

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Capital adequacy ratio

	2005	2004
Capital adequacy ratio	15.37%	16.14%
Adjusted capital adequacy ratio	15.33%	16.13%

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 2005 and 31 December 2004 and reported to the HKMA is analysed as follows:

	2005 HK\$'m	2004 HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	16,096	12,408
Profit and loss account	4,065	4,491
Minority interests	1,009	963
	64,213	60,905
Supplementary capital:		
Reserves on revaluation of holding of securities not held for trading purposes	(311)	–
Collective loan impairment allowances	731	–
Regulatory reserve	3,571	–
General provisions for doubtful debts	–	5,049
Total capital base	68,204	65,954
Deduction from total capital base:		
Shareholdings in subsidiaries or holding company	(337)	(351)
Exposures to connected companies	(597)	(845)
Equity investments of 20% or more in non-subsidiary companies	(64)	(60)
Investments in the capital of other banks or other financial institutions	(6)	(1)
	(1,004)	(1,257)
Total capital base after deductions	67,200	64,697



3. Liquidity ratio

	2005	2004
Average liquidity ratio	42.02%	36.03%

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 options position is calculated based on the worst-case approach set out in the prudential return "Foreign Currency Position" issued by the HKMA.

	2005							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Macau Pataca	Renminbi Yuan	Others	Total	
Spot assets	239,190	2,835	12,011	21,345	198	24,955	13,448	313,982
Spot liabilities	(165,815)	(6,230)	(7,417)	(25,837)	(9)	(24,323)	(33,006)	(262,637)
Forward purchases	123,450	11,936	15,117	13,897	-	2	59,196	223,598
Forward sales	(194,998)	(8,545)	(19,794)	(9,452)	-	(7)	(39,668)	(272,464)
Net options position	836	-	4	91	-	-	(153)	778
Net long/(short) position	2,663	(4)	(79)	44	189	627	(183)	3,257
Net structural position	109	-	-	-	-	234	-	343

	2004							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Macau Pataca	Renminbi Yuan	Others	Total	
Spot assets	228,593	21,041	16,581	21,532	181	13,129	14,189	315,246
Spot liabilities	(161,784)	(2,893)	(7,086)	(23,701)	(2)	(12,282)	(28,630)	(236,378)
Forward purchases	112,090	12,153	12,348	14,892	-	92	38,179	189,754
Forward sales	(178,122)	(30,661)	(21,972)	(12,945)	-	(54)	(23,902)	(267,656)
Net options position	(319)	8	32	53	-	-	238	12
Net long/(short) position	458	(352)	(97)	(169)	179	885	74	978
Net structural position	-	-	-	-	-	94	-	94



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:

	2005 HK\$'m	2004* HK\$'m
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	19,665	20,239
– Property investment	52,703	46,979
– Financial concerns	11,873	10,345
– Stockbrokers	167	124
– Wholesale and retail trade	13,258	15,016
– Manufacturing	13,710	11,837
– Transport and transport equipment	12,046	11,780
– Others	28,481	29,659
Individuals		
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	15,983	17,430
– Loans for purchase of other residential properties	99,179	95,615
– Credit card advances	4,668	4,256
– Others	8,093	7,386
Total loans for use in Hong Kong	279,826	270,666
Trade finance	16,080	13,279
Loans for use outside Hong Kong	38,108	29,281
Gross advances to customers	334,014	313,226

* Certain comparative amounts have been reclassified to conform with the current year's presentation.

5. Segmental information (continued)

(b) *Geographical analysis of gross advances to customers and overdue advances*

The following geographical analysis of gross advances to customers and advances overdue for over three months 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

	2005	2004
	HK\$'m	HK\$'m
Hong Kong	300,456	286,768
Mainland China	17,743	11,166
Others	15,815	15,292
	334,014	313,226

(ii) Advances overdue for over three months

	2005	2004
	HK\$'m	HK\$'m
Hong Kong	2,742	5,066
Mainland China	72	264
Others	31	39
	2,845	5,369



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 2005				
Asia, other than Hong Kong				
– Mainland China	33,928	25,116	15,818	74,862
– Others	62,836	851	10,936	74,623
	96,764	25,967	26,754	149,485
North America				
– United States	8,202	29,856	35,728	73,786
– Others	12,372	296	19	12,687
	20,574	30,152	35,747	86,473
Western Europe				
– Germany	32,415	–	3,399	35,814
– Others	116,724	412	15,830	132,966
	149,139	412	19,229	168,780
Total	266,477	56,531	81,730	404,738

	Banks and other financial institutions HK\$'m	Public sector entities HK\$'m	Others HK\$'m	Total HK\$'m
At 31 December 2004				
Asia, other than Hong Kong				
– Mainland China	48,234	14,338	12,103	74,675
– Others	54,183	915	7,142	62,240
	102,417	15,253	19,245	136,915
North America				
– United States	6,043	26,051	15,886	47,980
– Others	11,731	395	16	12,142
	17,774	26,446	15,902	60,122
Western Europe				
– Germany	40,020	–	4,415	44,435
– Others	147,474	743	15,238	163,455
	187,494	743	19,653	207,890
Total	307,685	42,442	54,800	404,927



7. Overdue and rescheduled assets

(a) Gross amount of overdue loans

	2005		2004	
	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	329	0.10%	489	0.16%
– one year or less but over six months	595	0.18%	395	0.13%
– over one year	1,921	0.57%	4,485	1.43%
Advances overdue for over three months	2,845	0.85%	5,369	1.72%

As at 31 December 2005 and 31 December 2004, there were no advances to banks and other financial institutions that were overdue for over three months.

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.

(b) Rescheduled advances to customers

	2005		2004	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Rescheduled advances to customers	310	0.09%	974	0.31%

As at 31 December 2005 and 31 December 2004, there were no rescheduled advances to banks and other financial institutions.



7. Overdue and rescheduled assets (continued)

(b) Rescheduled advances to customers (continued)

Rescheduled advances are those advances that have been restructured or renegotiated because of 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 before deduction of loan impairment allowances.

8. Repossessed assets held

	2005 HK\$'m	2004 HK\$'m
Estimated market value of repossessed assets held	431	1,185

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.

9. Connected transactions

In 2005, 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 controlling shareholder and therefore a connected person of the Company, all such transactions constituted connected transactions for the purposes of the Listing Rules. As the stated purpose of Central SAFE is to exercise the rights of an equity investor on behalf of the State and not to have any commercial operations, for purposes of this report, therefore, Central SAFE and the companies of which it is a substantial shareholder have not been treated as connected persons to the Company.

The transactions fell into the following two 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 14A.33 of the Listing Rules;
- 2) certain regular banking transactions entered into on a continual basis throughout the year. On 4 January 2005 the Company made an announcement (the "Announcement") in accordance with Rule 14A.34 of the Listing Rules. The Announcement listed those continuing connected transactions that exceeded the de minimus threshold and set out caps in respect of such transactions for the three years 2005-2007. These transactions were conducted in the ordinary course of its business and on normal commercial terms. Details of these continuing connected transactions are set out below and are described in the Announcement which may be viewed on the Company's website.

9. Connected transactions (continued)

Type of Transaction	2005 Cap HK\$'m	2005 Actual Amount HK\$'m
Securities Transactions	180	102.43
Fund Distribution Transactions	140	45.10
Credit Card Services	170	86.44
Information Technology Services	80	39.85
Property Transactions	120	94.92
Bank-note Delivery	80	35.61
Insurance Agency	310	221.42
Provision of Insurance Cover	90	55.58
Foreign Exchange Transactions	550	88.53
Trading of Interests in Loans	18,500	269.71
Inter-bank Capital Markets	3,500	3,223

