

Annex

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8 October 2008

To: All licensed banks
The Chief Executive

Dear Sir/Madam,

**HKMA to adjust the formula
for determination of the Base Rate**

Further to today's (October 8) press release on the adjustment of the formula for determination of the Base Rate (see attached), I would like to provide you with further details on technical changes to be made to the formula.

As you know, the Base Rate is currently set at either 150 basis points above the prevailing US Fed Funds Target Rate or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever is the higher. As mentioned in the press release, with effect from October 9 (Thursday), the formula for determination of the Base Rate will be changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points.

Furthermore, the other leg relating to the moving averages of the relevant interbank interest rates will also be removed from the formula with effect from tomorrow until the end of March 2009. The HKMA will, before the end of March 2009, review whether or not such removal continues to be appropriate, in the light of domestic and international financial market conditions.

With all the above mentioned changes, the Base Rate for tomorrow will be set at 2.5% unless there is any change to the Federal Funds Target Rate announced by the Federal Reserve tonight.

If you have any questions about the arrangements, please do not hesitate to contact Ms Kitty Lai, Head, Monetary Operations Division at 2878 1961 or Mr Daryl Ho, Senior Manager, Monetary Operations Division at 2878 8265.

Yours faithfully,

(Edmond Lau)
Executive Director
Monetary Management Department

cc Treasurer of All Licensed Banks