HONG KONG MONETARY AUTHORITY

Briefing to the Legislative Council Panel on Financial Affairs

1 November 2010

1. International Macro Financial Conditions
2. Assessment of Risk on Hong Kong's Financial Stability
3. Latest Developments in the Banking Sector
4. Investment Income of the Exchange Fund in the First Three Quarters of 2010

1. **International Macro Financial Conditions**
2. Assessment of Risk on Hong Kong's Financial Stability
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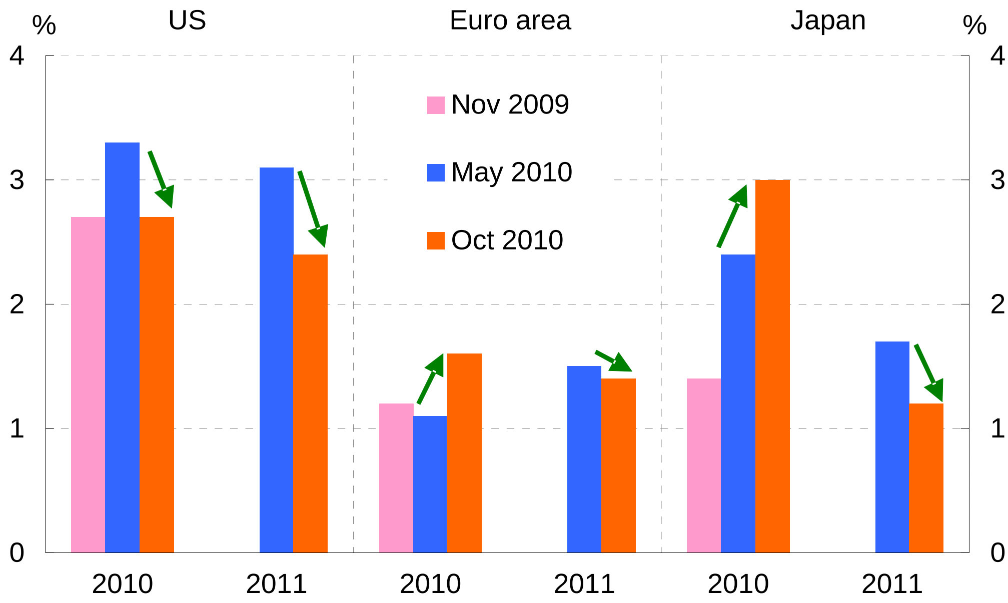
4. Investment Income of the Exchange Fund in the First Three Quarters of 2010

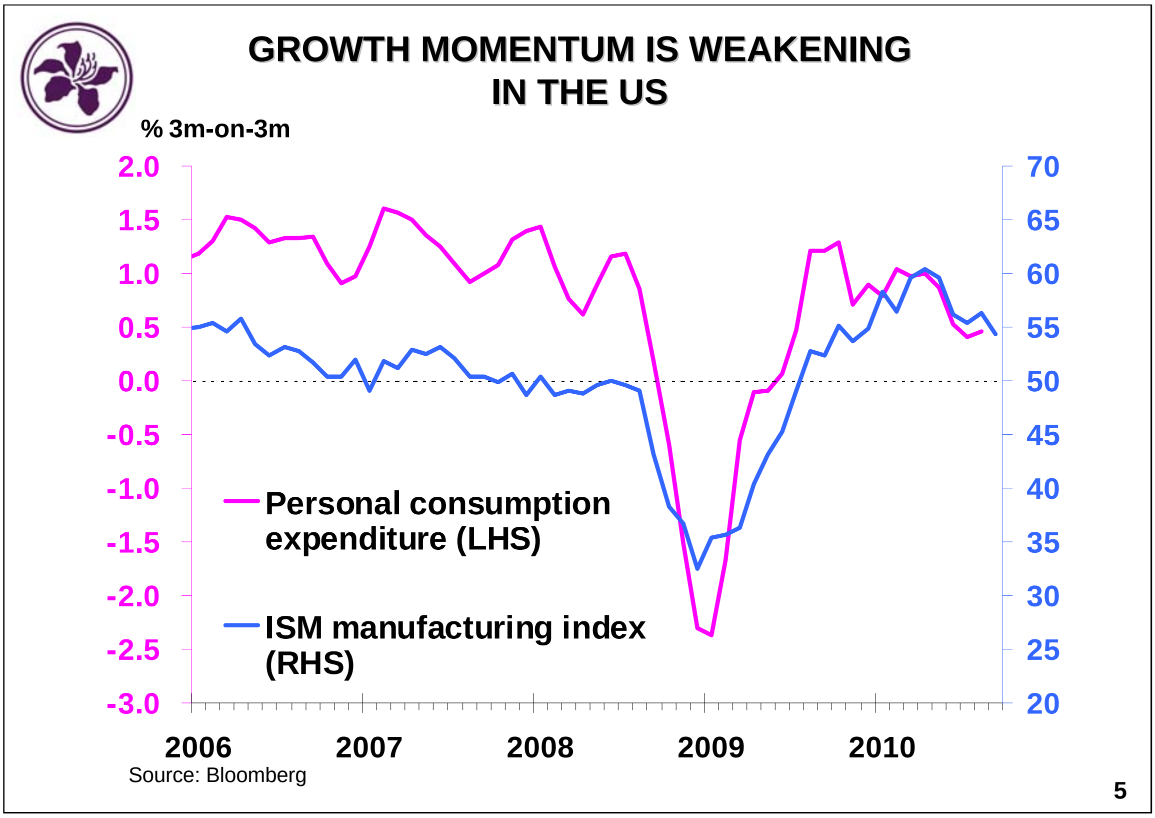
GLOBAL ECONOMIC GROWTH FORECASTS

Real GDP Growth Forecasts



Source: Consensus Forecasts (Nov 2009 and May and Oct 2010)

- The economic outlook for Europe, the US and Japan has worsened since the last briefing in May.
- The US: As recent economic data fell short of expectations, market forecasts for the growth in the US in 2010 is more pessimistic than half a year ago.
- Euro area: The public debt problems have been less severe since the middle of the year, fuelling expectations that the pace of growth in 2010 might be quicker than previously expected. However, the economic outlook for the euro area is still weaker than those for the US and Japan.
- Japan: Market forecasts showed more optimism about Japan’s growth in 2010 than the other two regions.
- However, the market expects Europe, the US and Japan to grow in a slower pace in 2011 than 2010.



- Economic recovery weakened markedly in the second quarter of the year.

- Private consumption expenditure growth rebounded from the trough in January 2009 (a decline of 2.4%) to an increase of 1.3% in October 2009.

- Reason for the rebound: Partly driven by the economic stimulus measures, amounting to US$787 billion (5.6% of GDP), introduced by the US government in February 2009.

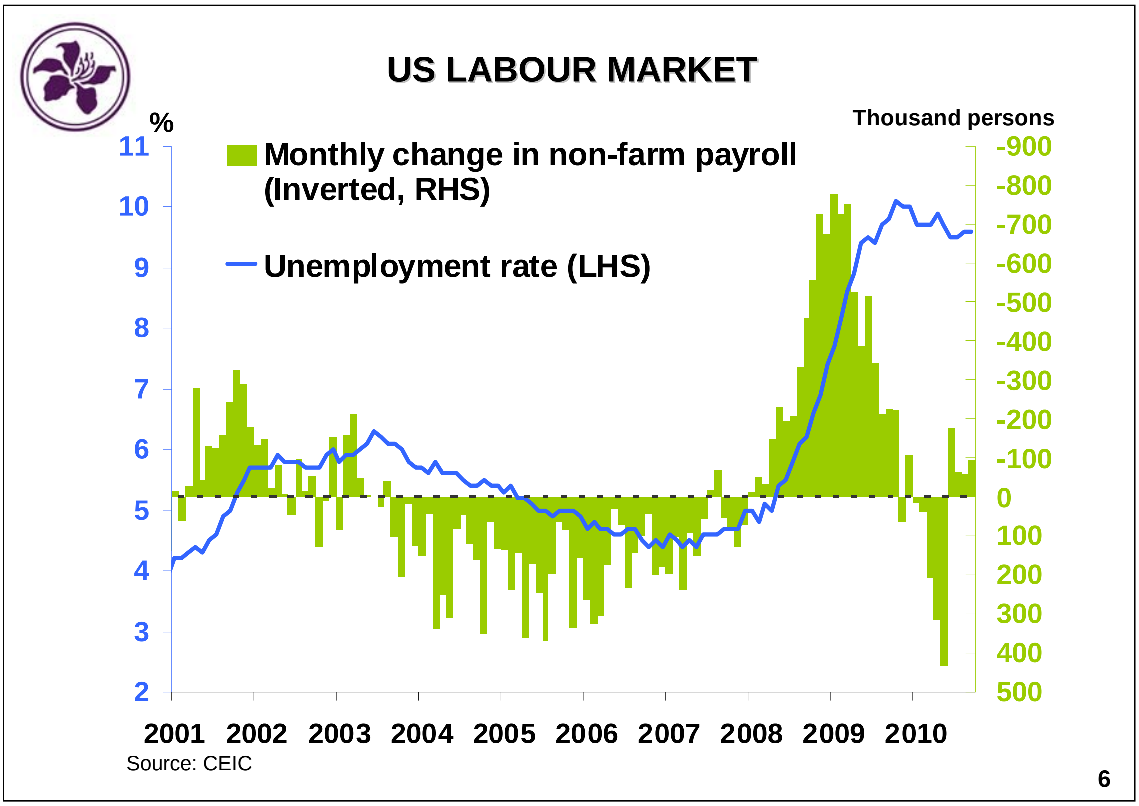
- But private consumption expenditure growth began to slow (a mere increase of 1%) since April 2010 and weakened further to 0.47% in August.

- This partly reflected the gradual deterioration of the impact of the fiscal stimulus measures.

- The forward-looking ISM manufacturing index:

- Surged from its trough (33) in 2008 to a peak (60) in April 2010 before declining to 54 in September.

- This shows that while the US manufacturing sector is expanding robustly, it may slow down in the coming months.



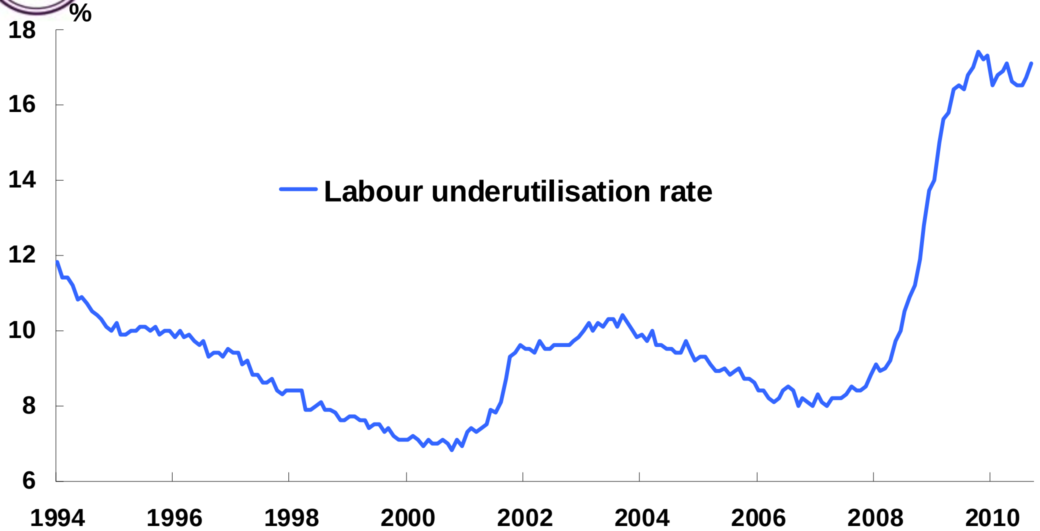
- The labour market in the US has only improved slightly, with unemployment rate still high.

- This reflects a jobless recovery similar to the recessions of 2001 and 1991.

- Unemployment rate continued to rise even during the early stage of the recovery to a high of 10.1% in October 2009, more than doubling the level in November 2007 before the global financial crisis (4.7%). The unemployment rate currently stays around 9.6%.

- The national census, conducted every ten years, provided a large number of temporary jobs, spurring an increase in non-farm payrolls. In March, April and May, the US government created a large number of temporary positions (addition of 525,000 public-sector positions). However, as the contracts for these temporary positions ended (reduction of 559,000 public-sector positions), non-farm payrolls declined during June to September. Recent figures reflected sluggish growth in private-sector non-farm payrolls.

US HIDDEN UNEMPLOYMENT: LABOUR UNDERUTILISATION RATE



Labour underutilisation rate: Include total number of unemployed, plus persons who have not been looking for work for the 4 weeks preceding the survey, but currently want a job and are available for work, plus part time workers who want but unavailable to secure full time employment; as percentage of total labour force that includes the aforementioned categories of persons.

Source: U.S. Bureau of Labor Statistics

- According to official statistics, the unemployment rate in the US stayed at a high level of 9.6%, yet the figures might have understated the reality. The severity of unemployment may be better reflected by analysing the labour underutilisation rate.

- The labour underutilisation rate covers people who are (1) marginally attached to the labour force and (2) underemployed.

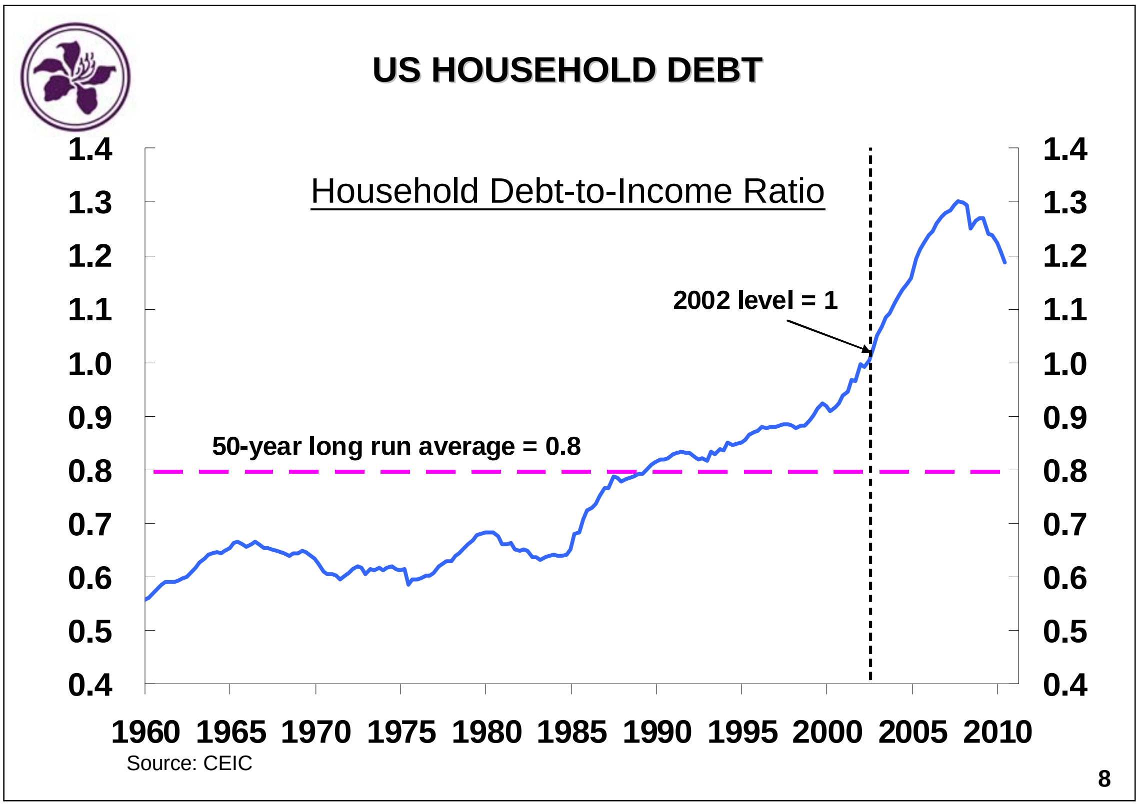
- "Marginally attached to the labour force" refers to persons who have not been looking for work during the four weeks preceding the survey, but nevertheless want a job and are available for work, including those workers who have not been looking for work currently because they are discouraged by the dim employment prospects.

- "Underemployed" refers to part-time workers who want but fail to secure full-time employments because of economic recession.

- Since the beginning of the recession, the labour underutilisation rate has more than doubled from 8.5% in November 2007 to 17.4% in October 2009. The figure remained at 17.1% in September, which was clearly higher than the unemployment rate (9.6%) during the same time.

- Long-term implications of a high labour underutilisation rate: Prolonged unemployment caused by lack of jobs may lead to a gradual loss of job skills, and some workers may eventually give up looking for work and leave the job market.

- Long-term growth potential of the US may decline as a result.



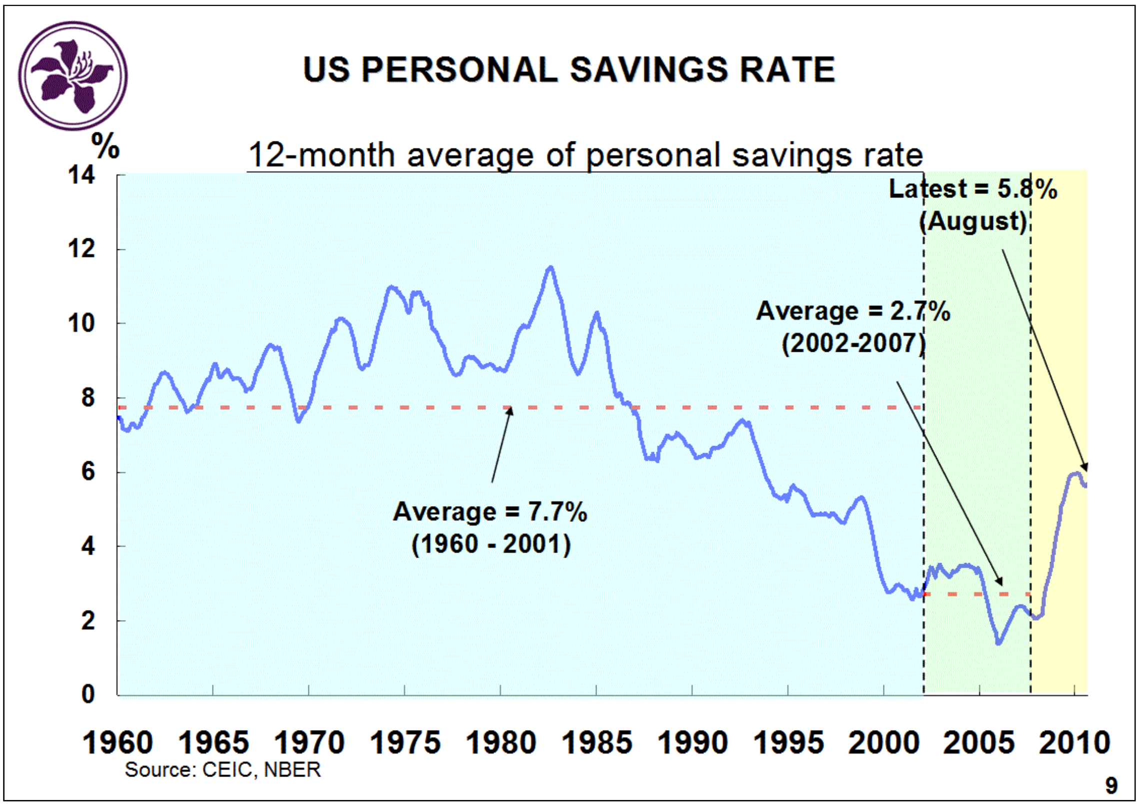
- Excessive debts in the US households is the most fundamental obstacle to the country's path of sustained recovery.

- The ratio of US household debt to after-tax income rose from 1 at the beginning of the property boom in 2002 to 1.3 in the fourth quarter of 2007 before the recession.

- As the property bubble burst, US households started to cut debts. During this "deleveraging" process, US households' debt-to-income ratio declined. In the two-and-a-half years since the first quarter of 2008, the ratio declined to about 1.2 (household debts in the US now stand at US$13.5 trillion, of which 75% are mortgage loans).

- The current ratio is still some distance from 1 recorded in 2002. If US households continue to cut debts at this rate, it probably will take some more time to complete the deleveraging process.

- The aggregate household debt-to-income ratio in the US, as shown by the blue line in the chart, takes into account both indebted and debt-free households. The level of indebtedness of the indebted households is even higher than the aggregate figure.



- American households reduce debts mainly through spending less and saving more.

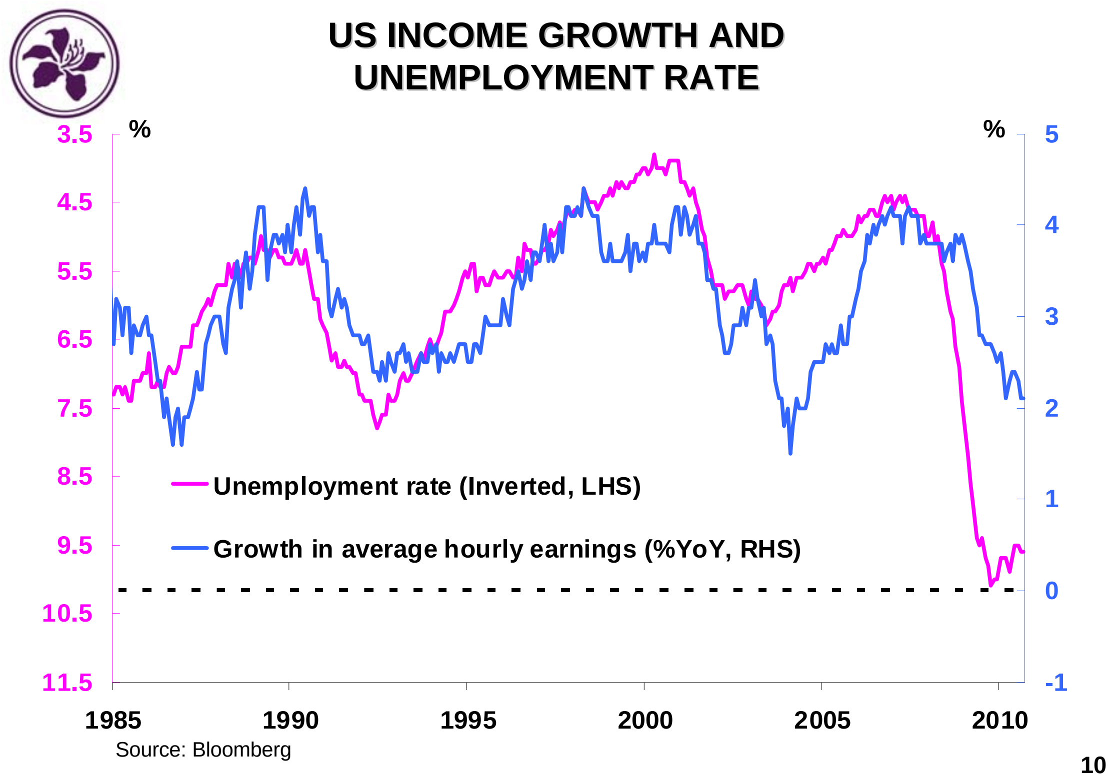
- Personal savings rate in the US was relatively high in the 1960s and 1970s. But as wealth grew alongside the buoyant capital markets, personal savings dropped quickly starting from the 1980s.

- The savings rate continued to declined and has been below 4% since 2000. Between 2002 and 2007 consumer spending grew further and debts continued to accumulate. The savings rate was only 2.7% on average in that period.

- Since the recession between 2007 and mid-2009, US households have been spending less and saving more to pay off debts.

- Personal savings rate rose from 1.9% in November 2007 to 8.2% in May 2009, before declining to 5.8% in August 2010.

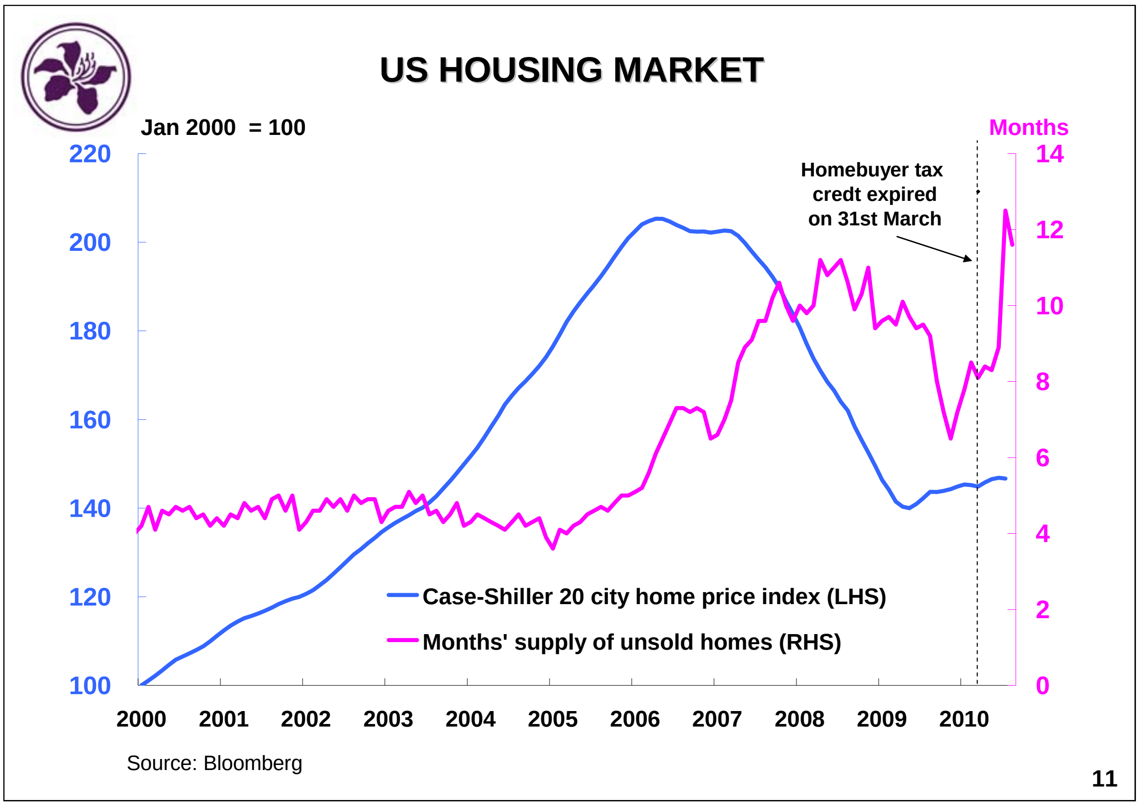
- In order for the savings rate to return to its previous average levels, household spending will need to fall. If savings remain at the present level, household spending growth will be subject to growth in income.



- Growth in average hourly earnings in the US declined from around 4% before the collapse of Lehman Brothers to 2.1% in August.

- Based on the unemployment rate and underemployment rate, income growth prospects are not promising.

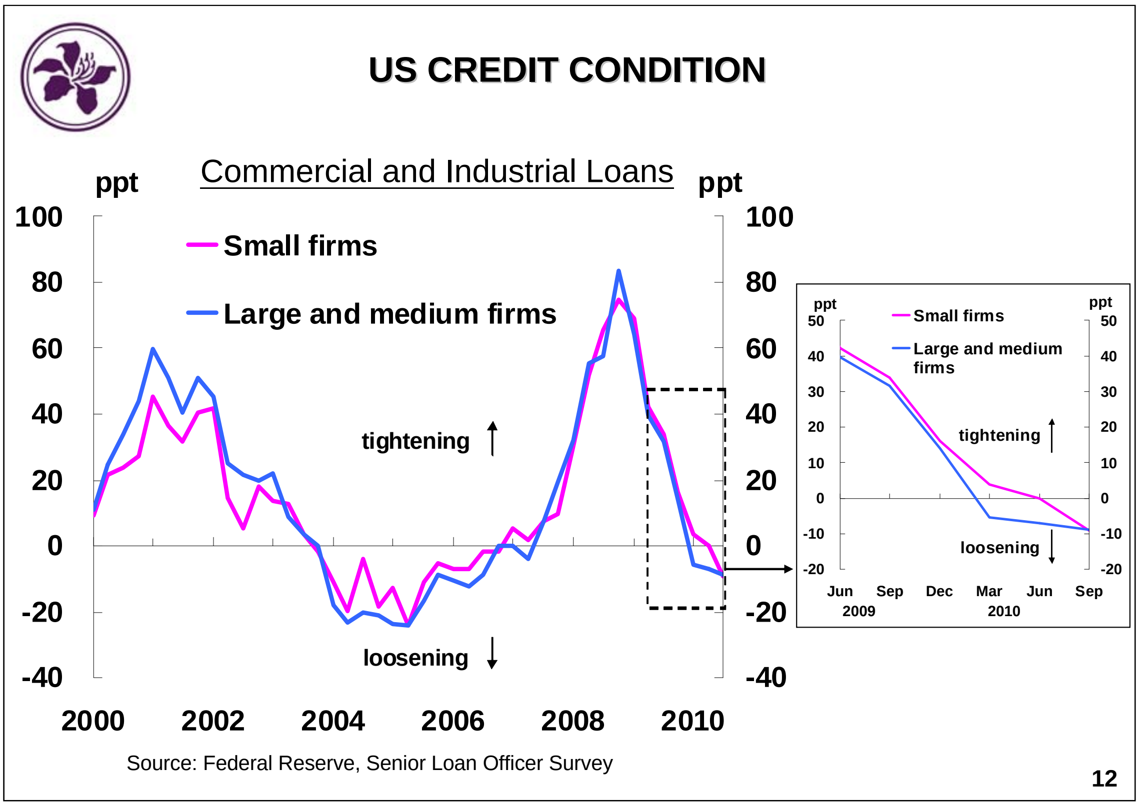
- Substantial rises in wages and earnings are unlikely if unemployment remains high. It means that even if savings are kept at the current levels, the lack of income growth will make increases in spending unlikely.



- If home prices continue to decline, the loan-to-value ratios will go up and households will need to save more to keep up the increasingly heavy debt repayments.

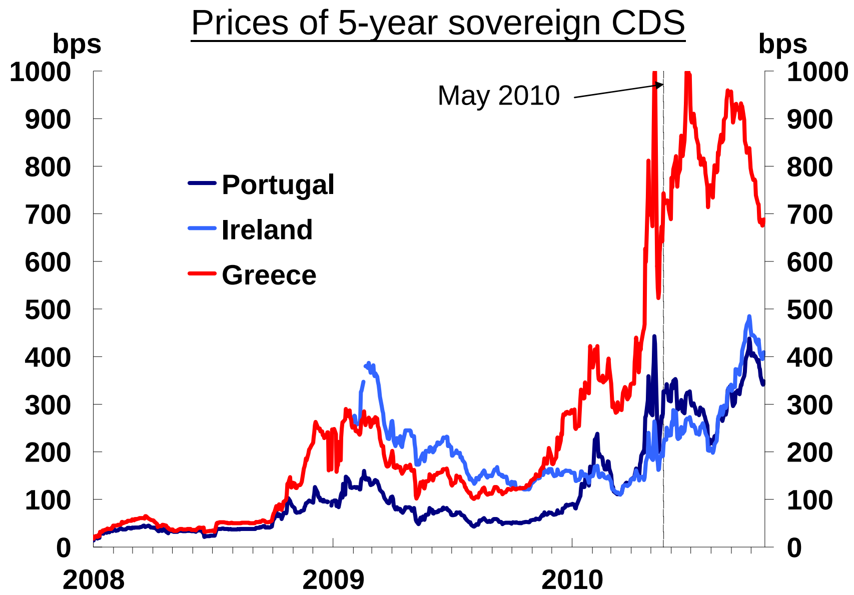
- The sluggish US housing market had rebounded after the introduction of the homebuyer tax credit. However, as the stimulus measure expired at the end of March, housing prices weakened markedly in recent months.

- House prices and the supply of unsold homes has a negative correlation. Under the influence of over-supply and under-demand, house prices are likely to remain stagnant at low levels or even decline.



- But the sign of improvement in the credit condition for industrial and commercial firms is one bright spot of the US economy.
- The Federal Reserve's Senior Loan Officer Survey shows that credit condition tightened starting from the third quarter of 2007 and continued until December 2008.
- As major central banks around the world introduced unconventional monetary easing measures and helped banks to restructure their balance sheets and improve credit conditions, large and medium firms began to benefit from easier lending since the second quarter of 2010. Small firms also found lending less stringent since the third quarter.
- Improved credit condition is conducive to business growth, job creation and reduction in unemployment.

EUROPEAN SOVEREIGN DEBT PROBLEMS: CDS SPREADS



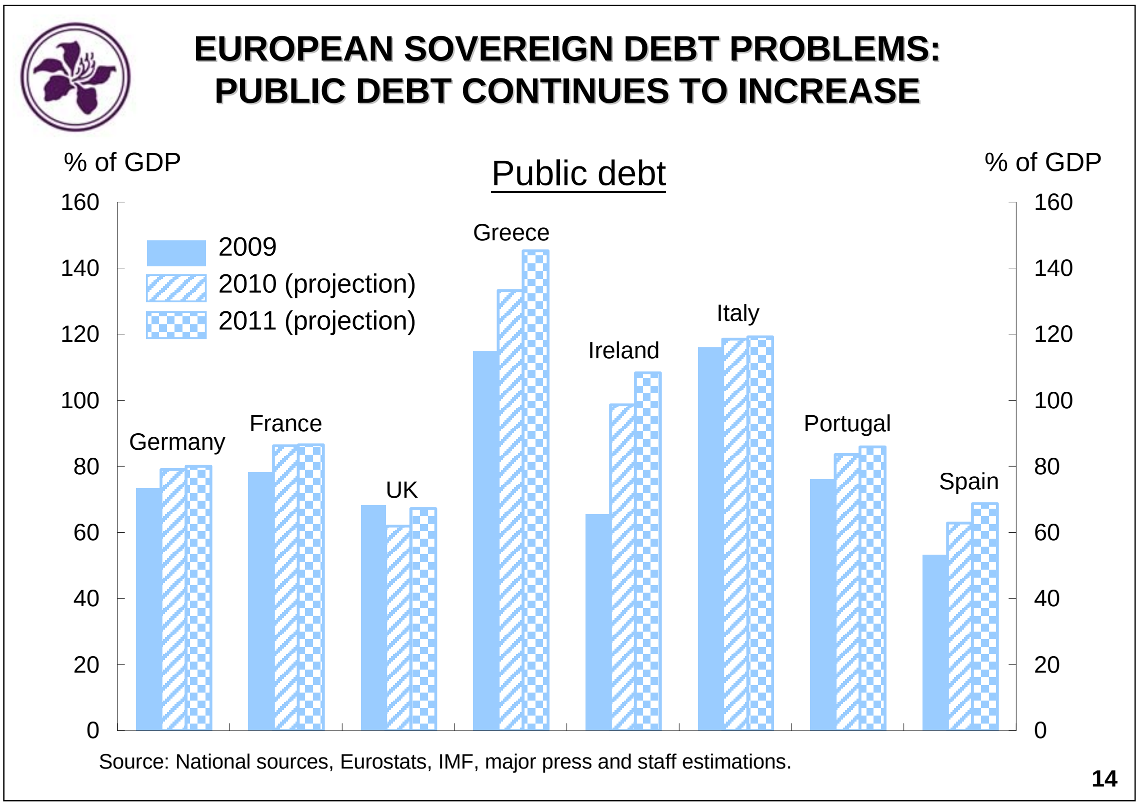
Source: Bloomberg

- Many European countries are still troubled by the sovereign debt problem.

- While the European Union and the International Monetary Fund have extended help to the most beleaguered countries, which also introduced fiscal austerity measures, the spreads of sovereign credit default swaps (CDS) of these countries remain wide, reflecting the high risks still perceived by the markets in the sovereign bonds of countries like Greece. The outlook is not optimistic.

  - Greece's CDS spreads are similar to what we saw in the last briefing in May.

  - Portugal's and Ireland's CDS spreads are even higher than the levels in May.



- To avoid a repeat of the sovereign debt crisis in May 2010, European countries are prepared to introduce further fiscal tightening to substantially cut their deficits in the next four years.

- But the deficit cutting and debt reduction plans can only avert an explosive growth in sovereign debts. The market still expect Europe's overall sovereign debt level to continue to increase.

- Fiscal austerity measures will inevitably dampen consumer spending, which will in turn affect business environment and labour market conditions. All these do not bode well for Europe's economy.

MAJOR CENTRAL BANKS CONTINUE TO IMPLEMENT QUANTITATIVE EASING MEASURES

Change in the Size of Balance Sheets

	Before QE[1]	Latest[2]	Change (%)	Latest monetary policy statement
US Fed (USD billion)	909 (6.3%)	2,302 (15.7%)	153.2	prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate (22/9)
Bank of England (GBP billion)	93 (6.4%)	245 (16.7%)	162.8	will continue to offer to purchase high-quality private sector assets on behalf of the Treasury, financed by the issue of Treasury bills (7/10)
Bank of Japan (JPY1,000 billion)	110 (21.8%)	121 (25.4%)	10.0	will examine establishing a program to purchase government securities and other financial assets, the size of the program will be about 5 trillion yen (5/10)

1. As of around end-August 2008. 2. As of around end-September 2010. 3. Figures in brackets are ratio to GDP.
Source: Websites of various central banks.

- To tackle the global financial crisis, the major central banks around the world have introduced massive quantitative easing measures, causing their balance sheets to expand considerably.

- As the risk of a considerably slowdown of the economy heightened, the major central banks declared in their recent monetary policy statements that they might introduce further easing measures.

- While it is too early to tell whether these easing measures will be effective, their side effects are already quite visible.

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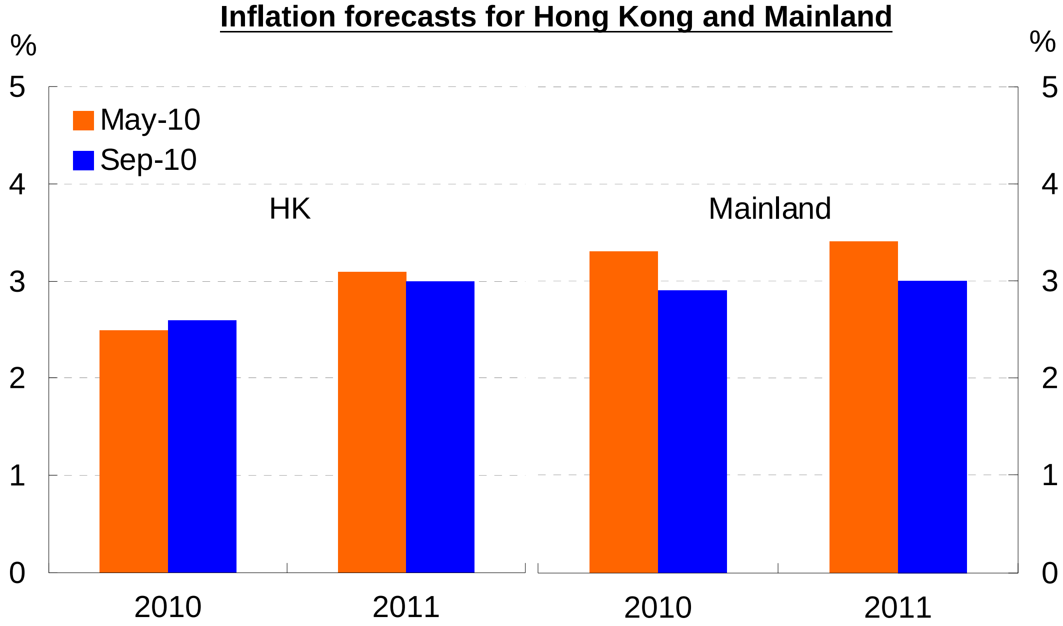
ASSESSMENT OF RISK ON HONG KONG'S FINANCIAL STABILITY: INFLATION

Inflation forecasts for Hong Kong and Mainland



Source：Consensus Forecast (May and Sep 2010)

- We expect inflationary pressures in Hong Kong and Mainland China to increase for the rest of 2010 and in 2011.

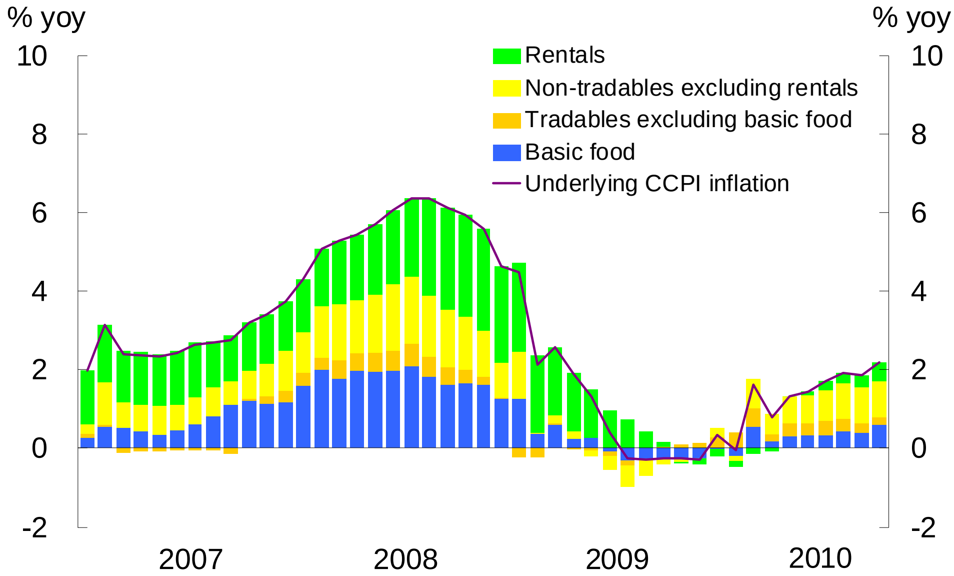
  – Compared with the Panel meeting in May, the market has adjusted upward its forecast for Hong Kong's inflation rate in 2010 and slightly adjusted downward the forecast for 2011.

  – According to consensus forecast in October, the inflation rate in Hong Kong in 2010 would be 2.6%, slightly higher than 2.5% predicted in May. The October's forecast for inflation rate in 2011 was 3.0%, slightly lower than 3.1% projected in May.

  – The consensus forecast for inflation rate on the Mainland in 2010 has also been adjusted downward to 2.9% in October from 3.3% in May, while the forecast for 2011 has been lowered to 3.0% in October from 3.4% in May.

ASSESSMENT OF RISK ON HONG KONG'S FINANCIAL STABILITY: INFLATION

Underlying inflation and contributions of its components



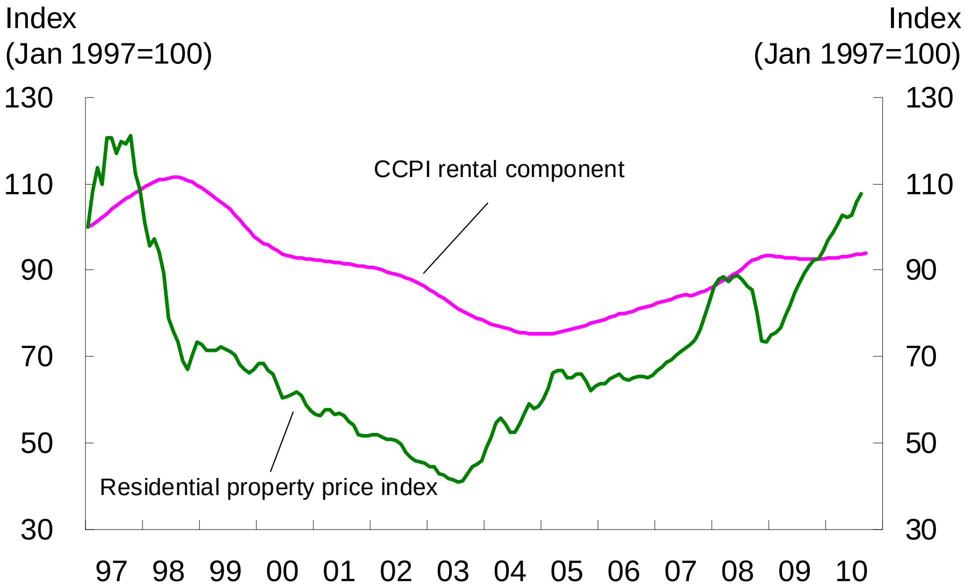
Underlying inflation: Netting out the effects of all Government's one-off relief measures from headline inflation.

- The pick-up in inflation in recent months was mainly caused by increases in the prices of food and non-tradeables.

- Although inflation in recent months remained benign, the impact of rentals on inflation is gradually emerging and will become more pronounced next year.

ASSESSMENT OF RISK ON HONG KONG'S FINANCIAL STABILITY: INFLATION

CCPI rental component and residential property price index



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- The chart shows that movements in property prices usually precede movements in new rentals.

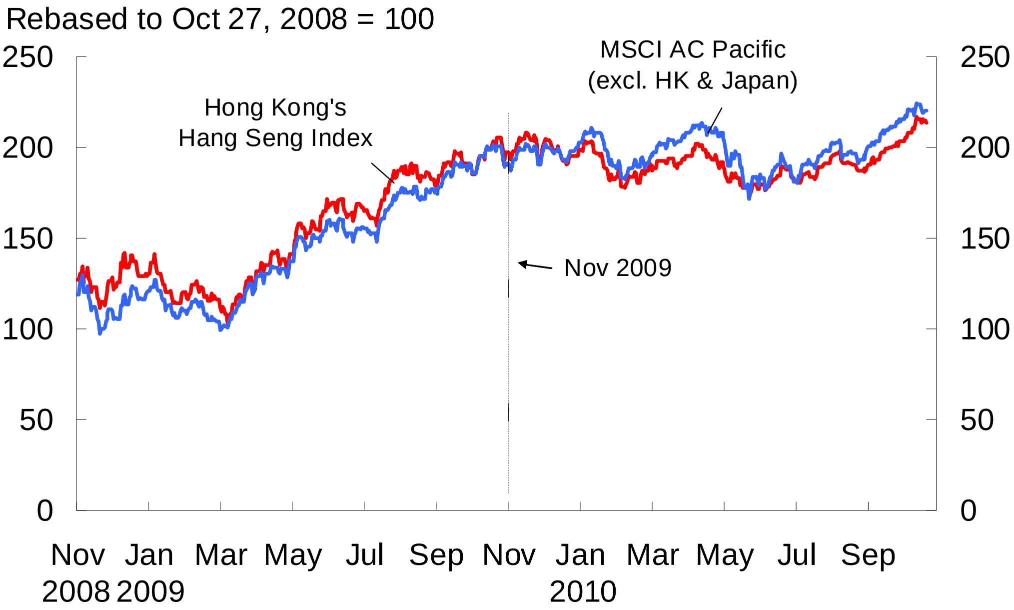
- The CCPI rental component index increased from 75.2 in February 2005 to 94.1 in September 2010.

- The continued rise in property prices will drive up new rentals, creating inflationary pressure.

- It is too difficult to predict the movements of food prices since there are too many factors affecting food supply. But we expect the continued rise in property prices will drive up new rentals and add pressure to inflation. In fact, we believe the impact on headline inflation may even be greater than what is predicted by the consensus forecast.

ASSESSMENT OF RISK ON HONG KONG’S FINANCIAL STABILITY: EQUITY MARKET

Hong Kong and Asia Pacific equity market performance

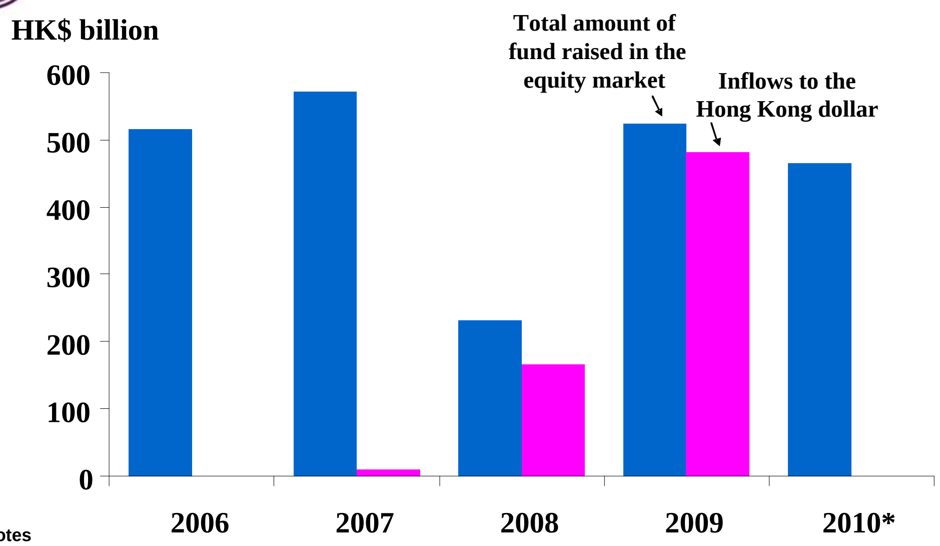


- The trend of the Hong Kong equity market is broadly in line with those in the Asia-Pacific region.

- Having declining from their peaks in October 2007 by 65%, the Hang Seng Index and the MSCI AC Pacific Index (excluding Hong Kong and Japan) began to rebound since March 2009. Both indexes have more than doubled from their troughs, recording increases of 113% and 127% respectively.

- But the rebound in Hong Kong’s equity market is slightly less than those in the Asia-Pacific region.

EQUITY FUND RAISING ACTIVITIES AND CAPITAL INFLOWS



Notes

(1) Total amount of fund raised in the equity market include those from IPOs, rights issues, placing, public offers, consideration issues, exercise of warrants and share option schemes.

(2) The 2008-2009 figures are slightly different from data of Hong Kong Exchanges and Clearing Limited, since fund raising activities not involving Hong Kong dollars have been excluded.

(3) * represents preliminary figures up to September 2010, with the amount of fund raised in the AIA IPO included.

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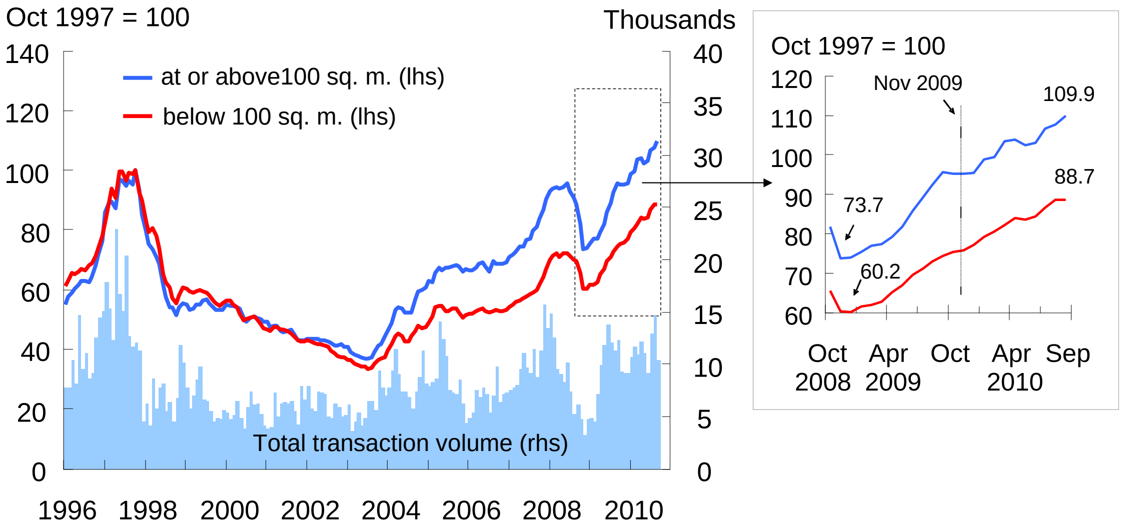
- The largest IPOs in 2010: AIA (HK$138.3 billion), Agricultural Bank of China (HK$93.5 billion) 、RUSAL (HK$18.3 billion).

- Table: total amount of fund raised in the equity market in 2009-2010

	Total amount of fund raised (HK$ billion)
2009	524.1
Jan-Sep 2010	464.6 (including the AIA IPO)

ASSESSMENT OF RISK ON HONG KONG’S FINANCIAL STABILITY: PROPERTY MARKET

Residential property prices and transaction volume



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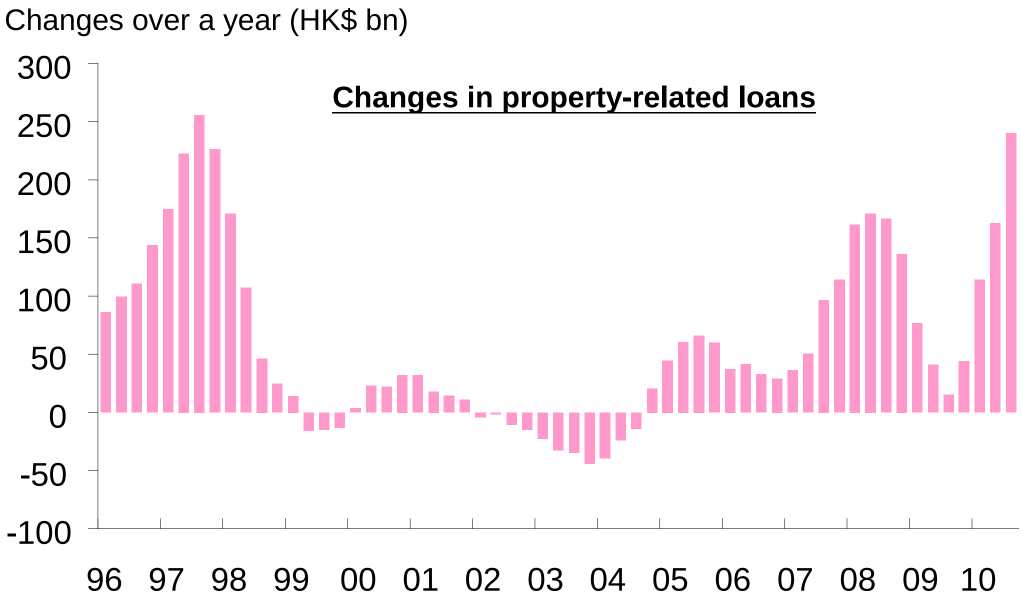
- The residential property market remained buoyant, with housing prices and transaction volume continuing to rise.

- Housing prices in general have increased by 47% from the trough in December 2008 to September 2010; and 17% from November 2009.

- Following the sharp increases in luxury property prices in 2009, prices in the mass market segment were gradually picking up this year. Both segments have accumulated about the same extent of increases from their troughs.

- The total number of sale and purchase agreements stayed above 10,000 each month from the beginning of this year to September (except a slight decrease in June). The current cycle of increases started in the second quarter of 2009. By historical standards, the current period of high level of transaction is longer than normal.

ASSESSMENT OF RISK ON HONG KONG'S FINANCIAL STABILITY: PROPERTY MARKET



- Driven by a buoyant property market, property-related loans (accounting for around half of loans for use in Hong Kong) become the major force behind credit growth.

- Despite a year-on-year reduction in loans for use in Hong Kong in 2009, property-related loans were higher than the previous year.

- Loans for use in Hong Kong recovered across the board in 2010, with property-related loans recording considerable increases, nearly reaching the peak of 1997.

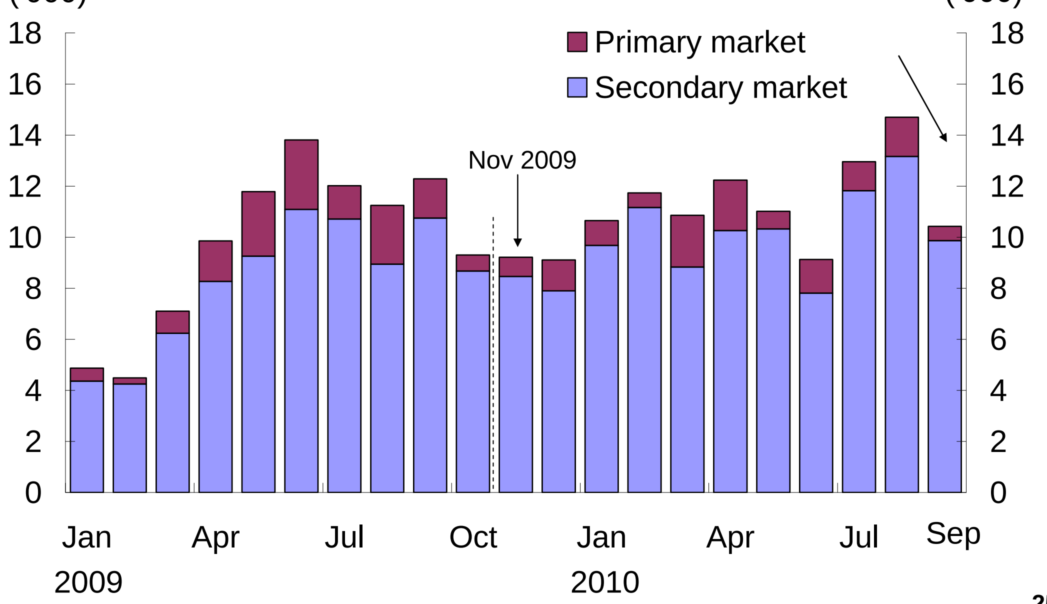
ASSESSMENT OF RISK ON HONG KONG'S FINANCIAL STABILITY: PROPERTY MARKET

- To strengthen banks' risk management on residential mortgage lending, the HKMA issued guidelines on 13 August to implement the following prudential measures:
  - Loan-to-value Ratio: lowering the maximum loan-to-value ratio to 60% for non-owner-occupied properties and for properties valued at $12 million and above
  - Debt Servicing Ratio (DSR): standardising borrowers' DSR to 50% and requiring banks to conduct stress tests in order to avoid borrowers running into financial difficulties when mortgage rates increase in the future
- The HKMA will conduct thematic on-site examinations to monitor banks' compliance with above measures

- With the risk to Hong Kong's financial stability posed by the buoyant property market increasing and the incentives to take on excessive leverage caused by the current exceptionally low interest rate environment remained, the Government and the HKMA introduced a number of measures in August to stabilise the property market.

ASSESSMENT OF RISK ON HONG KONG'S FINANCIAL STABILITY: PROPERTY MARKET LATEST DEVELOPMENTS (1)

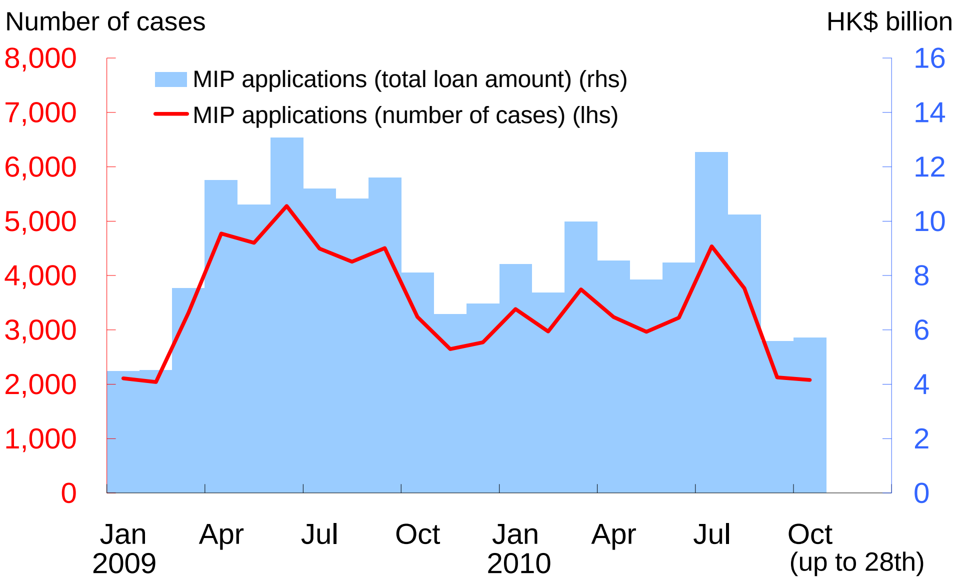
Transaction volume of residential property



- The introduction of the new measures dampened market sentiment. Transaction volume dropped by 29% from 14,699 in August to 10,424 in September, of which primary market transactions dropped by 64% to 556 and secondary market transactions dropped by 25% to 9,868.

ASSESSMENT OF RISK ON HONG KONG'S FINANCIAL STABILITY: PROPERTY MARKET LATEST DEVELOPMENTS (2)

Number of applications for mortgage insurance



- The number of applications for the Mortgage Insurance Programme (MIP) dropped by 43% from 3,764 in August to 2,127 in September. The figure for October (up to the 28 October) was 2,079, similar to that of September.

- Total amount of mortgage loans involved also dropped by 45% from HK$10.2 billion in August to HK$5.6 billion in September. The October figure (up to 28 October) was HK$5.6 billion.

- It reflects the decline in the both the number of MIP applications and the loan amounts involved as a result of the introduction of the new measures in August.

ASSESSMENT OF RISK ON HONG KONG'S FINANCIAL STABILITY: PROPERTY MARKET LATEST DEVELOPMENTS (3)

Residential mortgage survey results

	Jul	Aug	Sep
New loans approved			
Value (HK$ billion)	40.8	40.3	31.6
M-o-M % change	+15.3%	-1.3%	-21.6%
Number	16,837	17,114	13,893
M-o-M % change	+9.7%	+1.6%	-18.8%
Average size (HK$ million)	2.43	2.36	2.28
Average contractual life (months)	273	275	273
Loan-to-value ratio (%)	62.0	61.4	58.6
New applications			
Number	25,877	23,663	17,459
M-o-M % change	+9.7%	+1.6%	-18.8%
New loans drawn down			
Value (HK$ billion)	25.9	33.1	33.9
M-o-M % change	-15.9%	+27.8%	+2.4%
Number	11,331	13,540	14,525
M-o-M % change	-16.2%	+19.5%	+7.3%

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- These are the statistics on residential mortgages announced this morning.

- New mortgage loans approved declined in September. The figure reflected transactions after the introduction of the new measures in August.

- The average loan size, the average contractual life and the average loan-to-value ratio also decreased. The number of new applications also dropped considerably.

- New loans drawn down rose in September. But the figure reflected transactions before the introduction of the new measures in August.

- The statistics that I have presented, including those on transaction volumes and the number of MIP applications, show a declining trend following the introduction by the Government and the HKMA of measures to stabilise the property market, indicating that the property market has cooled down slightly.

- However, the property market may remain active in the short run. While the official October figures on property transaction volume and prices have not yet been announced, preliminary market statistics showed that transaction volume had risen since early October, although it was still lower than the levels in July and August.

- Since the cooling measures have only been introduced for two months, it is still too early to evaluate their impact.

CONCLUSIONS

- Growth in the advanced economies such as Europe and the US is losing momentum and these economies are therefore likely to introduce further expansionary monetary policies.
- Given the exceptionally low interest rates, abundant liquidity and positive domestic economic conditions, the risk of asset (especially property) price bubble forming in Hong Kong is rising.
- In August, the Government introduced a series of measures targeting the property market and the HKMA required banks to further enhance their credit risk management.
- The effectiveness of these measures remains to be seen. The HKMA will closely monitor market developments and may introduce further measures to maintain banking stability if necessary.
- Prospective home-buyers should avoid over-stretching themselves. Otherwise, they might face financial difficulties when interest rates increase eventually.

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- Growth in the advanced economies such as Europe and the US is losing momentum. These economies are therefore likely to introduce further expansionary monetary policies. While the effectiveness of such policies remains to be seen, the side effects are very obvious and will become stronger.

- The current abnormal global financial environment cannot sustain in the long term. Adjustment is unavoidable and the resulting shock can be severe. Everybody should be prepared for it.

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NOTABLE DEVELOPMENTS IN RENMINBI BUSINESS

11 Feb	HKMA issued an important elucidation on supervisory principles and operational arrangements
22 Jun	Mainland authorities announced a major expansion of the RMB trade settlement scheme with the rest of the world
19 Jul	Clearing Agreement on RMB business amended
17 Aug	Mainland authorities launched a pilot scheme for eligible institutions outside the Mainland to invest in the Mainland's interbank bond market

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- Further to HKMA's elucidation of the supervisory principles of RMB business in Hong Kong in February, which has helped increase flexibility for banks in operating the relevant business, there have been some significant developments.

- On 22 June, the Mainland authorities announced an expansion of the RMB trade settlement scheme:

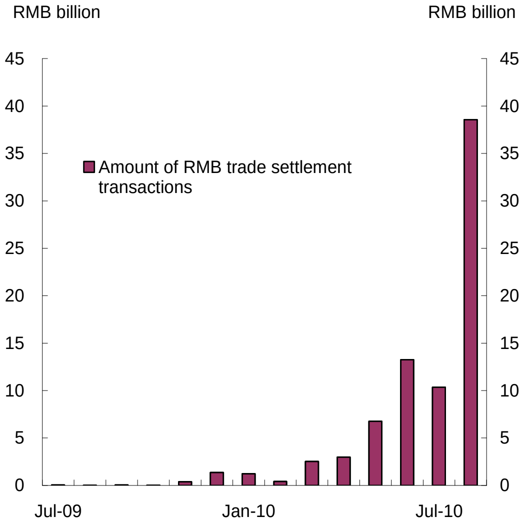
  - Cover 20 Mainland provinces and cities. Their trade transactions with any part of the world can be settled in RMB
  - Any enterprises in those provinces and cities can settle their merchandise imports, service trades and other current account transactions in RMB
  - An expanded list of eligible enterprises will be able to settle their merchandise exports in RMB.

- On 19 July, the Clearing Agreement for RMB business was revised, providing policy headroom for the development of RMB financial products in Hong Kong, and three key changes were made:
  - All companies and organisations can open RMB accounts at banks
  - Restrictions on inter-bank transfers of RMB funds between personal and corporate customers were removed
  - Banks can provide RMB conversion services to corporate customers for purposes other than for trade settlement, provided that they do not square the corresponding open position with the Clearing Bank.

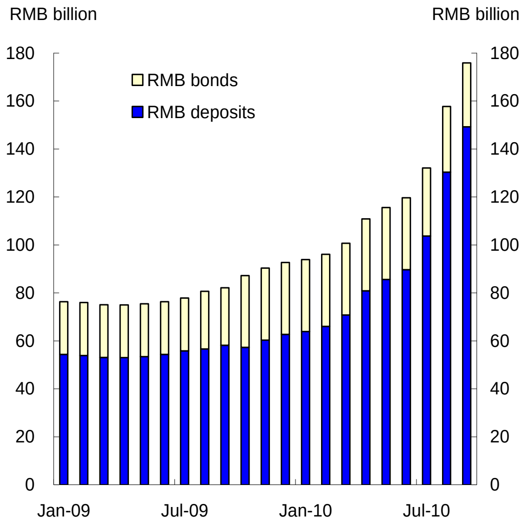
- The PBoC promulgated, on 17 August, a notice on a pilot scheme for eligible institutions outside the Mainland, including the Clearing Bank and Participating Banks of RMB business in Hong Kong, to invest in the Mainland's interbank bond market. This has opened up a channel for RMB funds in Hong Kong to invest on the Mainland, which will further promote the development of RMB trade settlement in Hong Kong, and enhance the attractiveness of RMB offshore business in Hong Kong.

RENMINBI BUSINESS IN HONG KONG

RMB trade settlement gained momentum since March 2010



RMB deposits in Hong Kong increased steadily



- RMB deposits amounted to RMB 149.3 billion at the end of September.
- Total RMB trade settlement conducted through Hong Kong between July 2009 and August 2010 reached RMB77.9 billion.
- Over 100 banks have signed the Clearing Agreement to participate in Hong Kong's RMB clearing platform, of which more than 30 are from overseas.

HONG KONG'S INCREASING ROLE IN RMB FINANCING

- **RMB bond issuance to reach record amount**
  - Total issuance in 2010 to be at least RMB 17.8 billion
  - Issuers broadening to Hong Kong and global corporations and multinationals (including Asian Development Bank and International Finance Corporation)

- **A wide range of RMB products launched since the amendment of Clearing Agreement, including**
  - Certificates of deposit
  - Structured deposits
  - Insurance products
  - Syndicated loans
  - Investment funds

DEPOSIT PROTECTION

- A large-scale multi-media publicity campaign commenced in August to inform the public that the full deposit guarantee will expire by the end of this year

- The enhancements to the DPS will take effect from January 2011 with the protection limit increasing to HK$500,000

- Banks will have to make sufficient representation on the protection status of their products and the related changes to subsidiary legislation were submitted to LegCo in October

Handling of Customer Personal Data by Banks

- HKMA reminds banks from time to time that they should ensure that their handling of customers' personal data is in compliance with the Personal Data (Privacy) Ordinance and relevant codes and regulations

- Issued circulars in August and September 2010 to require banks to review their current practices in handling customers' personal data in light of the Privacy Commissioner's interim report on the Octopus case and a recent decision of the Administrative Appeals Board

- HKMA issued a further circular in October drawing AIs' attention to the "Guidance on the Collection and Use of Personal Data in Direct Marketing" issued by the Privacy Commissioner on 18 October

- The HKMA published the interim findings in the auditors' report in relation to the Octopus incident on 18 October and is monitoring Octopus' implementation of the recommendations made in the report

Global Financial Regulation Reforms
"Basel III"

- To enhance the resilience of the global banking system, the Basel Committee on Banking Supervision reached board agreement on 12 September 2010 regarding "Basel III"

- "Basel III" tightens the definition of regulatory capital; increases the minimum requirement of Tier 1 Capital; establishes conservation / countercyclical capital buffers; introduces a non-risk based leverage ratio; a new liquidity coverage ratio and a net stable funding ratio

- The new requirements will be phased-in between 1 January 2013 and 1 January 2019

- Local banking sector is expected to be able to comply with the new requirements

1. International Macro Financial Conditions

2. Assessment of Risk on Hong Kong's Financial Stability

3. Latest Developments in the Banking Sector

4. **Investment Income of the Exchange Fund in the First Three Quarters of 2010**

INVESTMENT INCOME

(HK$ billion)	2010 Jan - Sep *	2009 Full Year	2008 Full Year	2007 Full Year
Hong Kong equities^@	7.3	48.9	(77.9)	55.8
Foreign equities^	7.9	48.8	(73.1)	6.7
Foreign exchange	(3.6)	9.8	(12.4)	18.7
Other investments&	0.8	0.8	-	-
Bonds#	60.7	(0.6)	88.4	61.0
Investment income/(loss)@&	73.1	107.7	(75.0)	142.2

* Unaudited figures
^ Including dividends
# Including interest
@ Excluding valuation changes in Strategic Portfolio
& 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)	2010 Jan - Sep*	2010 Q3	2010 Q2	2010 Q1	2009 Full year
Investment income/(loss)	73.1	74.1	(12.1)	11.1	107.7
Other income	**0.2**	**0.1**	**0.1**	**-**	**0.2**
Interest and other expenses	**(3.6)**	**(1.2)**	**(1.5)**	**(0.9)**	**(3.8)**
Net investment income/(loss)	**69.7**	**73.0**	**(13.5)**	**10.2**	**104.1**
Payment to Fiscal Reserves #	(25.2)	(8.3)	(8.4)	(8.5)	(33.5)
Payment to HKSAR government funds and statutory bodies #	**(2.8)**	**(1.1)**	**(0.9)**	**(0.8)**	**(1.2)**
Valuation change of Strategic Portfolio less investment held by EF's investment holding subsidiaries^	**0.3**	**1.6**	**(0.4)**	**(0.9)**	**3.6**
Increase/(Decrease) in EF Accumulated Surplus	42.0	65.2	(23.2)	0.0	73.0

* *Unaudited figures*

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

^ Including dividends