

**Exchange Fund Abridged Balance Sheet  
as at 30 November 2010  
(Expressed in millions of Hong Kong dollars)**

	Notes	30 November 2010	31 October 2010
<b>ASSETS</b>			
Foreign currency assets	1	2,165,358	2,104,673
Hong Kong dollar assets	2	<u>226,071</u>	<u>174,993</u>
<b>Total Assets</b>		<u><u>2,391,429</u></u>	<u><u>2,279,666</u></u>
<b>LIABILITIES AND FUND EQUITY</b>			
Certificates of Indebtedness	3, 7	217,165	217,676
Government-issued currency notes and coins in circulation	3, 5, 7	8,823	8,788
Balance of the banking system	3	148,740	148,669
Exchange Fund Bills and Notes	3, 6	688,728	654,621
Placements by banks and other financial institutions		23,187	-
Placements by Fiscal Reserves		551,419	518,314
Placements by HKSAR government funds and statutory bodies		70,416	70,464
Other liabilities	4	<u>100,979</u>	<u>57,093</u>
<b>Total Liabilities</b>		<u>1,809,457</u>	<u>1,675,625</u>
<b>Accumulated Surplus</b>		<u>581,972</u>	<u>604,041</u>
<b>Total Liabilities and Fund Equity</b>		<u><u>2,391,429</u></u>	<u><u>2,279,666</u></u>

## Notes:

- These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,114,405 million as at the end of November 2010 and HK\$1,114,875 million as at the end of October 2010.
- These include lending collateralised by Exchange Fund paper under the Discount Window. There was no such lending as at the end of November 2010 (HK\$22 million as at the end of October 2010).
- A component of the Monetary Base.
- These include interest payable on Exchange Fund paper and accounts payable under Currency Board operations.
- Commencing September 2002, ten dollar currency notes issued by the Government are included in this item.
- 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\$999 million as at the end of November 2010 (HK\$1,000 million as at the end of October 2010). 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.
- 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 30 November 2010  
(Expressed in millions of Hong Kong dollars)**

	Notes	30 November 2010 (Market Value)	31 October 2010 (Market Value)
<b>MONETARY BASE</b>			
Certificates of Indebtedness		218,125	219,015
Government-issued currency notes and coins in circulation		8,862	8,842
Balance of the banking system		148,740	148,669
Exchange Fund Bills and Notes issued	3,4	689,727	655,621
Interest payable on Exchange Fund Notes		695	632
Net accounts (receivable)/payable	3,5,7	(35,379)	(970)
<b>Total</b>	<b>1,3</b>	<b>1,030,770</b>	<b>1,031,809</b> (a)
<b>BACKING ASSETS</b>			
Investment in designated US dollar assets		1,155,373	1,111,055
Interest receivable on designated US dollar assets		1,210	1,395
Net accounts receivable/(payable)	6	(42,178)	2,425
<b>Total</b>	<b>2</b>	<b>1,114,405</b>	<b>1,114,875</b> (b)
<b>BACKING RATIO</b> [ (b) / (a) ] * 100%	<b>8</b>	<b>108.11%</b>	<b>108.05%</b>

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,031,809
Increase/(Decrease) in Certificates of Indebtedness	(890)
Increase/(Decrease) in Government-issued currency notes and coins in circulation	20
Net issue/(Net redemption) of Exchange Fund Bills and Notes	34,658
(Increase)/Decrease in Exchange Fund Bills and Notes issued but not yet settled	(34,664)
Accrued interest on Exchange Fund Notes	177
Settlement of accrued interest on Exchange Fund Notes	(114)
Amortised discount/(premium) on Exchange Fund Bills and Notes	107
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(659)
Settlement of accrued interest income/(expenses) on interest rate swaps	27
Net interest expense/(income) on interest rate swaps	(33)
Revaluation losses/(gains) relating to interest rate swaps	239
Increase/(Decrease) in balance of the banking system (other than due to Discount Window Operations)	93
Balance carried forward	<u>1,030,770</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,114,875
Increase/(Decrease) on issue/(redemption) of Certificates of Indebtedness	(890)
Increase/(Decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	20
Interest from investments	616
Revaluation gains/(losses) relating to investments	(216)
Balance carried forward	<u>1,114,405</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 was no such advances as at 30 November 2010 (HK\$22 million as at 31 October 2010).

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 November 2010, the nominal value of Exchange Fund Bills and Notes increased from HK\$652.25 billion to HK\$687.10 billion (HK\$652.40 billion if Exchange Fund Bills and Notes issued but not yet settled were excluded). 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\$34,664 million as at 30 November 2010 (nil as at 31 October 2010) 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 redemption/issuance 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". As at 30 November 2010, there were interest receivable and revaluation gains amounting to HK\$67 million (HK\$61 million as at 31 October 2010) and HK\$648 million (HK\$887 million as at 31 October 2010) 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.