

**Exchange Fund Abridged Balance Sheet
as at 30 September 2014
(Expressed in millions of Hong Kong dollars)**

	Notes	30 September 2014	31 August 2014
ASSETS			
Foreign currency assets	1	3,011,885	2,935,901
Hong Kong dollar assets	2	<u>202,749</u>	<u>171,125</u>
Total Assets		<u><u>3,214,634</u></u>	<u><u>3,107,026</u></u>
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	3, 7	342,625	333,609
Government-issued currency notes and coins in circulation	3, 5, 7	10,946	10,889
Balance of the banking system	3	239,229	239,198
Exchange Fund Bills and Notes issued	3, 6	795,737	752,404
Placements by banks and other financial institutions		133,666	64,843
Placements by Fiscal Reserves		715,138	724,620
Placements by HKSAR government funds and statutory bodies		258,929	248,084
Other liabilities	4	<u>78,184</u>	<u>59,938</u>
Total Liabilities		<u>2,574,454</u>	<u>2,433,585</u>
Accumulated Surplus		<u>640,180</u>	<u>673,441</u>
Total Liabilities and Fund Equity		<u><u>3,214,634</u></u>	<u><u>3,107,026</u></u>

Notes:

- These include US dollar assets for backing the Monetary Base, which amounted to HK\$1,445,538 million at the end of September 2014 and HK\$1,434,456 million at the end of August 2014.
- These include lending collateralised by Exchange Fund paper under the Discount Window. There were no such advances at the end of September 2014 and August 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\$500 million at the end of September 2014 (HK\$1,000 million at the end of August 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 30 September 2014
(Expressed in millions of Hong Kong dollars)**

	Notes	30 September 2014 (Market Value)	31 August 2014 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		344,165	335,755
Government-issued currency notes and coins in circulation		10,995	10,959
Balance of the banking system		239,229	239,198
Exchange Fund Bills and Notes issued	3,4	796,237	753,404
Interest payable on Exchange Fund Notes		215	233
Net accounts (receivable)/payable	3,5,7	(43,618)	(690)
Total	1,3	1,347,223	1,338,859 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,458,351	1,429,018
Interest receivable on designated US dollar assets		1,162	1,039
Net accounts receivable/(payable)	6	(13,975)	4,399
Total	2	1,445,538	1,434,456 (b)
BACKING RATIO [(b) / (a)] * 100%	8	107.30%	107.14%

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,338,859
Increase/(decrease) in Certificates of Indebtedness	8,410
Increase/(decrease) in Government-issued currency notes and coins in circulation	36
Net issue/(net redemption) of Exchange Fund Bills and Notes	43,209
(Increase)/Decrease in Exchange Fund Bills and Notes issued but not yet settled	(43,192)
Accrued interest on Exchange Fund Notes	88
Settlement of accrued interest on Exchange Fund Notes	(106)
Amortised discount/(premium) on Exchange Fund Bills and Notes	45
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(421)
Settlement of accrued interest income/(expenses) on interest rate swaps	58
Net interest expense/(income) on interest rate swaps	(36)
Revaluation losses/(gains) relating to interest rate swaps	242
Increase/(decrease) in balance of the banking system other than due to Discount Window Operations	31
Balance carried forward	<u>1,347,223</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,434,456
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	8,410
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	36
Interest from investments	487
Revaluation gains/(losses) relating to investments	2,149
Balance carried forward	<u><u>1,445,538</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 September and 31 August 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 September 2014, the nominal value of Exchange Fund Bills and Notes increased from HK\$752.17 billion to HK\$795.45 billion (HK\$752.24 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\$43,192 million at 30 September 2014 (nil at 31 August 2014) are shown as deduction 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 30 September 2014, there were interest receivable and revaluation gains amounting to HK\$33 million (HK\$55 million at 31 August 2014) and HK\$393 million (HK\$635 million at 31 August 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.