



HONG KONG MONETARY AUTHORITY

2011 Exchange Fund Results

19 January 2012



INVESTMENT OBJECTIVES OF THE EXCHANGE FUND

Investment objectives of the Exchange Fund:

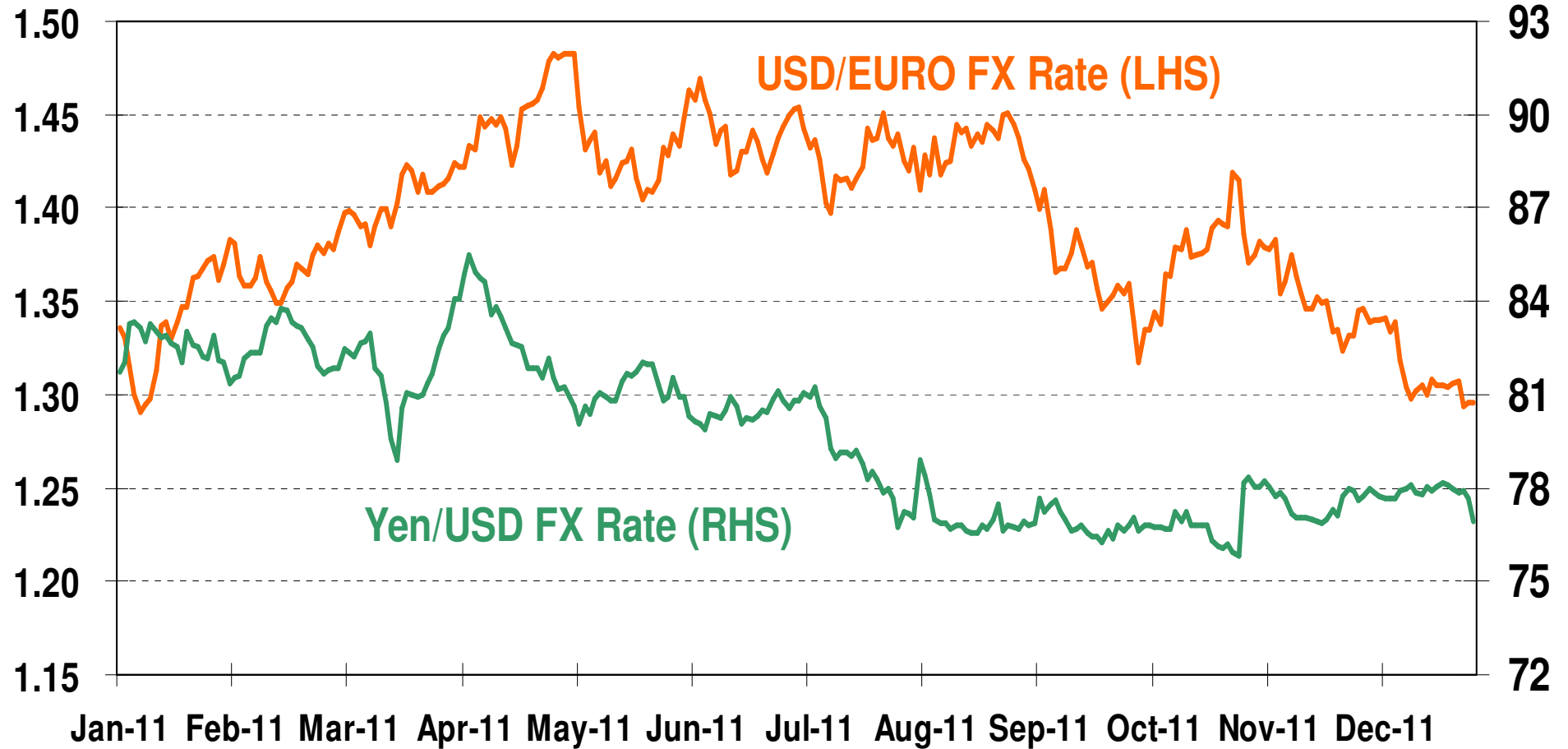
- (1) to preserve capital;**
- (2) to ensure that the entire Monetary Base at all times will be fully backed by highly liquid US dollar denominated assets;**
- (3) to ensure sufficient liquidity for the purpose of maintaining monetary and financial stability; and**
- (4) subject to (1) – (3), to achieve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



CURRENCY MARKETS IN 2011

USD/Euro FX Rate

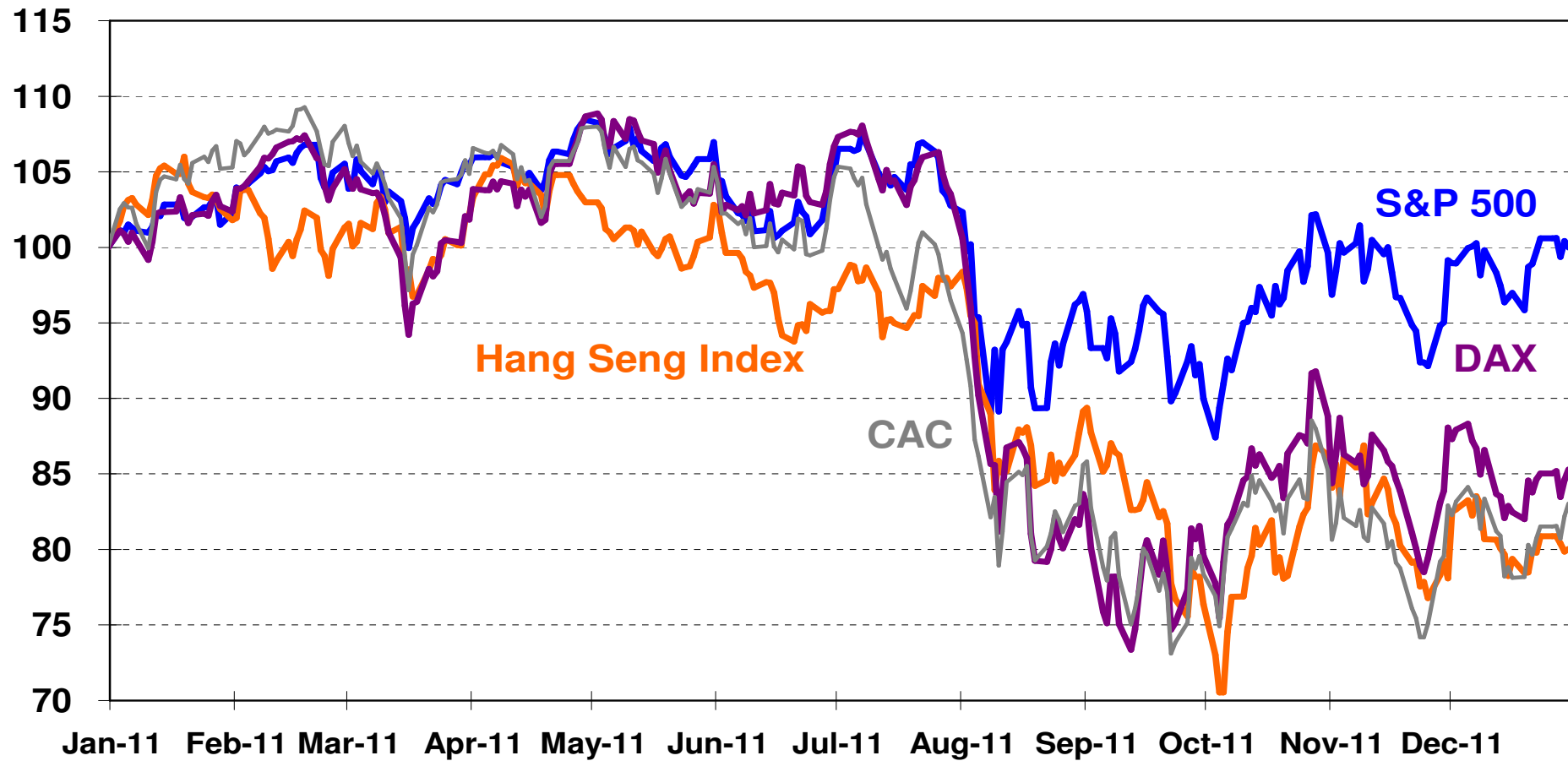
Yen/USD FX Rate





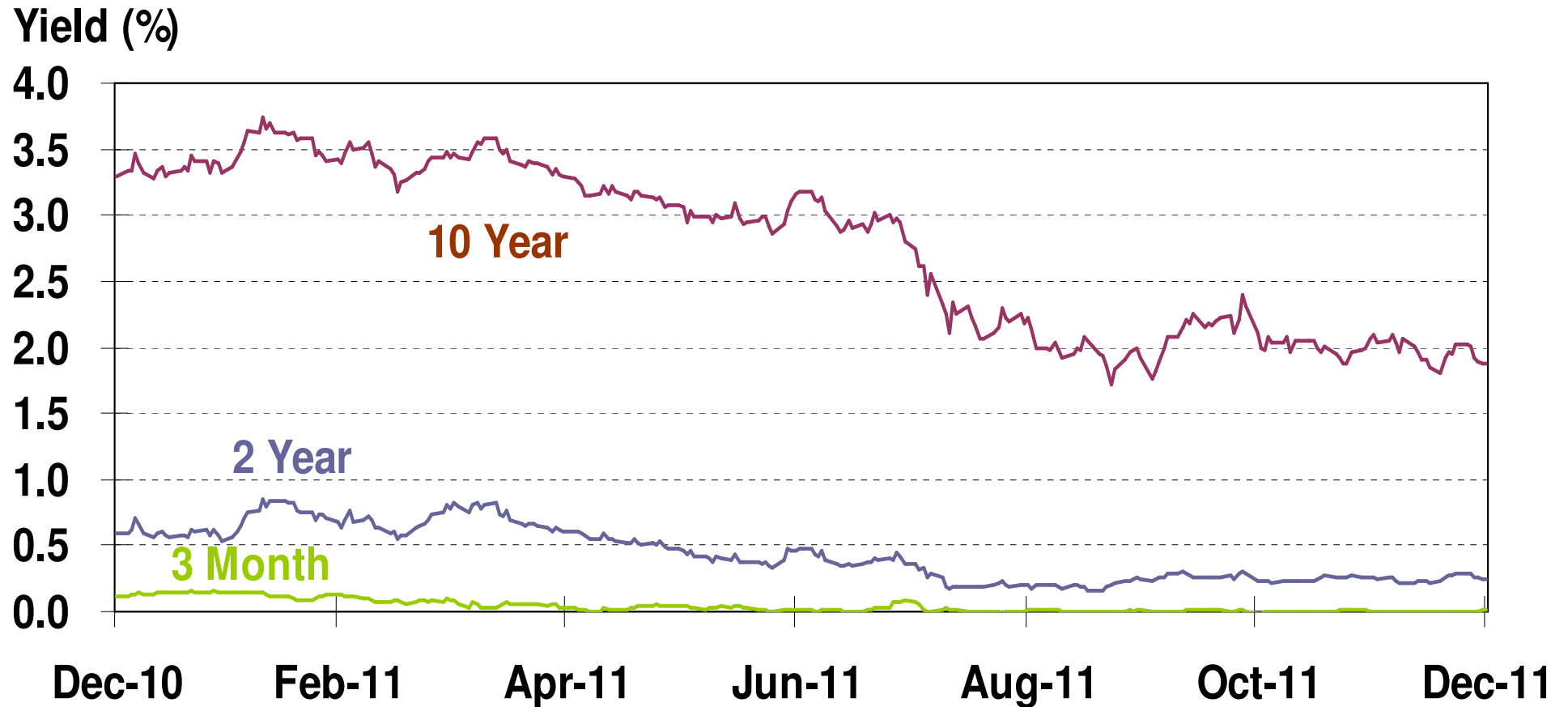
EQUITY MARKETS IN 2011

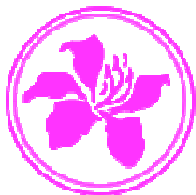
Normalized Index Level (2010 year-end = 100)





US GOVERNMENT BOND YIELDS IN 2011





INVESTMENT INCOME

(HK\$ billion)	← 2011 →					2010	2009	2008	2007
	Full year *	Q4	Q3	Q2	Q1	Full year	Full year	Full year	Full year
Bonds#	71.9	11.2	46.2	17.4	(2.9)	42.1	(0.6)	88.4	61.0
Hong Kong equities^@	(24.2)	5.5	(28.7)	(4.5)	3.5	11.6	48.9	(77.9)	55.8
Other equities^	(12.2)	15.8	(37.5)	0.6	8.9	27.1	48.8	(73.1)	6.7
Foreign exchange	(9.1)	(11.2)	(20.1)	7.7	14.5	(3.1)	9.8	(12.4)	18.7
Other investments&	<u>0.3</u>	<u>0.4</u>	<u>(1.3)</u>	<u>0.4</u>	<u>0.8</u>	<u>1.7</u>	<u>0.8</u>	<u>-</u>	<u>-</u>
Investment income/(loss)@&	26.7	21.7	(41.4)	21.6	24.8	79.4	107.7	(75.0)	142.2

* Unaudited figures

^ Including dividends

Including interest

@ Excluding valuation changes in Strategic Portfolio (a loss of HK\$3.0 billion in 2011)

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



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

(HK\$ billion)	2011					2010
	Full year (unaudited)	Q4	Q3	Q2	Q1	Full year
Investment income/(loss)	26.7	21.7	(41.4)	21.6	24.8	79.4
Other income	0.2	-	0.1	0.1	-	0.2
Interest and other expenses	<u>(4.6)</u>	<u>(0.8)</u>	<u>(1.0)</u>	<u>(1.6)</u>	<u>(1.2)</u>	<u>(4.8)</u>
Net investment income/(loss)	22.3	20.9	(42.3)	20.1	23.6	74.8
Payment to Fiscal Reserves #	(37.0)	(9.5)	(9.2)	(9.1)	(9.2)	(33.8)
Payment to HKSAR government funds and statutory bodies #	(5.6)	(1.7)	(1.5)	(1.3)	(1.1)	(3.9)
Valuation change of Strategic Portfolio less valuation change of investment held by EF's investment holding subsidiaries^	<u>(3.3)</u>	<u>0.2</u>	<u>(1.7)</u>	<u>(0.5)</u>	<u>(1.3)</u>	<u>0.9</u>
Increase/(Decrease) in EF Accumulated Surplus	(23.6)	9.9	(54.7)	9.2	12.0	38.0

The fixed rate of fee payment is 6.0% for 2011 and 6.3% for 2010.

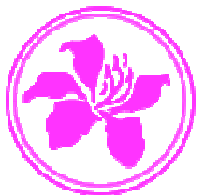
^ Including dividends



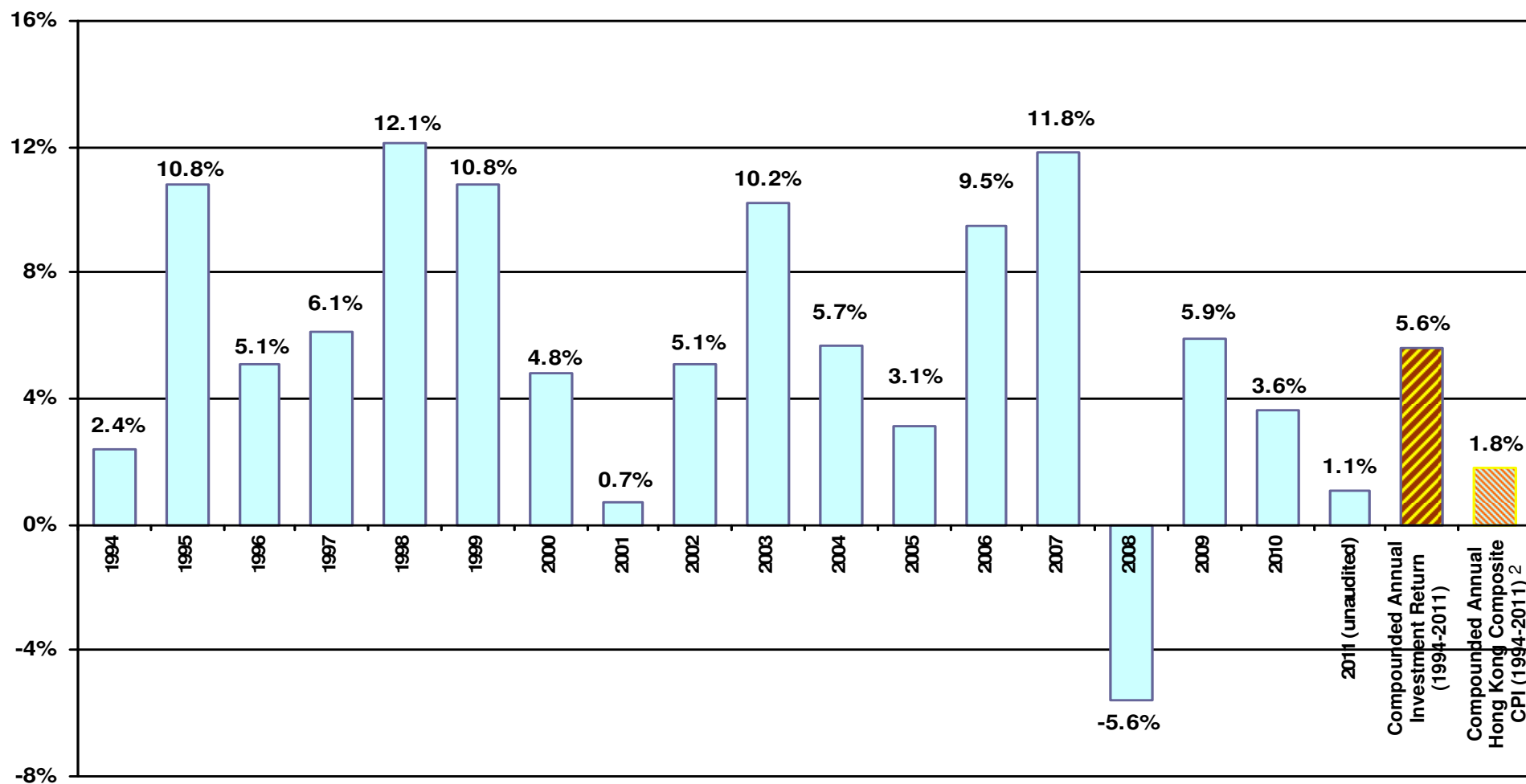
EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	At 31 Dec 2011 (unaudited)	At 31 Dec 2010	Change
ASSETS			
Deposits	222.8	198.4	24.4
Debt securities	1,843.9	1,706.7	137.2
Hong Kong equities	120.6	152.6	(32.0)
Other equities	240.9	245.3	(4.4)
Other assets [#]	<u>64.5</u>	<u>42.0</u>	<u>22.5</u>
Total assets	<u>2,492.7</u> =====	<u>2,345.0</u> =====	<u>147.7</u> =====
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	258.7	225.9	32.8
Government-issued currency notes & coins in circulation	9.9	8.9	1.0
Balance of the banking system	148.7	148.7	-
Exchange Fund Bills and Notes	655.8	654.2	1.6
Placements by banks and other financial institutions	24.5	23.2	1.3
Placements by Fiscal Reserves	663.5	592.3	71.2
Placements by HKSAR government funds and statutory bodies	126.3	76.8	49.5
Other liabilities	<u>37.4</u>	<u>23.5</u>	<u>13.9</u>
Total liabilities	<u>1,924.8</u>	<u>1,753.5</u>	<u>171.3</u>
Accumulated Surplus	<u>567.9</u>	<u>591.5</u>	<u>(23.6)</u>
Total liabilities and fund equity	<u>2,492.7</u> =====	<u>2,345.0</u> =====	<u>147.7</u> =====

[#] Including investment in EF's investment holding subsidiaries amounted to HK\$31.1 billion at 31 Dec 2011 (HK\$14.7 billion at 31 Dec 2010)



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2011) ¹



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

² Composite CPI is calculated as of end-November 2011 based on the 2009/2010 base new series.



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

	Investment return ^{2,3}
2011	1.1%
3-year average (2009 – 2011)	3.5%
5-year average (2007 – 2011)	3.2%
10-year average (2002 – 2011)	4.9%
Average since 1994	5.6%

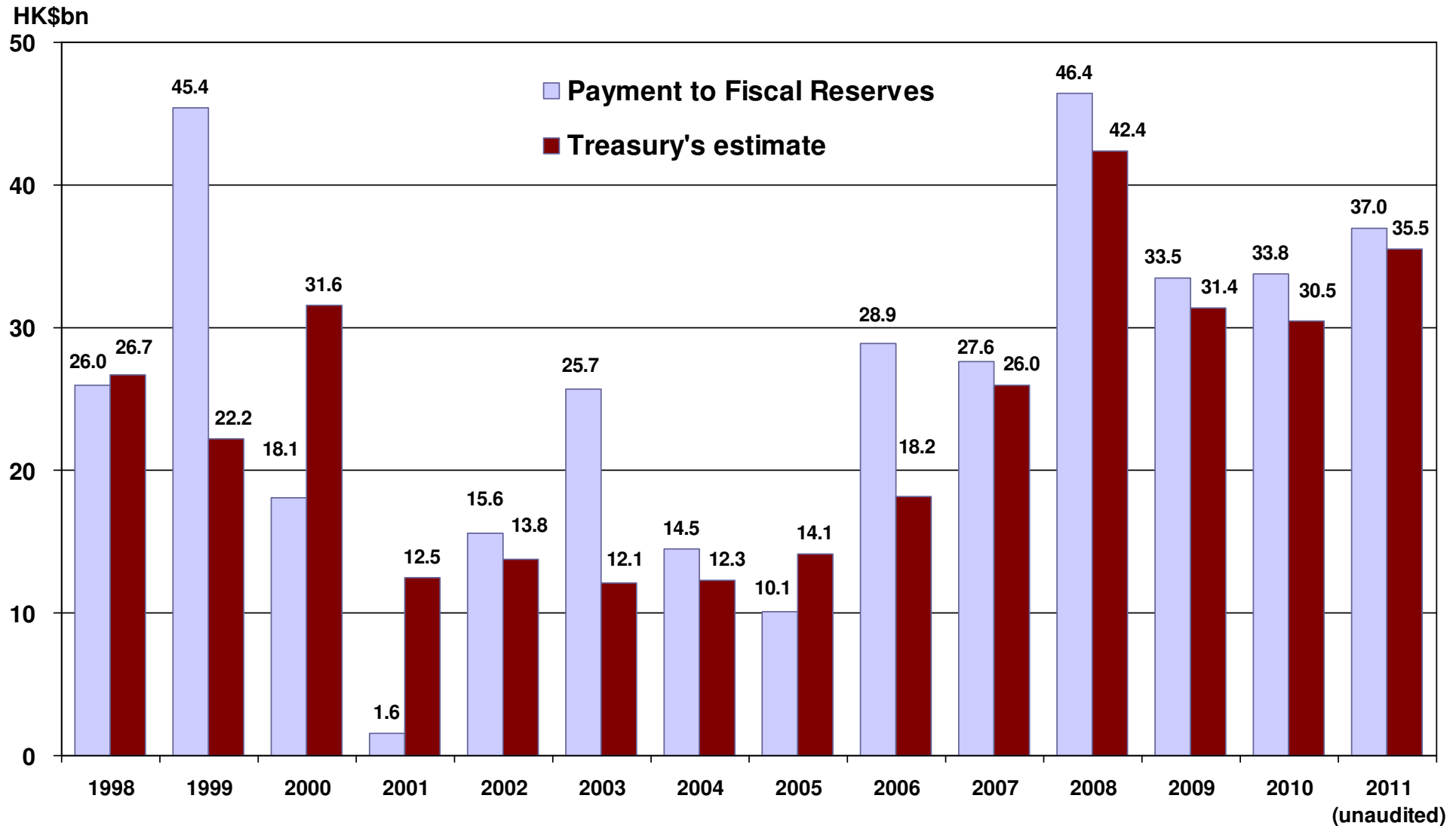
¹ The investment returns for 2001 to 2003 are in US dollar terms.

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 2012

Europe still faces great uncertainties, posing threats to the global financial markets:

- Despite the support of very accommodative monetary policy, global economic growth remained subdued. Eurozone might head into a recession due to ongoing sovereign debt crisis, austerity fiscal measures and continued deleveraging by European banks. With serious economic headwinds from the developed world, emerging market economies might face slower growth.**
- Heightened geopolitical risk could add uncertainties to global economic outlook.**
- Capital flows will continue to be unpredictable amid fragile investor sentiments.**



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