

**Exchange Fund Abridged Balance Sheet  
as at 31 October 2011  
(Expressed in millions of Hong Kong dollars)**

	Notes	31 October 2011	30 September 2011
<b>ASSETS</b>			
Foreign currency assets	1	2,285,710	2,260,481
Hong Kong dollar assets	2	<u>171,491</u>	<u>155,099</u>
<b>Total Assets</b>		<u><u>2,457,201</u></u>	<u><u>2,415,580</u></u>
<b>LIABILITIES AND FUND EQUITY</b>			
Certificates of Indebtedness	3, 7	241,915	245,574
Government-issued currency notes and coins in circulation	3, 5, 7	9,277	9,288
Balance of the banking system	3	148,675	148,661
Exchange Fund Bills and Notes	3, 6	657,511	657,878
Placements by banks and other financial institutions		23,888	23,888
Placements by Fiscal Reserves		616,844	603,989
Placements by HKSAR government funds and statutory bodies		105,359	105,361
Other liabilities	4	<u>64,417</u>	<u>62,962</u>
<b>Total Liabilities</b>		<u>1,867,886</u>	<u>1,857,601</u>
<b>Accumulated Surplus</b>		<u>589,315</u>	<u>557,979</u>
<b>Total Liabilities and Fund Equity</b>		<u><u>2,457,201</u></u>	<u><u>2,415,580</u></u>

## Notes:

1. These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,150,669 million at the end of October 2011 and HK\$1,157,778 million at the end of September 2011.
2. These include lending collateralised by Exchange Fund paper under the Discount Window, which amounted to HK\$38 million at the end of October 2011 (nil at the end of September 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 October 2011 (HK\$1,000 million at the end of September 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 31 October 2011  
(Expressed in millions of Hong Kong dollars)**

	Notes	31 October 2011 (Market Value)	30 September 2011 (Market Value)
<b>MONETARY BASE</b>			
Certificates of Indebtedness		243,005	246,055
Government-issued currency notes and coins in circulation		9,319	9,306
Balance of the banking system		148,675	148,661
Exchange Fund Bills and Notes issued	3,4	658,511	658,878
Interest payable on Exchange Fund Notes		536	381
Net accounts (receivable)/payable	3,6	(1,386)	(1,520)
<b>Total</b>	1,3	<b>1,058,660</b>	<b>1,061,761</b> (a)
<b>BACKING ASSETS</b>			
Investment in designated US dollar assets		1,151,341	1,160,399
Interest receivable on designated US dollar assets		1,652	1,266
Net accounts receivable/(payable)	5	(2,324)	(3,887)
<b>Total</b>	2	<b>1,150,669</b>	<b>1,157,778</b> (b)
<b>BACKING RATIO</b> [ (b) / (a) ] * 100%	7	<b>108.69%</b>	<b>109.04%</b>

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,061,761
Increase/(decrease) in Certificates of Indebtedness	(3,050)
Increase/(decrease) in Government-issued currency notes and coins in circulation	13
Net issue/(net redemption) of Exchange Fund Bills and Notes	25
Accrued interest on Exchange Fund Notes	155
Amortised discount/(premium) on Exchange Fund Bills and Notes	37
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(429)
Net interest expense/(income) on interest rate swaps	(38)
Revaluation losses/(gains) relating to interest rate swaps	210
Increase/(decrease) in balance of the banking system (other than due to Discount Window Operations)	(24)
Balance carried forward	<u>1,058,660</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,157,778
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	(3,050)
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	13
Interest from investments	695
Revaluation gains/(losses) relating to investments	(4,767)
Balance carried forward	<u>1,150,669</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 amounting to HK\$38 million at 31 October 2011 (nil at 30 September 2011) are shown as deductions in arriving at the Monetary Base.

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 October 2011, the nominal value of Exchange Fund Bills and Notes increased from HK\$654.78 billion to HK\$654.85 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 31 October 2011, there were interest receivable and revaluation gains amounting to HK\$69 million (HK\$31 million at 30 September 2011) and HK\$1,279 million (HK\$1,489 million at 30 September 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.