

**Exchange Fund Abridged Balance Sheet
as at 31 January 2014
(Expressed in millions of Hong Kong dollars)**

	Notes	31 January 2014	31 December 2013 (unaudited)
ASSETS			
Foreign currency assets	1	2,790,814	2,802,147
Hong Kong dollar assets	2	<u>223,274</u>	<u>227,870</u>
Total Assets		<u><u>3,014,088</u></u>	<u><u>3,030,017</u></u>
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	3, 7	351,412	327,372
Government-issued currency notes and coins in circulation	3, 5, 7	11,381	10,575
Balance of the banking system	3	163,880	164,093
Exchange Fund Bills and Notes issued	3, 6	750,022	782,605
Placements by banks and other financial institutions		25,404	50,734
Placements by Fiscal Reserves		815,074	773,862
Placements by HKSAR government funds and statutory bodies		215,312	214,911
Other liabilities	4	<u>60,444</u>	<u>68,533</u>
Total Liabilities		<u>2,392,929</u>	<u>2,392,685</u>
Accumulated Surplus		<u>621,159</u>	<u>637,332</u>
Total Liabilities and Fund Equity		<u><u>3,014,088</u></u>	<u><u>3,030,017</u></u>

Notes:

1. These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,377,222 million at the end of January 2014 and HK\$1,348,904 million at the end of December 2013.
2. These include lending collateralised by Exchange Fund paper under the Discount Window. There was no such advance at the end of January 2014 (HK\$199 million at the end of December 2013).
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 January 2014 (HK\$1,999 million at the end of December 2013). As a result, the amount of Exchange Fund Bills and Notes in the Abridged Balance Sheet is smaller by this amount compared with that in 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 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 31 January 2014
(Expressed in millions of Hong Kong dollars)**

	Notes	31 January 2014 (Market Value)	31 December 2013 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		353,005	329,325
Government-issued currency notes and coins in circulation		11,432	10,638
Balance of the banking system		163,880	164,093
Exchange Fund Bills and Notes issued	3,4	752,022	784,604
Interest payable on Exchange Fund Notes		274	177
Net accounts (receivable)/payable	3,5,7	(180)	(32,968)
Total	1,3	1,280,433	1,255,869 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,394,042	1,372,915
Interest receivable on designated US dollar assets		1,104	1,177
Net accounts receivable/(payable)	6	(17,924)	(25,188)
Total	2	1,377,222	1,348,904 (b)
BACKING RATIO [(b) / (a)] * 100%	8	107.56%	107.41%

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,255,869
Increase/(decrease) in Certificates of Indebtedness	23,680
Increase/(decrease) in Government-issued currency notes and coins in circulation	794
Net issue/(net redemption) of Exchange Fund Bills and Notes	(32,735)
(Increase)/decrease in Exchange Fund Bills and Notes issued but not yet settled	32,750
Accrued interest on Exchange Fund Notes	97
Amortised discount/(premium) on Exchange Fund Bills and Notes	82
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	71
Net interest expense/(income) on interest rate swaps	(35)
Revaluation losses/(gains) relating to interest rate swaps	(126)
Increase/(decrease) in balance of the banking system other than due to Discount Window Operations	(14)
Balance carried forward	<u>1,280,433</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,348,904
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	23,680
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	794
Interest from investments	474
Revaluation gains/(losses) relating to investments	3,370
Balance carried forward	<u><u>1,377,222</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 January 2014 (HK\$199 million at 31 December 2013).

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 January 2014, the nominal value of Exchange Fund Bills and Notes decreased from HK\$783.91 billion to HK\$751.26 billion. If Exchange Fund Bills and Notes issued but not yet settled at end-December 2013 were excluded, the nominal value of Exchange Fund Bills and Notes would have increased by HK\$0.11 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 January 2014 (HK\$32,750 million at 31 December 2013).

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 January 2014, there were interest receivable and revaluation gains amounting to HK\$66 million (HK\$31 million at 31 December 2013) and HK\$114 million (a loss of HK\$12 million at 31 December 2013) 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.