



- Based on the Residential Mortgage Survey results for September 2002, the mortgage delinquency ratio fell to 1.08% (from August's 1.09%) and the rescheduled loan ratio, to 0.46% (from August's 0.47%). The combined ratio thus decreased to 1.54% from 1.56% in August.



BANKING STABILITY

Residential Mortgage Loans in Negative Equity

| | Sep 02 | Jun 02 | Mar 02 | Dec 01 | Sep 01 |
|--|------------------------------|-----------------------|-------------------------------------|-----------------------|-----------------------|
| Total number | 70,112 | 66,941 | 67,500 | 73,000 | 65,000 |
| Total outstanding value | \$118 bn | \$115 bn | \$115 bn | \$125 bn | \$127 bn |
| Percentage priced below Best Lending Rate | 55% | 52% | 58% | 56% | 51% |
| Average interest rate charged | 0.76% below BLR | 0.70% below BLR | 0.60% below BLR | 0.57% below BLR | 0.27% below BLR |
| | Aggregate position of 28 AIs | | Extrapolated results based on 7 AIs | | |

Source: HKMA surveys on residential mortgage loans in negative equity

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- The HKMA announced on 30 October the results of the latest survey on residential mortgage loans (RMLs) in negative equity. This is the first publication of negative equity data based on a new expanded survey of 28 AIs.
- From the new expanded survey, it can be seen that the number of cases of RMLs in negative equity rose in the third quarter to 70,112 compared with 66,941 at end-June, reflecting falling property prices.
- The average interest rate being charged to negative equity homeowners was 0.76% below the best lending rate (BLR) at end-September, compared with 0.70% below BLR at end-June. And 55% of negative equity homeowners were being charged below BLR at end-September, compared with 52% at end-June.

Key Results of the Survey of Residential Mortgage Loans in Negative Equity

| RMLs in negative equity | | |
|----------------------------------|------------------------------|---------------|
| | Aggregate position of 28 AIs | |
| | End-September 2002 | End-June 2002 |
| Total outstanding number | 70,112 | 66,941 |
| As % of total mortgage borrowers | 15% | 14% |
| Total outstanding value | HK\$118 bn | HK\$115 bn |
| As % of total outstanding value | 22% | 21% |
| Loan-to-value ratio | 128% | 127% |
| Weighted average interest rate | BLR – 0.76% | BLR – 0.70% |



FINANCIAL INFRASTRUCTURE

Objectives:

- (1) reduce financial risks and promote financial stability
- (2) maintain the status of Hong Kong as an international financial centre (Article 109 of Basic Law)

In recent years the HKMA has devoted significant efforts to enhance the efficiency, robustness, liquidity and diversity of Hong Kong's financial infrastructure to provide

- multi-tiered (retail and wholesale)
- multi-currency (HK dollar, US dollar, Euro ...)
- multi-intermediary (banks, debt securities, equities)

clearing and settlement services with RTGS, DvP and PVP capabilities within the Asian time zone



EXCHANGE FUND ABRIDGED BALANCE SHEET

| (HK\$ billion) | 31 Oct 02 ² | 30 Sep 02 ² | 30 Jun 02 ² | 31 Dec 01 ¹ |
|--|------------------------|------------------------|------------------------|------------------------|
| ASSETS | | | | |
| Deposits | 70.0 | 82.8 | 62.9 | 99.2 |
| Debt securities | 734.0 | 731.8 | 759.2 | 732.7 |
| Hong Kong equities | 51.3 | 54.7 | 71.6 | 85.9 |
| Other equities | 63.8 | 58.8 | 47.8 | 35.3 |
| Other assets | <u>23.6</u> | <u>28.3</u> | <u>34.5</u> | <u>26.0</u> |
| Total assets | 942.7 | 956.4 | 976.0 | 979.1 |
| LIABILITIES AND ACCUMULATED SURPLUS | | | | |
| Certificates of Indebtedness | 112.4 | 114.3 | 113.3 | 107.5 |
| Government-issued currency notes & coins in circulation | 5.9 | 5.8 | 5.6 | 5.7 |
| Balance of banking system | 0.9 | 0.3 | 1.1 | 0.7 |
| Exchange Fund Bills and Notes | 119.9 | 123.3 | 118.1 | 118.1 |
| Placements by other HKSAR government funds | 303.3 | 309.7 | 353.2 | 380.6 |
| Other liabilities | <u>82.9</u> | <u>91.9</u> | <u>70.7</u> | <u>63.9</u> |
| Total liabilities | 625.3 | 645.3 | 662.0 | 676.5 |
| Accumulated surplus | <u>317.4</u> | <u>311.1</u> | <u>314.0</u> | <u>302.6</u> |
| Total liabilities and accumulated surplus | 942.7 | 956.4 | 976.0 | 979.1 |

1 Audited figures; 2 Unaudited figures



EXCHANGE FUND PERFORMANCE

| (HK\$ billion) | 2002 Jan-Oct ² | 2002 Jan-Sep ² | 2002 Jul-Sep ² | 2002 Jan-Jun ² | 2001 Full Year ¹ |
|--|------------------------------|------------------------------|------------------------------|------------------------------|--------------------------------|
| Gain/(Loss) on Hong Kong equities* | (11.3) | (13.4) | (8.8) | (4.6) | (27.1) |
| Exchange gain/(loss) | 17.3 | 17.1 | (0.3) | 17.4 | (13.0) |
| Total return on bonds, etc | <u>24.8</u> | <u>17.0</u> | <u>7.0</u> | <u>10.0</u> | <u>47.5</u> |
| Investment income | 30.8 | 20.7 | (2.1) | 22.8 | 7.4 |
| Other income | 0.2 | 0.1 | 0.0 | 0.1 | 0.2 |
| Interest and expenses | <u>(5.7)</u> | <u>(5.0)</u> | <u>(1.7)</u> | <u>(3.3)</u> | <u>(10.5)</u> |
| Net investment income | 25.3 | 15.8 | (3.8) | 19.6 | (2.9) |
| Treasury's share | <u>(10.5)</u> | <u>(7.3)</u> | <u>0.8</u> | <u>(8.1)</u> | <u>(1.6)</u> |
| Increase/decrease in EF accumulated surplus | 14.8 === | 8.5 === | (3.0) ==== | 11.5 ===== | (4.5) === |

* Including dividends

¹ Audited figures; ² Unaudited figures



EXCHANGE FUND HONG KONG EQUITY PORTFOLIO

| | (HK\$ billion) |
|---|----------------|
| Cost of shares purchased in August 1998 | 118.1 |
| Shares transferred from Land Fund (November 1998) | 9.0 |
| Proceeds from disposal of Hong Kong stocks | |
| i) Initial public offering of TraHK | 33.3 |
| ii) Tap facility (Q4 1999 - Q4 2002) | <u>107.1</u> |
| | 140.4 |
| Dividend and other income | 24.6 |
| Total disposal and other income | 165.0 |
| Long-term Hong Kong equity portfolio (as at 31 October 2002) | 51.3* |

* about 5.4 per cent of the total assets of the Exchange Fund