

**Exchange Fund Abridged Balance Sheet
as at 30 June 2013
(Expressed in millions of Hong Kong dollars)**

	Notes	30 June 2013	31 May 2013
ASSETS			
Foreign currency assets	1	2,678,666	2,696,666
Hong Kong dollar assets	2	<u>168,493</u>	<u>188,394</u>
Total Assets		<u><u>2,847,159</u></u>	<u><u>2,885,060</u></u>
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	3, 7	310,339	305,143
Government-issued currency notes and coins in circulation	3, 5, 7	10,348	10,342
Balance of the banking system	3	163,903	172,874
Exchange Fund Bills and Notes	3, 6	746,384	738,100
Placements by banks and other financial institutions		50,293	50,194
Placements by Fiscal Reserves		737,626	754,587
Placements by HKSAR government funds and statutory bodies		184,462	174,768
Other liabilities	4	<u>54,988</u>	<u>54,499</u>
Total Liabilities		<u>2,258,343</u>	<u>2,260,507</u>
Accumulated Surplus		<u>588,816</u>	<u>624,553</u>
Total Liabilities and Fund Equity		<u><u>2,847,159</u></u>	<u><u>2,885,060</u></u>

Notes:

1. These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,332,410 million at the end of June 2013 and HK\$1,331,194 million at the end of May 2013.
2. These include lending collateralised by Exchange Fund paper under the Discount Window. There were no such advances at 30 June 2013 and 31 May 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\$5,000 million at the end of June 2013 (HK\$4,999 million at the end of May 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 30 June 2013
(Expressed in millions of Hong Kong dollars)**

	Notes	30 June 2013 (Market Value)	31 May 2013 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		312,085	306,605
Government-issued currency notes and coins in circulation		10,406	10,391
Balance of the banking system		163,903	172,874
Exchange Fund Bills and Notes issued	3,4	751,384	743,099
Interest payable on Exchange Fund Notes		190	447
Net accounts (receivable)/payable	3,6	(382)	(1,057)
Total	1,3	1,237,586	1,232,359 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,332,706	1,336,227
Interest receivable on designated US dollar assets		1,335	1,173
Net accounts receivable/(payable)	5	(1,631)	(6,206)
Total	2	1,332,410	1,331,194 (b)
BACKING RATIO [(b) / (a)] * 100%	7	107.66%	108.02%

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,232,359
Increase/(decrease) in Certificates of Indebtedness	5,480
Increase/(decrease) in Government-issued currency notes and coins in circulation	15
Net issue/(net redemption) of Exchange Fund Bills and Notes	9,270
Accrued interest on Exchange Fund Notes	103
Settlement of accrued interest on Exchange Fund Notes	(360)
Amortised discount/(premium) on Exchange Fund Bills and Notes	43
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(1,028)
Settlement of accrued interest income/(expenses) on interest rate swaps	61
Net interest expense/(income) on interest rate swaps	(32)
Revaluation losses/(gains) relating to interest rate swaps	646
Increase/(decrease) in balance of the banking system other than due to Discount Window Operations	(8,971)
Balance carried forward	<u>1,237,586</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,331,194
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	5,480
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	15
Interest from investments	581
Revaluation gains/(losses) relating to investments	(4,860)
Balance carried forward	<u><u>1,332,410</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 30 June and 31 May 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 June 2013, the nominal value of Exchange Fund Bills and Notes increased from HK\$740.76 billion to HK\$750.09 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 June 2013, there were interest receivable and revaluation gains amounting to HK\$29 million (HK\$58 million at 31 May 2013) and HK\$353 million (HK\$999 million at 31 May 2013) 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.