

**Exchange Fund Abridged Balance Sheet
as at 31 January 2013
(Expressed in millions of Hong Kong dollars)**

	Notes	31 January 2013	31 December 2012 (Unaudited)
ASSETS			
Foreign currency assets	1	2,687,807	2,588,849
Hong Kong dollar assets	2	<u>214,986</u>	<u>193,309</u>
Total Assets		<u><u>2,902,793</u></u>	<u><u>2,782,158</u></u>
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	3, 7	305,870	289,837
Government-issued currency notes and coins in circulation	3, 5, 7	10,831	9,934
Balance of the banking system	3	234,841	255,851
Exchange Fund Bills and Notes	3, 6	676,845	688,484
Placements by banks and other financial institutions		49,379	-
Placements by Fiscal Reserves		763,008	717,536
Placements by HKSAR government funds and statutory bodies		169,018	167,912
Other liabilities	4	<u>51,656</u>	<u>28,920</u>
Total Liabilities		<u>2,261,448</u>	<u>2,158,474</u>
Accumulated Surplus		<u>641,345</u>	<u>623,684</u>
Total Liabilities and Fund Equity		<u><u>2,902,793</u></u>	<u><u>2,782,158</u></u>

Notes:

1. These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,331,346 million at the end of January 2013 and HK\$1,315,545 million at the end of December 2012.
2. These include lending collateralised by Exchange Fund paper under the Discount Window. There were no such advances at 31 January 2013 and 31 December 2012.
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\$4,499 million at the end of January 2013 (HK\$2,500 million at the end of December 2012). 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 2013 (Expressed in millions of Hong Kong dollars)			
	Notes	31 January 2013 (Market Value)	31 December 2012 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		307,625	291,675
Government-issued currency notes and coins in circulation		10,893	9,997
Balance of the banking system		234,841	255,851
Exchange Fund Bills and Notes issued	3,4	681,344	690,984
Interest payable on Exchange Fund Notes		326	211
Net accounts (receivable)/payable	3,5,7	(1,471)	(31,415)
Total	1,3	1,233,558	1,217,303 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,352,615	1,317,605
Interest receivable on designated US dollar assets		1,592	1,427
Net accounts receivable/(payable)	6	(22,861)	(3,487)
Total	2	1,331,346	1,315,545 (b)
BACKING RATIO [(b) / (a)] * 100%	8	107.93%	108.07%

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,217,303
Increase/(decrease) in Certificates of Indebtedness	15,950
Increase/(decrease) in Government-issued currency notes and coins in circulation	896
Net issue/(net redemption) of Exchange Fund Bills and Notes	(8,573)
(Increase)/decrease in Exchange Fund Bills and Notes issued but not yet settled	29,583
Accrued interest on Exchange Fund Notes	115
Amortised discount/(premium) on Exchange Fund Bills and Notes	41
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(1,108)
Net interest expense/(income) on interest rate swaps	(33)
Revaluation losses/(gains) relating to interest rate swaps	394
Increase/(decrease) in balance of the banking system other than due to Discount Window Operations	(21,010)
Balance carried forward	<u>1,233,558</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,315,545
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	15,950
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	896
Interest from investments	611
Revaluation gains/(losses) relating to investments	(1,656)
Balance carried forward	<u><u>1,331,346</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 31 January 2013 and 31 December 2012.

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 2013, the nominal value of Exchange Fund Bills and Notes decreased from HK\$686.97 billion to HK\$678.45 billion. If Exchange Fund Bills and Notes issued but not yet settled at end-December 2012 were excluded, the nominal value of Exchange Fund Bills and Notes would have increased by HK\$21.06 billion. 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 are shown as deductions in arriving at the Monetary Base. There were no such receivables at 31 January 2013 (HK\$29,583 million at 31 December 2012).

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 2013, there were interest receivable and revaluation gains amounting to HK\$62 million (HK\$29 million at 31 December 2012) and HK\$1,409 million (HK\$1,803 million at 31 December 2012) 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.