

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. CAPITAL ADEQUACY RATIO

	2003	2002*
Capital adequacy ratio	15.11%	13.99%
Adjusted capital adequacy ratio	15.21%	14.39%

The CAR is computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance.

The adjusted CAR taking into account market risk exposure as at the balance sheet date is computed in accordance with the guideline on “Maintenance of Adequate Capital Against Market Risks” under the Supervisory Policy Manual issued by the HKMA and on the same basis as for the unadjusted CAR.

2. COMPONENTS OF CAPITAL BASE AFTER DEDUCTIONS

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December 2003 and 31 December 2002 and reported to the HKMA is analysed as follows:

	2003 HK\$'m	2002* HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	10,468	8,087
Profit and loss account	2,327	2,360
Minority interests	917	867
	56,755	54,357
Supplementary capital:		
General provisions for doubtful debts	4,997	5,200
Total capital base before deductions	61,752	59,557
Deductions:		
Shareholdings in subsidiaries or holding company	(449)	(482)
Exposures to connected companies	(872)	(918)
Equity investments of 20% or more in non-subsidiary companies	(107)	(171)
Investments in the capital of other banks or other financial institutions	(1)	(1)
	(1,429)	(1,572)
Total capital base after deductions	60,323	57,985

* Prior year comparatives have not been restated on adoption of SSAP 12 (revised) “Income taxes”.

3. LIQUIDITY RATIO

	2003	2002
Average liquidity ratio	37.76%	41.17%

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule of the Banking Ordinance.

4. CURRENCY CONCENTRATIONS

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions. The net option position is calculated based on the worst-case approach set out in the prudential return "Foreign Currency Position" issued by the HKMA.

	2003							
	Equivalent in millions of HK\$							
	US Dollars	Euro	Canadian Dollars	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others	Total
Spot assets	164,349	21,619	6,358	22,007	7,295	1,144	25,847	248,619
Spot liabilities	(142,187)	(11,011)	(9,978)	(28,336)	(13,579)	(563)	(19,155)	(224,809)
Forward purchases	125,005	13,252	4,619	20,289	10,701	-	35,530	209,396
Forward sales	(149,283)	(24,134)	(1,080)	(14,112)	(4,665)	-	(42,074)	(235,348)
Net options position	(974)	59	(11)	837	92	-	14	17
Net long/(short) position	(3,090)	(215)	(92)	685	(156)	581	162	(2,125)

	2002							
	Equivalent in millions of HK\$							
	US Dollars	Euro	Canadian Dollars	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others	Total
Spot assets	168,003	16,688	5,002	23,525	11,809	611	27,587	253,225
Spot liabilities	(135,565)	(10,753)	(6,352)	(27,799)	(15,226)	(425)	(19,956)	(216,076)
Forward purchases	102,549	7,025	1,964	8,798	5,381	-	32,696	158,413
Forward sales	(138,688)	(13,279)	(610)	(4,541)	(1,884)	-	(40,412)	(199,414)
Net options position	(444)	41	101	192	100	-	13	3
Net long/(short) position	(4,145)	(278)	105	175	180	186	(72)	(3,849)

There were no significant net structural positions for the Group as at 31 December 2003 and 31 December 2002.

5. SEGMENTAL INFORMATION

(a) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	2003 HK\$'m	2002 HK\$'m
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	23,162	26,591
– Property investment	46,754	50,992
– Financial concerns	6,589	8,891
– Stockbrokers	41	82
– Wholesale and retail trade	18,858	23,781
– Manufacturing	11,342	12,834
– Transport and transport equipment	12,385	11,192
– Others	38,529	40,440
Individuals		
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	18,244	19,956
– Loans for purchase of other residential properties	90,003	85,853
– Credit card advances	3,756	3,554
– Others	7,387	8,469
Total loans for use in Hong Kong	277,050	292,635
Trade finance	9,851	8,873
Loans for use outside Hong Kong	21,681	19,526
Gross advances to customers	308,582	321,034

5. SEGMENTAL INFORMATION (continued)

(b) Geographical analysis of gross advances to customers, overdue advances and non-performing loans

The following geographical analysis of gross advances to customers, advances overdue for over three months and NPLs is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

(i) Gross advances to customers

	2003 HK\$'m	2002 HK\$'m
Hong Kong	289,129	304,924
Mainland China	8,434	4,456
Others	11,019	11,654
	308,582	321,034

(ii) Advances overdue for over three months

	2003 HK\$'m	2002 HK\$'m
Hong Kong	11,066	17,060
Mainland China	469	1,402
Others	69	163
	11,604	18,625

(iii) Non-performing loans

	2003 HK\$'m	2002 HK\$'m
Hong Kong	16,801	23,653
Mainland China	887	1,755
Others	144	251
	17,832	25,659

6. CROSS-BORDER CLAIMS

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country, which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

	Banks and other financial institutions HK\$'m	Public sector entities HK\$'m	Others HK\$'m	Total HK\$'m
At 31 December 2003				
Asia, other than Hong Kong				
– Mainland China	45,698	2,157	8,507	56,362
– Others	49,750	1,180	4,981	55,911
	95,448	3,337	13,488	112,273
North America				
– United States	7,571	14,850	18,130	40,551
– Others	15,013	2,997	39	18,049
	22,584	17,847	18,169	58,600
Western Europe				
– Germany	38,563	–	5,359	43,922
– Others	117,451	1,470	13,949	132,870
	156,014	1,470	19,308	176,792
Total	274,046	22,654	50,965	347,665

6. CROSS-BORDER CLAIMS (continued)

	Banks and other financial institutions HK\$'m	Public sector entities HK\$'m	Others HK\$'m	Total HK\$'m
At 31 December 2002				
Asia, other than Hong Kong				
– Mainland China	36,489	2,665	5,426	44,580
– Others	44,078	6,015	4,160	54,253
	80,567	8,680	9,586	98,833
North America				
– United States	8,133	10,594	15,703	34,430
– Others	12,158	2,647	14	14,819
	20,291	13,241	15,717	49,249
Western Europe				
– Germany	36,172	–	10,743	46,915
– Others	109,843	1,451	12,511	123,805
	146,015	1,451	23,254	170,720
Total	246,873	23,372	48,557	318,802

7. OVERDUE AND RESCHEDULED ASSETS

(a) Overdue and non-performing loans

	2003		2002	
	Amount HK\$m	% of gross advances to customers	Amount HK\$m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	977	0.31%	2,240	0.70%
– one year or less but over six months	2,521	0.82%	3,486	1.08%
– over one year	8,106	2.63%	12,899	4.02%
Advances overdue for over three months	11,604	3.76%	18,625	5.80%
Less:				
Amount overdue for over three months and on which interest is still being accrued	(67)	(0.02%)	(550)	(0.17%)
Add:				
Amount overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased				
– included in rescheduled advances	798	0.26%	1,436	0.45%
– others	5,497	1.78%	6,148	1.91%
Gross non-performing loans	17,832	5.78%	25,659	7.99%

At 31 December 2003 and 31 December 2002, there were no advances to banks and other financial institutions that were overdue for over three months.

(b) Other overdue assets

	2003 HK\$m	2002 HK\$m
Overdue for:		
– six months or less but over three months	2	3
– one year or less but over six months	–	1
– over one year	2	–
	4	4

As at 31 December 2003 and 31 December 2002, other overdue assets represented the accrued interest.

7. OVERDUE AND RESCHEDULED ASSETS (continued)

(c) Rescheduled advances to customers

	2003		2002	
	Amount HK\$m	% of gross advances to customers	Amount HK\$m	% of gross advances to customers
Rescheduled advances to customers	851	0.28%	1,464	0.46%

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is overdue and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

Rescheduled advances are those advances that have been restructured or renegotiated because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances. Rescheduled advances are stated after deduction of accrued interest that has been charged to customers but accrued to a suspense account and before deduction of specific provisions.

As at 31 December 2003 and 31 December 2002, there were no rescheduled advances to banks and other financial institutions.

8. REPOSSESSED ASSETS HELD

	2003 HK\$m	2002 HK\$m
Reposessed assets held	1,757	2,097

8. REPOSSESSED ASSETS HELD (continued)

Repossessed assets are properties or securities in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers. Upon repossession of the assets, the related loans and advances will continue to be recorded as loans and advances until all collection efforts have been exhausted and the repossessed assets are realised. Specific provisions will be made after taking into account the market value of the repossessed assets which are yet to be disposed. Upon disposal of the repossessed assets, any specific provisions previously made will be utilised to write off the loans and advances.

9. CONNECTED TRANSACTIONS

In 2003, BOCHK, a wholly owned subsidiary of the Company, and its subsidiaries engaged on a regular basis in the usual course of their business in numerous transactions with BOC and its Associates. As BOC is the Company's ultimate holding company and therefore a connected person of the Company, all such transactions constituted connected transactions subsequent to the listing of the Company on the Stock Exchange for the purposes of the Listing Rules. References to sections of the Listing Rules in the following discussion refer to the Listing Rules in effect prior to March 31, 2004.

The transactions fell into the following three categories:

1. de minimis transactions entered into in the usual course of business and under normal commercial terms. Such transactions were exempted from disclosure and shareholder approval by virtue of rule 14.24 of the Listing Rules;
2. certain regular banking transactions for which the Stock Exchange has granted a waiver. These transactions were entered into on a continual basis throughout the year unless otherwise noted; and
3. one connected transaction which does not fall under (1) or (2) above and which is described in more detail at the end of this section.

(a) Ongoing Connected Transactions Under Waivers

A brief description of the transactions set out in paragraph (2) is set out below, followed by a table setting out the amounts for each such type of transaction in 2003. Certain of these transactions were subject to annual caps agreed by the Stock Exchange and the Company, and none of these caps was exceeded. All of these transactions were conducted on normal commercial terms unless specified otherwise.

Derivatives Transactions

These included interest rate and currency interest rate swaps, equity options, and currency and bond options entered into with BOC and its Associates.

Foreign Exchange Transactions

These included inter-bank foreign currency exchange transactions, spot, forward and outright transactions, and exercised currency options entered into with BOC and its Associates.

9. CONNECTED TRANSACTIONS (continued)

(a) Ongoing Connected Transactions Under Waivers (continued)

Inter-bank Capital Markets Transactions

These included buying and selling debt securities (both those issued by independent third parties and those issued by BOC and its Associates) and equities by the Group from and to BOC and its Associates and on their behalf on issue and in the secondary market, and the Group acting as the custodian for BOC and its Associates and BOC acting as the custodian for the Group.

Bullion Trading

BOCHK entered into deferred settlement bullion transactions with BOC Macau Branch and Tai Fung Bank, a subsidiary of BOC, and bullion spot transactions with normal settlement with BOC. BOCHK also entered into physically settled bullion transactions with BOC Macau Branch and BOC Singapore Branch on which it provided a rebate on normal commercial terms.

Forfeiting Transactions

BOCHK entered into forfeiting transactions to buy and sell interests in certain trade finance products, including with BOC. All such transactions with BOC were entered into on normal commercial terms and only in relation to bills of exchange secured under a letter of credit.

Correspondent Banking Fee Sharing Programmes

BOCHK and Nanyang have signed agency agreements with the New York, Tokyo and Osaka branches of BOC, pursuant to which BOCHK and Nanyang give BOC priority over other banks for advising and negotiation of letters of credit and for funds transfers, provided the terms are at least as good as those offered by other banks, and as compensation BOC will rebate part of the commission to BOCHK and Nanyang. BOCHK also co-operated with BOC in relation to issuing letters of credit for Taiwan-related business, for which BOCHK received from BOC a fee based on a portion of the overall fees paid by BOC's customer for such facilities.

Capital Markets Transactions

The Group entered into various capital markets transactions with BOC and its Associates, in particular BOCI Capital, an indirect subsidiary of BOC. These transactions included participation in syndicated loans, sub-participation of loans, acquiring and disposing of interests in syndicated loans, subscription and/or issuance of debt securities and tax efficiency financing.

Loan Servicing Agreements

In 2002, BOCHK and Nanyang entered into loan servicing agreements with BOC Cayman and Zhong Gang, pursuant to which BOCHK and Nanyang agreed to provide, for a fixed fee based on the agreed cost of the services plus a margin, servicing, collection, account opening and reporting services in respect of certain loans sold by BOCHK and Nanyang to BOC Cayman and Zhong Gang in 2002 and 1999, respectively.

9. CONNECTED TRANSACTIONS (continued)

(a) Ongoing Connected Transactions Under Waivers (continued)

Loan Servicing Agreements (continued)

In 2003, BOC Cayman and Zhong Gang sold all of the loans subject to the loan servicing agreements to an unrelated third party and to BOC Investment in approximately equal proportions. Notwithstanding the sales, the original loan servicing agreements continued in effect on the same terms in order to deal with any continuing servicing matters relating to BOC Cayman and Zhong Gang.

As part of the sale, BOC Investment entered into a Deed of Assignment with BOC Cayman and Zhong Gang, to which BOCHK and Nanyang were also parties, pursuant to which BOCHK agreed to service the loans assigned to BOC Investment, commencing in 2004, for essentially the same compensation, adjusted on a pro rata basis, as contained in the original loan servicing agreements.

Provision of Insurance Cover by BOC Insurance

BOC Insurance and its subsidiaries provided general and life insurance to the Group.

Insurance Agency

The Group provided insurance agency services to BOC Insurance and BOC Life on a commission basis.

Securities Brokerage

BOCI Securities provided securities brokerage services to the Group. The Group paid BOCI Securities commissions for its services and received rebates in return.

Credit Card Services

Pursuant to a Credit Card Cooperation and Services Agreement dated 6 July 2002 between BOC-CC and BOC, BOC-CC provided certain services to BOC in relation to its Great Wall International Card (the “International Card”) and its Great Wall Renminbi Card (the “Renminbi Card”). BOC-CC shared the profits and losses or fee income in relation to the operations of the International Card and the Renminbi Card with BOC as set out in the agreement.

BOC-CC Business in Macau

BOC Macau Branch and Tai Fung Bank promoted BOC-CC’s Hong Kong dollar and Macau pataca settled credit cards and provided customer services in return for a share of profits or commission payment. They also provided services for BOC-CC’s merchant acquiring business in Macau in return for commission sharing.

BOC-CC Business in Mainland China

BOC promoted and provided services for BOC-CC’s merchant acquiring business in Mainland China in return for commission sharing. BOC provided over-the-counter cash withdrawal services to cardholders of BOC-CC in Mainland China, for which the cardholder was charged a transaction handling fee that was shared between BOC and BOC-CC.

9. CONNECTED TRANSACTIONS (continued)

(a) Ongoing Connected Transactions Under Waivers (continued)

Credit Card Support Services to BOC Singapore Branch

BOC-CC provided business support services to BOC Singapore Branch in relation to its credit card business, for which BOC-CC was paid on the basis of cost plus a margin of 5%. Pursuant to the Credit Card Cooperation and Services Agreement, these services may be extended on similar terms to such other branches of BOC outside Mainland China.

Credit Card Training Subsidy

Pursuant to the Credit Card Cooperation and Services Agreement, BOC-CC has agreed to pay BOC a training subsidy of HK\$2 million per annum, or such other amount as may be agreed, for the provision of training by BOC to BOC's personnel in its provincial branches throughout Mainland China in support of BOC-CC's business in Mainland China.

Selling of Funds Products

The Group promoted MPF products for BOCI-Prudential Trustee, and promoted guaranteed fund products for BOCI-Prudential Manager, both indirect subsidiaries of BOC, and sold these products for a commission.

Services and Relationship Agreement

On 6 July 2002, the Company and BOCHK entered into a Services and Relationship Agreement with BOC and certain of its subsidiaries. Under this agreement, BOC has agreed to, and agreed to procure that its Associates, enter into all future arrangements with BOCHK on an arm's length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to inter-bank lending, loans, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans. BOCHK has agreed to, and agreed to procure that its subsidiaries, enter into all future arrangements on the same basis, save that the rates offered to BOC and its Associates will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement also covers the provision of the services set out below:

Administrative Services

Administrative support and company secretarial services to BOC (BVI), BOCHKG and Hua Chiao on the basis of cost plus a margin of 5%.

Audit Services

Audit services for BOC on various branches and subsidiaries of BOC located in the Asia-Pacific region, other than BOC's branches in Mainland China, on the basis of cost plus a margin of 5%.

Information Technology Services

Information technology services to BOC's branches in Hong Kong, Macau, the Asia-Pacific region and Mainland China, on the basis of cost plus a margin of 5%. Under various information technology services contracts BOCHK provided similar services to BOC's Associates on similar terms.

Training Services

Training services to BOC's employees on the basis of cost plus a margin of 5%.

Secondments from BOC

BOC seconded management level and supervisory staff to BOCHK's branches in Mainland China. BOCHK paid salaries directly to the staff concerned and in some cases BOCHK also paid a management fee to BOC.

9. CONNECTED TRANSACTIONS (continued)

(a) Ongoing Connected Transactions Under Waivers (continued)

BOC Markets Services Agreement

Under the terms of a BOC Markets Services Agreement, dated 6 July 2002, between BOCHK and BOC Markets, BOCHK provided office premises and certain support services to BOC Markets in connection with its operations in Hong Kong. A small number of BOCHK's employees were also seconded to BOC Markets. The provision of office premises is charged at market rent while all other services are provided on the basis of cost plus a margin of 5%.

Deposits by Directors and their Associates

BOCHK, Nanyang and Chiyu paid preferential interest rate for deposits of over 1 month's duration and up to a maximum of HK\$5 million from each of the directors of the Group and each of their Associates who are employees of the Group on the same terms as those offered to other employees. The preferential interest rate is applicable to all staff of the Group.

Type of Transaction	2003 HK\$'m
Derivatives Transactions (volume)	4,339.00
Foreign Exchange Transactions (volume)	408,441.87
Inter-Bank Capital Markets Transactions	N/A
Bullion Trading (volume)	5,406.66
Forfaiting Transactions (volume)	20.63
Correspondent Banking Fee Sharing	7.90
Capital Markets Transactions	N/A
Loan Servicing Agreements	10.71
Provision of Insurance Cover by BOC Insurance	42.68
Insurance Agency Commission Income	165.98
Securities Brokerage Commission Payments, Net of Rebates	118.31
International Card	9.11
Renminbi Card	0.80
BOC-CC Business in Macau	8.96
BOC-CC Business in the Mainland China — Payments retained by and to BOC	26.78
Credit Card Support Services to BOC overseas branches	1.79
Credit Card Training Subsidy	2.00
Funds Selling Commission Income	58.44
Administrative Services (under the Services and Relationship Agreement and the BOC Markets Services Agreement)	0.41
Audit Services	7.92
Information Technology Services	35.58
Training Services	0.43
Secondments from BOC — Management Fee	0.16
Human Resources Support Services and Secondments to BOC Markets	0.41
Staff Preferential Rate Deposits of Directors	*

N/A: these transactions were diverse and large in number.

* no director and his/her Associates have preferential rate deposits in excess of HK\$50 million in aggregate.

9. CONNECTED TRANSACTIONS (continued)

(b) Other Connected Transaction

On 2 December 2002, BOCHK entered into a sale and purchase agreement with BOC Insurance, an indirect wholly owned subsidiary of BOC. Pursuant to this agreement, BOCHK agreed to sell the Sin Hua Bank Centre situated at 134–136 Des Voeux Road Central to BOC Insurance for HK\$193 million. Sin Hua Bank Centre was previously an office of Sin Hua Bank, one of the predecessor banks to BOCHK. The purpose of the sale was to enhance the Group's overall return on assets and to dispose of a property with a view to reducing the risk exposure in investment properties. The sale was completed on 2 April 2003. Execution of the sale and purchase agreement constituted a connected transaction for the Company under rule 14.25(1) of the Listing Rules. Details of the disposal were disclosed in an announcement issued by the Company on 2 December 2002.