured on Exchange Fund Bills and Notes are shown as deductions in arriving at the Monetary Base. There were no such advances at 31 August 2012 and 31 July 2012.

4. Interest payments on Exchange Fund Bills and Notes:

- (i) Starting from 1 April 1999, interest payments on Exchange Fund Bills and Notes have been allowed to increase the amount of outstanding Exchange Fund paper.
- (ii) During August 2012, the nominal value of Exchange Fund Bills and Notes decreased from HK\$692.13 billion to HK\$656.69 billion. If Exchange Fund Bills and Notes issued but not settled at end-July were excluded, the nominal value of Exchange Fund Bills and Notes would have increased by HK\$0.18 billion. Exchange Fund Bills and Notes issued include Exchange Fund Bills and Notes held as assets of the Exchange Fund.

5. In accordance with the accounting policies adopted by the Exchange Fund, Exchange Fund Bills and Notes issued on tender date but not yet settled are included in "Exchange Fund Bills and Notes issued". For the purpose of this Account, the corresponding accounts receivable are shown as deductions in arriving at the Monetary Base. There were no such receivables at 31 August 2012 (HK\$35,603 million at 31 July 2012).

6. This represents the net amount of receivable and payable for unsettled transactions of investments and issuance/redemption of Certificates of Indebtedness.

7. Starting from June 2001, Hong Kong dollar interest rate swaps have been used as a means to manage the cost of issuing Exchange Fund Notes. For the purpose of this Account, interest payable/(receivable) and revaluation losses/(gains) on these interest rate swaps are shown as a component of the Monetary Base and are included in "Net accounts (receivable)/payable". At 31 August 2012, there were interest receivable and revaluation gains amounting to HK\$63 million (HK\$64 million at 31 July 2012) and HK\$1,779 million (HK\$1,782 million at 31 July 2012) respectively.

8. It should be noted that the whole of the Exchange Fund assets, not just the Backing Assets, are available for the purpose of defending the linked exchange rate.