

**Exchange Fund Abridged Balance Sheet
as at 31 January 2012
(Expressed in millions of Hong Kong dollars)**

	Notes	31 January 2012	31 December 2011 (Unaudited)
ASSETS			
Foreign currency assets	1	2,409,457	2,330,826
Hong Kong dollar assets	2	<u>236,811</u>	<u>161,843</u>
Total Assets		<u><u>2,646,268</u></u>	<u><u>2,492,669</u></u>
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	3, 7	272,566	258,702
Government-issued currency notes and coins in circulation	3, 5, 7	10,173	9,888
Balance of the banking system	3	148,660	148,684
Exchange Fund Bills and Notes	3, 6	693,258	655,750
Placements by banks and other financial institutions		24,547	24,547
Placements by Fiscal Reserves		710,586	663,507
Placements by HKSAR government funds and statutory bodies		127,361	126,249
Other liabilities	4	<u>65,315</u>	<u>37,401</u>
Total Liabilities		2,052,466	1,924,728
Accumulated Surplus		<u>593,802</u>	<u>567,941</u>
Total Liabilities and Fund Equity		<u><u>2,646,268</u></u>	<u><u>2,492,669</u></u>

Notes:

1. These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,186,355 million at the end of January 2012 and HK\$1,171,952 million at the end of December 2011.
2. These include lending collateralised by Exchange Fund paper under the Discount Window. There were no such advances at 31 January 2012 and 31 December 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\$2,999 million at the end of January 2012 (HK\$2,998 million at the end of December 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 January 2012
(Expressed in millions of Hong Kong dollars)**

	Notes	31 January 2012 (Market Value)	31 December 2011 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		274,165	259,815
Government-issued currency notes and coins in circulation		10,233	9,930
Balance of the banking system		148,660	148,684
Exchange Fund Bills and Notes issued	3,4	696,257	658,748
Interest payable on Exchange Fund Notes		423	276
Net accounts (receivable)/payable	3,5,7	(38,559)	(1,471)
Total	1,3	1,091,179	1,075,982 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,219,236	1,183,554
Interest receivable on designated US dollar assets		1,985	1,728
Net accounts receivable/(payable)	6	(34,866)	(13,330)
Total	2	1,186,355	1,171,952 (b)
BACKING RATIO [(b) / (a)] * 100%	8	108.72%	108.92%

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,075,982
Increase/(decrease) in Certificates of Indebtedness	14,350
Increase/(decrease) in Government-issued currency notes and coins in circulation	303
Net issue/(net redemption) of Exchange Fund Bills and Notes	36,891
(Increase)/decrease in Exchange Fund Bills and Notes issued but not yet settled	(36,867)
Accrued interest on Exchange Fund Notes	147
Amortised discount/(premium) on Exchange Fund Bills and Notes	63
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	555
Net interest expense/(income) on interest rate swaps	(36)
Revaluation losses/(gains) relating to interest rate swaps	(185)
Increase/(decrease) in balance of the banking system (other than due to Discount Window Operations)	(24)
Balance carried forward	<u>1,091,179</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,171,952
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	14,350
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	303
Interest from investments	708
Revaluation gains/(losses) relating to investments	(958)
Balance carried forward	<u>1,186,355</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 2012 and 31 December 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 January 2012, the nominal value of Exchange Fund Bills and Notes increased from HK\$655.41 billion to HK\$692.44 billion (HK\$655.55 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\$36,867 million at 31 January 2012 (nil at 31 December 2011) 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 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 2012, there were interest receivable and revaluation gains amounting to HK\$66 million (HK\$30 million at 31 December 2011) and HK\$1,626 million (HK\$1,441 million at 31 December 2011) 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.