

**Exchange Fund Abridged Balance Sheet  
as at 31 July 2014  
(Expressed in millions of Hong Kong dollars)**

	Notes	31 July 2014	30 June 2014
<b>ASSETS</b>			
Foreign currency assets	1	2,907,690	2,872,074
Hong Kong dollar assets	2	<u>171,577</u>	<u>198,901</u>
<b>Total Assets</b>		<u><u>3,079,267</u></u>	<u><u>3,070,975</u></u>
<b>LIABILITIES AND FUND EQUITY</b>			
Certificates of Indebtedness	3, 7	327,574	333,061
Government-issued currency notes and coins in circulation	3, 5, 7	10,865	10,852
Balance of the banking system	3	221,637	164,398
Exchange Fund Bills and Notes issued	3, 6	751,460	783,643
Placements by banks and other financial institutions		65,073	50,384
Placements by Fiscal Reserves		736,346	749,447
Placements by HKSAR government funds and statutory bodies		237,209	245,539
Other liabilities	4	<u>63,575</u>	<u>67,269</u>
<b>Total Liabilities</b>		<u>2,413,739</u>	<u>2,404,593</u>
<b>Accumulated Surplus</b>		<u>665,528</u>	<u>666,382</u>
<b>Total Liabilities and Fund Equity</b>		<u><u>3,079,267</u></u>	<u><u>3,070,975</u></u>

## Notes:

- These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,409,843 million at the end of July 2014 and HK\$1,358,023 million at the end of June 2014.
- These include lending collateralised by Exchange Fund paper under the Discount Window. There was no such advance at the end of July 2014 (HK\$489 million at the end of June 2014).
- A component of the Monetary Base.
- These include interest payable on Exchange Fund paper and accounts payable under Currency Board operations.
- Commencing September 2002, ten dollar currency notes issued by the Government are included in this item.
- 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\$1,500 million at the end of July 2014 (HK\$1,500 million at the end of June 2014). 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.
- 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 31 July 2014  
(Expressed in millions of Hong Kong dollars)**

	Notes	31 July 2014 (Market Value)	30 June 2014 (Market Value)
<b>MONETARY BASE</b>			
Certificates of Indebtedness		329,685	335,195
Government-issued currency notes and coins in circulation		10,935	10,921
Balance of the banking system		221,637	164,398
Exchange Fund Bills and Notes issued	3,4	752,960	785,143
Interest payable on Exchange Fund Notes		252	163
Net accounts (receivable)/payable	3,5,7	(388)	(33,061)
<b>Total</b>	1,3	<b>1,315,081</b>	<b>1,262,759</b> (a)
<b>BACKING ASSETS</b>			
Investment in designated US dollar assets		1,412,402	1,372,324
Interest receivable on designated US dollar assets		1,305	1,181
Net accounts receivable/(payable)	6	(3,864)	(15,482)
<b>Total</b>	2	<b>1,409,843</b>	<b>1,358,023</b> (b)
<b>BACKING RATIO</b> [ (b) / (a) ] * 100%	8	<b>107.21%</b>	<b>107.54%</b>

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,262,759
Increase/(decrease) in Certificates of Indebtedness	(5,510)
Increase/(decrease) in Government-issued currency notes and coins in circulation	14
Net issue/(net redemption) of Exchange Fund Bills and Notes	(32,123)
(Increase)/decrease in Exchange Fund Bills and Notes issued but not yet settled	32,164
Accrued interest on Exchange Fund Notes	89
Amortised discount/(premium) on Exchange Fund Bills and Notes	66
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(126)
Net interest expense/(income) on interest rate swaps	(35)
Revaluation losses/(gains) relating to interest rate swaps	55
Increase/(decrease) in balance of the banking system other than due to Discount Window Operations	57,728
Balance carried forward	<u>1,315,081</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,358,023
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	(5,510)
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	14
Interest from investments	512
Revaluation gains/(losses) relating to investments	(965)
Increase/(Decrease) in balance of the banking system (other than due to Discount Window Operations and interest payment/issuance of Exchange Fund paper)	57,769
Balance carried forward	<u>1,409,843</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 July 2014 (HK\$489 million at 30 June 2014).

## 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 July 2014, the nominal value of Exchange Fund Bills and Notes decreased from HK\$784.17 billion to HK\$752.10 billion. If Exchange Fund Bills and Notes issued but not yet settled at end-June 2014 were excluded, the nominal value of Exchange Fund Bills and Notes would have increased by HK\$0.1 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 July 2014 (HK\$32,164 million at 30 June 2014).

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 July 2014, there were interest receivable and revaluation gains amounting to HK\$67 million (HK\$32 million at 30 June 2014) and HK\$321 million (HK\$376 million at 30 June 2014) 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.