

**Exchange Fund Abridged Balance Sheet
as at 30 September 2011
(Expressed in millions of Hong Kong dollars)**

	Notes	30 September 2011	31 August 2011
ASSETS			
Foreign currency assets	1	2,260,481	2,275,299
Hong Kong dollar assets	2	<u>155,099</u>	<u>177,430</u>
Total Assets		<u><u>2,415,580</u></u>	<u><u>2,452,729</u></u>
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	3, 7	245,574	239,277
Government-issued currency notes and coins in circulation	3, 5, 7	9,288	9,271
Balance of the banking system	3	148,661	148,632
Exchange Fund Bills and Notes	3, 6	657,878	657,285
Placements by banks and other financial institutions		23,888	23,888
Placements by Fiscal Reserves		603,989	604,744
Placements by HKSAR government funds and statutory bodies		105,361	105,721
Other liabilities	4	<u>62,962</u>	<u>59,157</u>
Total Liabilities		<u>1,857,601</u>	<u>1,847,975</u>
Accumulated Surplus		<u>557,979</u>	<u>604,754</u>
Total Liabilities and Fund Equity		<u><u>2,415,580</u></u>	<u><u>2,452,729</u></u>

Notes:

1. These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,157,778 million at the end of September 2011 and HK\$1,149,448 million at the end of August 2011.
2. These include lending collateralised by Exchange Fund paper under the Discount Window. There was no such lending at the end of September 2011 and at the end of August 2011.
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\$1,000 million at the end of September 2011 (HK\$1,000 million at the end of August 2011). 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 30 September 2011
(Expressed in millions of Hong Kong dollars)**

	Notes	30 September 2011 (Market Value)	31 August 2011 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		246,055	239,595
Government-issued currency notes and coins in circulation		9,306	9,283
Balance of the banking system		148,661	148,632
Exchange Fund Bills and Notes issued	3,4	658,878	658,285
Interest payable on Exchange Fund Notes		381	467
Net accounts (receivable)/payable	3,6	(1,520)	(1,213)
Total	1,3	1,061,761	1,055,049 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,160,399	1,151,148
Interest receivable on designated US dollar assets		1,266	1,119
Net accounts receivable/(payable)	5	(3,887)	(2,819)
Total	2	1,157,778	1,149,448 (b)
BACKING RATIO [(b) / (a)] * 100%	7	109.04%	108.95%

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,055,049
Increase/(decrease) in Certificates of Indebtedness	6,460
Increase/(decrease) in Government-issued currency notes and coins in circulation	23
Net issue/(net redemption) of Exchange Fund Bills and Notes	133
Accrued interest on Exchange Fund Notes	163
Settlement of accrued interest on Exchange Fund Notes	(249)
Amortised discount/(premium) on Exchange Fund Bills and Notes	39
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	421
Settlement of accrued interest income/(expenses) on interest rate swaps	77
Net interest expense/(income) on interest rate swaps	(36)
Revaluation losses/(gains) relating to interest rate swaps	(348)
Increase/(decrease) in balance of the banking system (other than due to Discount Window Operations)	29
Balance carried forward	<u>1,061,761</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,149,448
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	6,460
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	23
Interest from investments	635
Revaluation gains/(losses) relating to investments	1,212
Balance carried forward	<u>1,157,778</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 30 September and 31 August 2011.

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 September 2011, the nominal value of Exchange Fund Bills and Notes increased from HK\$654.64 billion to HK\$654.78 billion. Exchange Fund Bills and Notes issued include Exchange Fund Bills and Notes held as assets of the Exchange Fund.

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

6. 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 30 September 2011, there were interest receivable and revaluation gains amounting to HK\$31 million (HK\$72 million at 31 August 2011) and HK\$1,489 million (HK\$1,141 million at 31 August 2011) respectively.

7. 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.