



HONG KONG MONETARY AUTHORITY

2010 Exchange Fund Results

26 January 2011



INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

Investment objectives of the Exchange Fund:

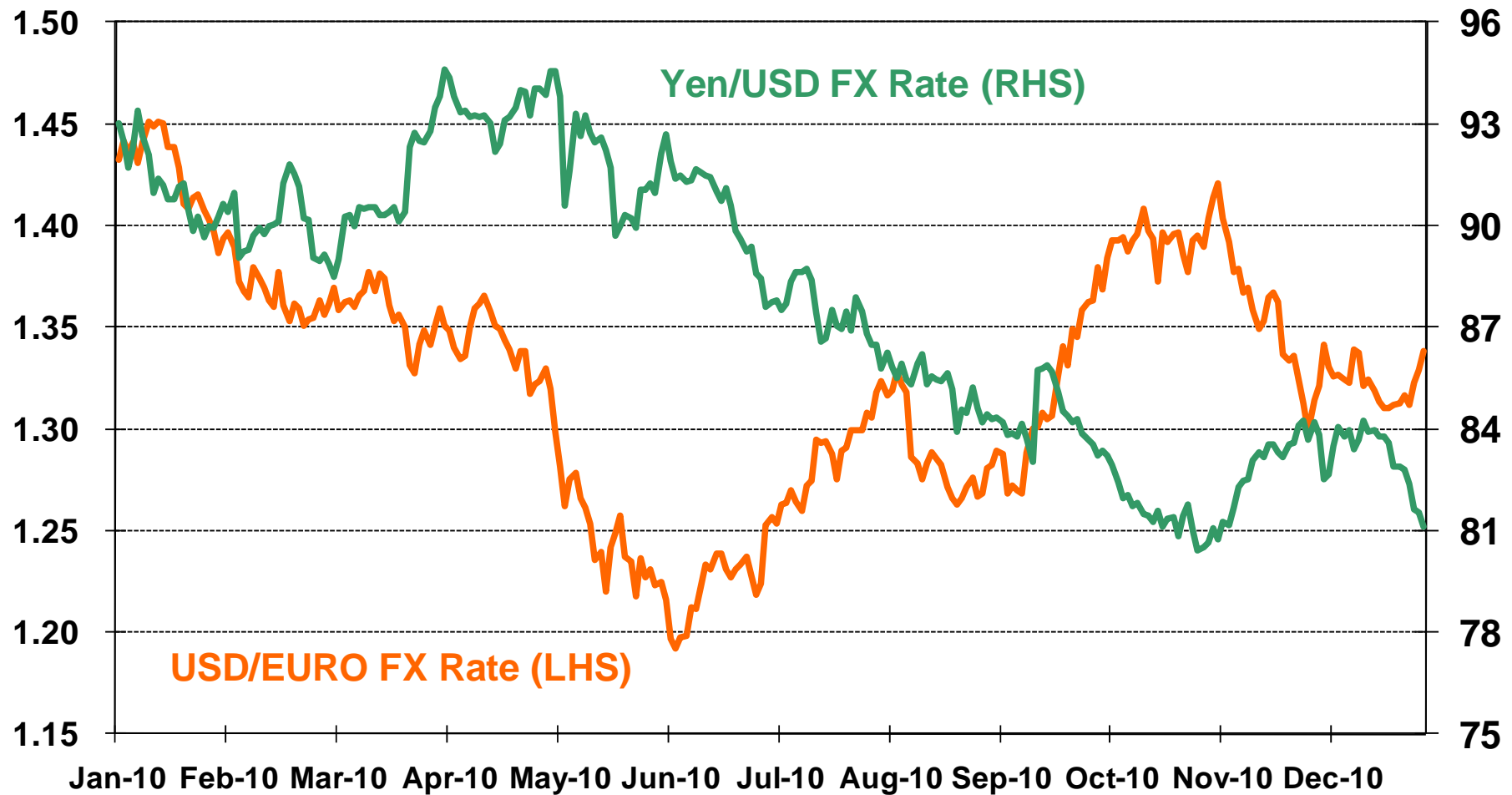
- (1) to preserve capital;**
- (2) to ensure that the entire Monetary Base at all times will be fully backed by highly liquid US dollar denominated assets;**
- (3) to ensure sufficient liquidity for the purpose of maintaining monetary and financial stability; and**
- (4) subject to (1) – (3), to achieve an investment return that will preserve the long-term purchasing power of the Fund.**



CURRENCY MARKETS IN 2010

USD/Euro FX Rate

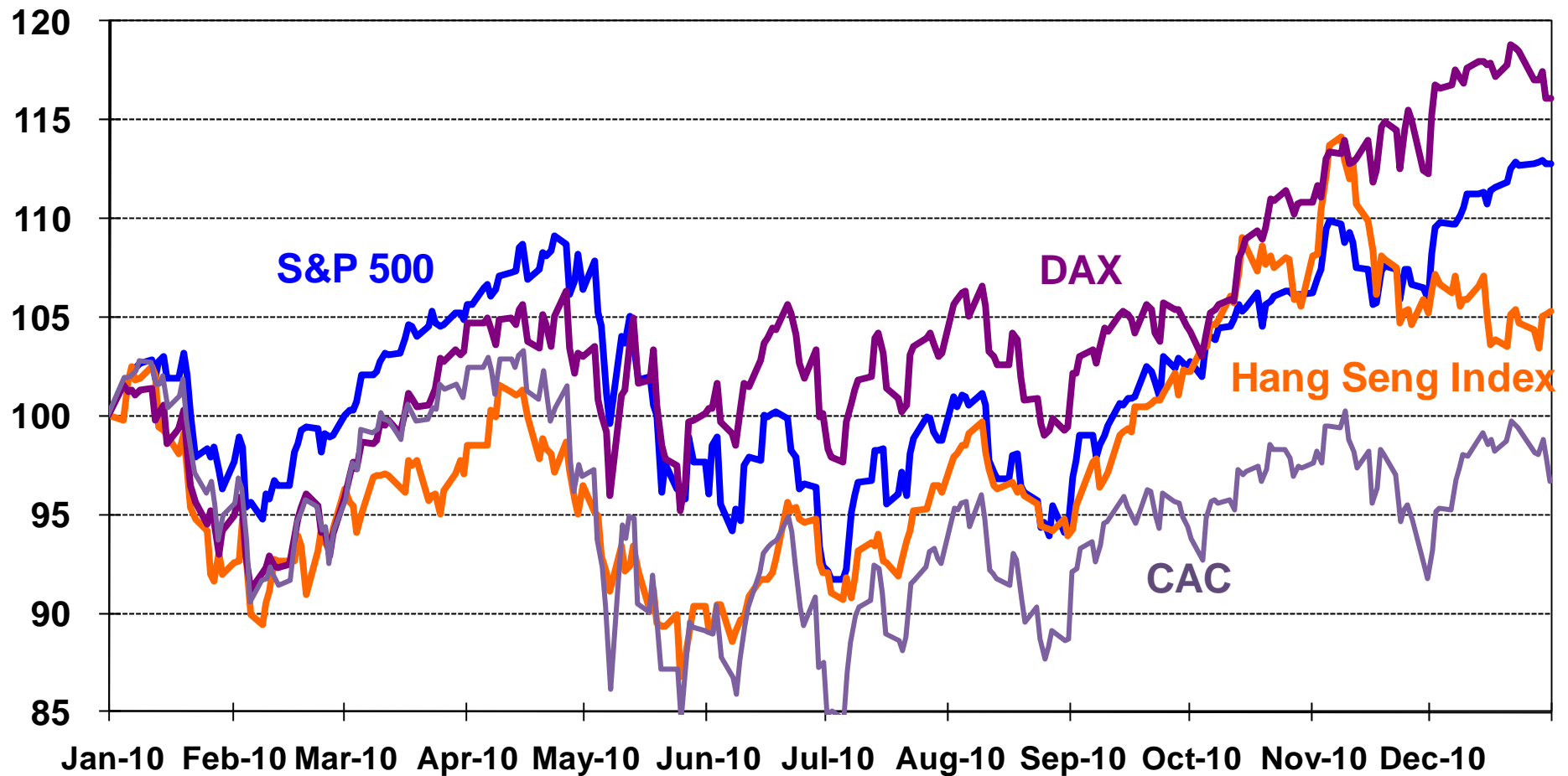
Yen/USD FX Rate





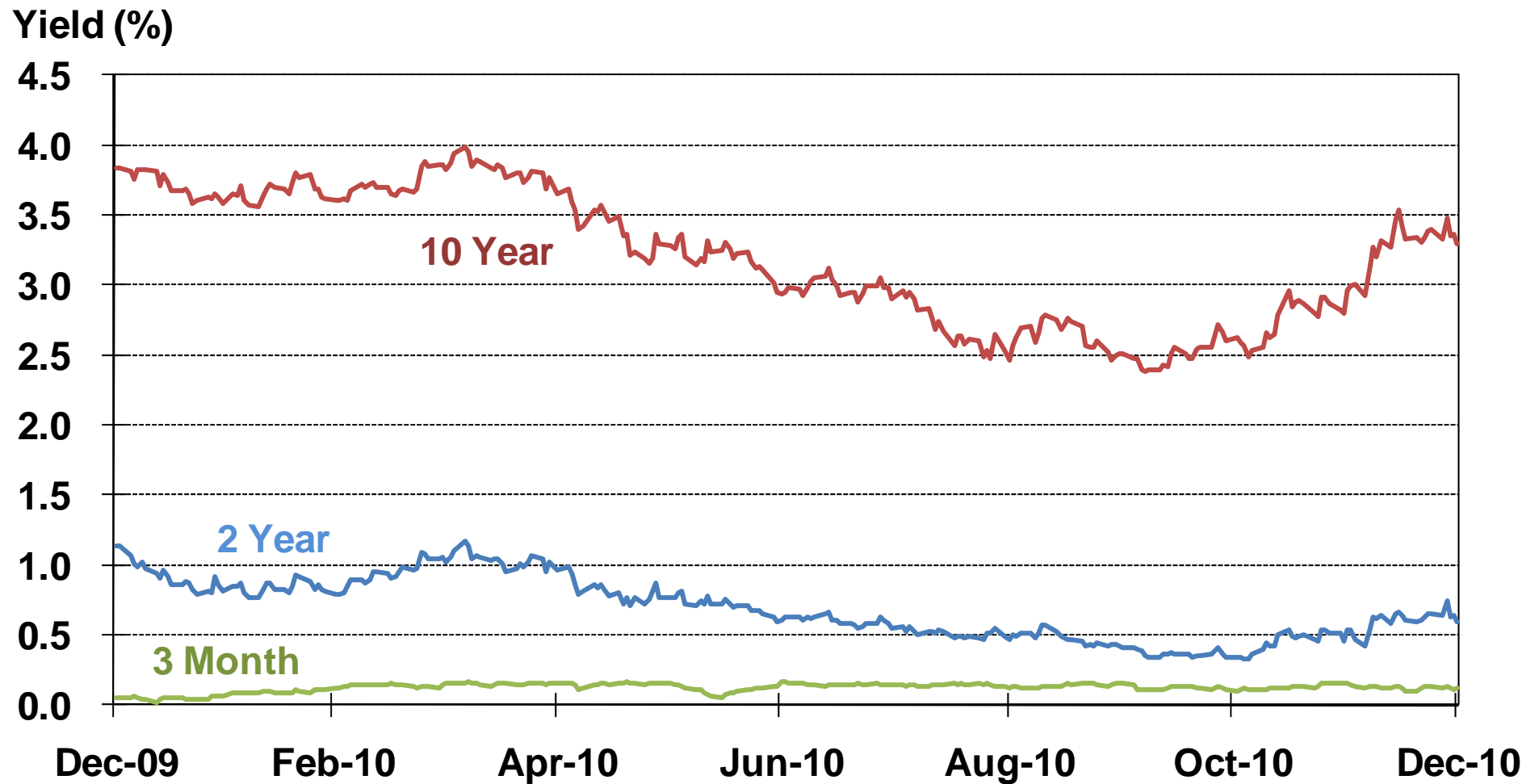
EQUITY MARKETS IN 2010

Normalized Index Level (2009 year-end = 100)





US GOVERNMENT BOND YIELDS IN 2010





INVESTMENT INCOME

	← 2010 →					2009	2008	2007	2006
(HK\$ billion)	Full year *	Q4	Q3	Q2	Q1	Full year	Full year	Full year	Full year
Bonds[#]	42.1	(18.6)	19.9	29.4	11.4	(0.6)	88.4	61.0	31.9
Hong Kong equities[^]@	11.6	4.3	15.0	(4.6)	(3.1)	48.9	(77.9)	55.8	35.9
Foreign equities[^]	27.0	19.1	18.1	(21.4)	11.2	48.8	(73.1)	6.7	18.7
Foreign exchange	(3.1)	0.5	20.7	(15.6)	(8.7)	9.8	(12.4)	18.7	17.3
Other investments^{&}	<u>1.4</u>	<u>0.2</u>	<u>0.8</u>	<u>0.1</u>	<u>0.3</u>	<u>0.8</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment income/(loss)^{@&}	79.0	5.5	74.5	(12.1)	11.1	107.7	(75.0)	142.2	103.8

* Unaudited figures

[^] Including dividends

[#] Including interest

[@] Excluding valuation changes in Strategic Portfolio (HK\$2.6 billion)

[&] Including valuation changes of investment held by EF's investment holding subsidiaries



CHANGES IN INVESTMENT INCOME, PAYMENT TO FISCAL RESERVES AND ACCUMULATED SURPLUS

	2010					2009
	Full year (unaudited)	Q4	Q3	Q2	Q1	Full year
(HK\$ billion)						
Investment income/(loss)	79.0	5.5	74.5	(12.1)	11.1	107.7
Other income	0.2	-	0.1	0.1	-	0.2
Interest and other expenses	<u>(4.8)</u>	<u>(1.2)</u>	<u>(1.2)</u>	<u>(1.5)</u>	<u>(0.9)</u>	<u>(3.8)</u>
Net investment income/(loss)	74.4	4.3	73.4	(13.5)	10.2	104.1
Payment to Fiscal Reserves #	(33.8)	(8.6)	(8.3)	(8.4)	(8.5)	(33.5)
Payment to HKSAR government funds and statutory bodies #	(3.9)	(1.1)	(1.1)	(0.9)	(0.8)	(1.2)
Valuation change of Strategic Portfolio less investment held by EF's investment holding subsidiaries^	<u>1.2</u>	<u>1.3</u>	<u>1.2</u>	<u>(0.4)</u>	<u>(0.9)</u>	<u>3.6</u>
Increase/(Decrease) in EF Accumulated Surplus	37.9	(4.1)	65.2	(23.2)	-	73.0

The fixed rate of fee payment is 6.3% for 2010 and 6.8% for 2009.

^ Including dividends



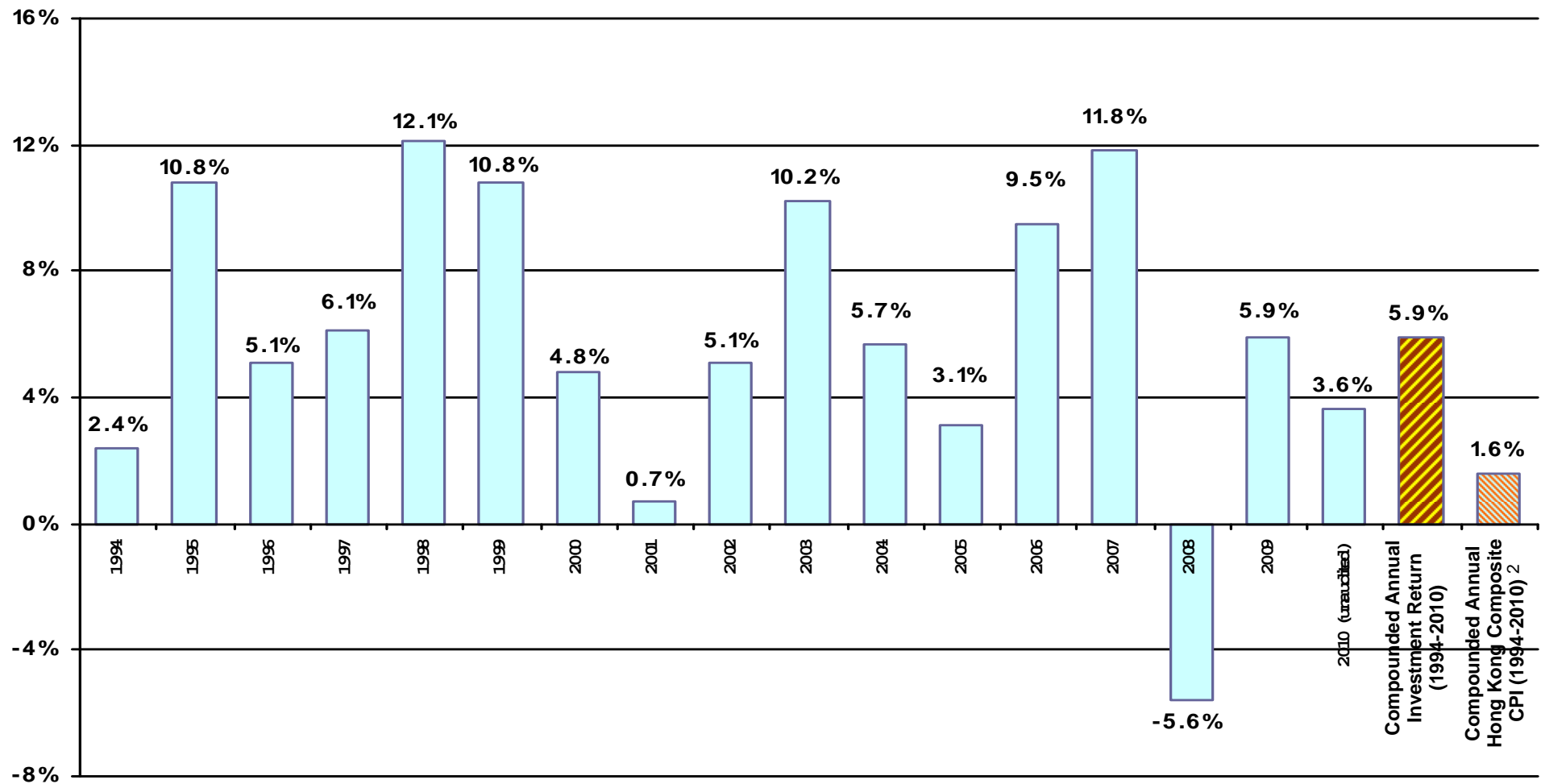
EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	At 31 Dec 2010 (unaudited)	At 31 Dec 2009	Change
ASSETS			
Deposits	199.4	126.3	73.1
Debt securities	1,706.0	1,637.6	68.4
Hong Kong equities	152.6	142.9	9.7
Foreign equities	246.7	214.9	31.8
Other assets [#]	<u>41.0</u>	<u>27.7</u>	<u>13.3</u>
Total assets	<u>2,345.7</u> =====	<u>2,149.4</u> =====	<u>196.3</u> =====
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	225.9	199.0	26.9
Government-issued currency notes & coins in circulation	8.9	8.4	0.5
Balance of the banking system	148.7	264.6	(115.9)
Exchange Fund Bills and Notes	654.2	536.4	117.8
Placements by banks and other financial institutions	23.2	28.3	(5.1)
Placements by Fiscal Reserves	592.3	504.1	88.2
Placements by HKSAR government funds and statutory bodies	76.8	41.8	35.0
Other liabilities	<u>24.3</u>	<u>13.3</u>	<u>11.0</u>
Total liabilities	<u>1,754.3</u>	<u>1,595.9</u>	<u>158.4</u>
Accumulated Surplus	<u>591.4</u>	<u>553.5</u>	<u>37.9</u>
Total liabilities and fund equity	<u>2,345.7</u> =====	<u>2,149.4</u> =====	<u>196.3</u> =====

[#] Including investment in EF's investment holding subsidiaries amounted to HK\$14.7 billion at 31 Dec 2010 (HK\$2.8 billion at 31 Dec 2009)



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2010) ¹



¹ Investment return calculation excludes the holdings in the Strategic Portfolio.

² Composite CPI is calculated based on the 2004/2005 base new series.



INVESTMENT RETURN OF THE EXCHANGE FUND IN HONG KONG DOLLAR TERMS ¹

	Investment return ^{2,3}
2010	3.6%
3-year average (2008 – 2010)	1.2%
5-year average (2006 – 2010)	4.9%
10-year average (2001 – 2010)	4.9%
Average since 1994	5.9%

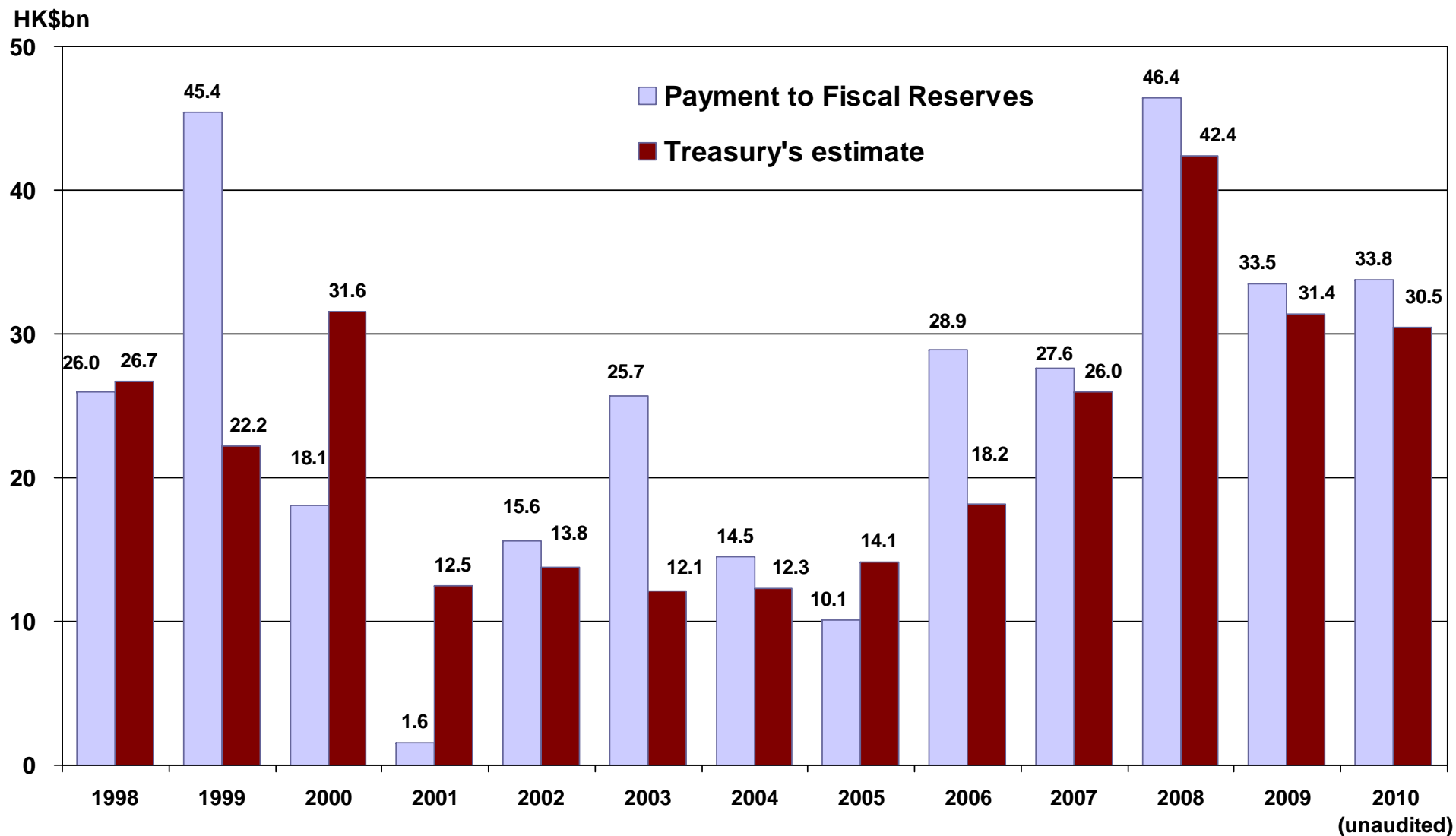
¹ The investment returns for 2001 to 2003 are in US dollar terms.

² Investment return calculation excludes the holdings in the Strategic Portfolio.

³ Averages over different time horizons are calculated on an annually compounded basis.



PAYMENT TO FISCAL RESERVES AGAINST ESTIMATE





OUTLOOK FOR 2011

Outlook for global financial markets remains uncertain and volatile:

- **Ample market liquidity, improved corporate earnings and consumer sentiment may lend short-term support to stock markets but significant uncertainties remain in the fundamental strength of world economy**
- **Improvement to economic fundamentals of US and Europe is to be seen. Recovery in the US housing and labour market remains slow. Europe will continue to be affected by sovereign debt problem and fiscal sustainability.**
- **Emerging markets have been experiencing capital inflows, rising inflation and asset prices. Policy challenges will arise in the face of potential overheating.**



HONG KONG MONETARY AUTHORITY

2010 Exchange Fund Results

26 January 2011