

Exchange Fund Abridged Balance Sheet
as at 28 February 2017
(Expressed in millions of Hong Kong dollars)

| | Notes | 28 February 2017 | 31 January 2017 |
|--|---------|-------------------------|-------------------------|
| ASSETS | | | |
| Foreign currency assets | 1 | 3,494,249 | 3,452,584 |
| Hong Kong dollar assets | 2 | <u>330,796</u> | <u>323,592</u> |
| Total Assets | | <u><u>3,825,045</u></u> | <u><u>3,776,176</u></u> |
| LIABILITIES AND FUND EQUITY | | | |
| Certificates of Indebtedness | 3, 7 | 411,664 | 432,101 |
| Government-issued currency notes and coins in circulation | 3, 5, 7 | 12,131 | 12,367 |
| Balance of the banking system | 3 | 259,608 | 259,646 |
| Exchange Fund Bills and Notes issued | 3, 6 | 1,019,005 | 1,000,881 |
| Placements by banks and other financial institutions | | 57,682 | 57,694 |
| Placements by Fiscal Reserves | | 965,768 | 965,508 |
| Placements by HKSAR government funds and statutory bodies | | 310,942 | 303,489 |
| Other liabilities | 4 | <u>206,134</u> | <u>177,581</u> |
| Total Liabilities | | <u>3,242,934</u> | <u>3,209,267</u> |
| Accumulated Surplus | | <u>582,111</u> | <u>566,909</u> |
| Total Liabilities and Fund Equity | | <u><u>3,825,045</u></u> | <u><u>3,776,176</u></u> |

Notes:

1. These include US dollar assets for backing the Monetary Base as presented in the Currency Board Account separately released.
2. These include lending collateralised by Exchange Fund paper under the Discount Window. There were no such advances at the end of February and January 2017.
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. As a result, the amount of Exchange Fund Bills and Notes in this Abridged Balance Sheet is smaller than that shown in the Currency Board Account by the amount offset.
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 in the Abridged Balance Sheet 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 28 February 2017 (Expressed in millions of Hong Kong dollars) | | | |
|---|-------|------------------------------------|-----------------------------------|
| | Notes | 28 February 2017 (Market Value) | 31 January 2017 (Market Value) |
| MONETARY BASE | | | |
| Certificates of Indebtedness | | 413,655 | 434,365 |
| Government-issued currency notes and coins in circulation | | 12,190 | 12,432 |
| Balance of the banking system | | 259,608 | 259,646 |
| Exchange Fund Bills and Notes issued | 3,4 | 1,020,603 | 1,002,879 |
| Interest payable on Exchange Fund Notes | | 125 | 183 |
| Net accounts (receivable)/payable | 3,5,7 | (56,843) | (39,962) |
| Total | 1,3 | 1,649,338 | 1,669,543 (a) |
| BACKING ASSETS | | | |
| Investment in designated US dollar assets | | 1,797,677 | 1,826,511 |
| Interest receivable on designated US dollar assets | | 1,414 | 1,482 |
| Net accounts receivable/(payable) | 6 | (36,381) | (46,432) |
| Total | 2 | 1,762,710 | 1,781,561 (b) |
| BACKING RATIO [(b) / (a)] * 100% | 8 | 106.87% | 106.71% |

Notes :

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

| | <u>HK\$ million</u> |
|--|---------------------|
| Balance brought forward | 1,669,543 |
| Increase/(decrease) in Certificates of Indebtedness | (20,710) |
| Increase/(decrease) in Government-issued currency notes and coins in circulation | (242) |
| Net issue/(net redemption) of Exchange Fund Bills and Notes | 16,810 |
| (Increase)/decrease in Exchange Fund Bills and Notes issued but not yet settled | (16,707) |
| Accrued interest on Exchange Fund Notes | 53 |
| Settlement of accrued interest on Exchange Fund Notes | (111) |
| Amortised discount/(premium) on Exchange Fund Bills and Notes | 387 |
| Revaluation losses/(gains) relating to Exchange Fund Bills and Notes | 527 |
| Settlement of accrued interest income/(expenses) on interest rate swaps | 46 |
| Net interest expense/(income) on interest rate swaps | (27) |
| Revaluation losses/(gains) relating to interest rate swaps | (193) |
| Increase/(decrease) in balance of the banking system other than due to Discount Window Operations | (38) |
| Balance carried forward | <u>1,649,338</u> |

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

| | <u>HK\$ million</u> |
|--|-------------------------|
| Balance brought forward | 1,781,561 |
| Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness | (20,710) |
| Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation | (242) |
| Interest from investments | 1,174 |
| Revaluation gains/(losses) relating to investments | 927 |
| Balance carried forward | <u><u>1,762,710</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 28 February and 31 January 2017.

4. Exchange Fund Bills and Notes issued:

- (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) 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 amounting to HK\$56.3 billion at 28 February 2017 (HK\$39.6 billion at 31 January 2017) are shown as deductions in arriving at the Monetary Base.
 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".
 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.