

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Capital adequacy ratio

	2004	2003
Capital adequacy ratio	16.14%	15.11%
Adjusted capital adequacy ratio	16.13%	15.21%

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 2004 and 31 December 2003 and reported to the HKMA is analysed as follows:

	2004 HK\$'m	2003 HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	12,408	10,468
Profit and loss account	4,491	2,327
Minority interests	963	917
	60,905	56,755
Supplementary capital:		
General provisions for doubtful debts	5,049	4,997
Total capital base	65,954	61,752
Deduction from total capital base:		
Shareholdings in subsidiaries or holding company	(351)	(449)
Exposures to connected companies	(845)	(872)
Equity investments of 20% or more in non-subsidiary companies	(60)	(107)
Investments in the capital of other banks or other financial institutions	(1)	(1)
	(1,257)	(1,429)
Total capital base after deductions	64,697	60,323

3. Liquidity ratio

	2004	2003
Average liquidity ratio	36.03%	37.76%

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.

	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

	2003							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Macau Pataca	Renminbi Yuan	Others	Total	
Spot assets	164,349	16,571	21,619	22,007	153	1,144	22,776	248,619
Spot liabilities	(142,187)	(3,049)	(11,011)	(28,336)	(2)	(563)	(39,661)	(224,809)
Forward purchases	125,005	14,602	13,252	20,289	-	-	36,248	209,396
Forward sales	(149,283)	(28,057)	(24,134)	(14,112)	-	-	(19,762)	(235,348)
Net options position	(974)	-	59	837	-	-	95	17
Net long/(short) position	(3,090)	67	(215)	685	151	581	(304)	(2,125)
Net structural position	-	-	-	-	-	-	-	-

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:

	2004 HK\$'m	2003 HK\$'m
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development*	21,323	23,161
– Property investment	47,809	46,754
– Financial concerns	9,956	6,589
– Stockbrokers	124	41
– Wholesale and retail trade*	15,243	17,679
– Manufacturing*	11,767	10,711
– Transport and transport equipment*	11,777	12,383
– Others*	30,035	38,521
Individuals		
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	17,430	18,244
– Loans for purchase of other residential properties	95,615	90,003
– Credit card advances	4,256	3,756
– Others*	7,386	6,959
Total loans for use in Hong Kong*	272,721	274,801
Trade finance*	13,279	12,100
Loans for use outside Hong Kong	27,226	21,681
Gross advances to customers	313,226	308,582

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

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

	2004 HK\$'m	2003 HK\$'m
Hong Kong	286,768	289,129
Mainland China	11,166	8,434
Others	15,292	11,019
	313,226	308,582

(ii) Advances overdue for over three months

	2004 HK\$'m	2003 HK\$'m
Hong Kong	5,066	11,066
Mainland China	264	469
Others	39	69
	5,369	11,604

(iii) Non-performing loans

	2004 HK\$'m	2003 HK\$'m
Hong Kong	8,871	16,801
Mainland China	321	887
Others	47	144
	9,239	17,832

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 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

	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

7. Overdue and rescheduled assets
(a) Overdue and non-performing loans

	2004		2003	
	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	489	0.16%	977	0.31%
– one year or less but over six months	395	0.13%	2,521	0.82%
– over one year	4,485	1.43%	8,106	2.63%
Advances overdue for over three months	5,369	1.72%	11,604	3.76%
Less:				
Amount overdue for over three months and on which interest is still being accrued	(61)	(0.02%)	(67)	(0.02%)
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	916	0.29%	798	0.26%
– others	3,015	0.96%	5,497	1.78%
Gross non-performing loans	9,239	2.95%	17,832	5.78%

As at 31 December 2004 and 31 December 2003, there were no advances to banks and other financial institutions that were overdue for over three months.

7. Overdue and rescheduled assets (continued)

(b) Other overdue assets

	2004 HK\$'m	2003 HK\$'m
Overdue for:		
– six months or less but over three months	2	2
– over one year	1	2
	3	4

As at 31 December 2004 and 31 December 2003, other overdue assets represented the accrued interest.

(c) Rescheduled advances to customers

	2004		2003	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Rescheduled advances to customers	974	0.31%	851	0.28%

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 2004 and 31 December 2003, there were no rescheduled advances to banks and other financial institutions.

8. Repossessed assets held

	2004	2003
	HK\$'m	HK\$'m
Reposessed assets held	1,185	1,757

Reposessed 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 reposessed assets are realised. Specific provisions will be made after taking into account the market value of the reposessed assets which are yet to be disposed. Upon disposal of the reposessed assets, any specific provisions previously made will be utilised to write off the loans and advances.

9. Connected transactions

In 2004, 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 subsequent to the listing of the Company on the Stock Exchange for the purposes of the Listing Rules. In August 2004, the PRC government established Huijin to hold the equity capital of BOC and the equity capital of certain other financial institutions previously held directly by the State. The stated purpose of Huijin 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, Huijin 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 14.24 (and since 31 March 2004, Rule 14A.33) 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. The waiver expired on 31 December 2004 and 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 minimis threshold and set out caps that the Company will comply with in respect of such transactions for the next three years. Details of these continuing connected transactions may be found in the Announcement at www.bochk.com/ir.

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 2004. 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.

9. Connected transactions (continued)

Derivatives Transactions

These included interest rate and currency interest rate swaps, equity derivatives, 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.

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) 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.

Forfaiting Trading

BOCHK entered into forfaiting 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, Frankfurt, Osaka and Tokyo branches of Bank of China, pursuant to which they are given priority over other banks for advising and negotiating Letters of Credit and for funds transfers, provided the terms are at least as good as those offered by other banks, and as compensation they will rebate part of the commission.

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 sub-participation of loans, acquiring and disposing of interests in syndicated loans and tax efficiency financing.

Loan Servicing Agreements

On 6 July 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. Such loan service was ended in June 2004 when the loans were sold.

Provision of Insurance Cover by BOC Insurance

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

9. Connected transactions (continued)

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. This agreement formalised many of the relationships that existed prior to its execution.

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.

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, a subsidiary of BOCHK, and promoted guaranteed fund and open-end fund products for BOCI-Prudential Manager, an indirect subsidiary of BOC, and sold these products for a commission.

9. Connected transactions (continued)

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 provides similar services to BOC's Associates on similar terms. Prior to July 2002, BOCHK charged BOC, its branches and Associates for its information technology services only at cost.

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.

BOC Markets Services Agreement

Under the terms of a BOC Markets Services Agreement, dated 6 July 2002, between BOCHK and BOC Markets, BOCHK provides office premises and certain support services to BOC Markets in connection with its operations in Hong Kong. A small number of BOCHK's employees are 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 paid preferential interest rate for deposits of over 1 month's duration and up to a maximum of HK\$5 million in total from each of the directors of the Group and 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.

9. Connected transactions (continued)

Type of Transaction	2004 HK\$'m
Derivatives Transactions (volume)	923.94
Foreign Exchange Transactions (volume)	280,216
Inter-Bank Capital Markets Transactions	N/A
Bullion Trading (volume)	3,727.74
Forfaiting Transactions (volume)	11.69
Correspondent Banking Fee Sharing	10.65
Capital Markets Transactions	N/A
Loan Servicing Agreements	5.25
Provision of Insurance Cover by BOC Insurance	50.67
Insurance Agency Commission Income	199.79
Securities Brokerage Commission Payments, Net of Rebates	112.98
International Card	17
Renminbi Card (payment to BOC)	1.13
BOC-CC Business in Macau	10.48
BOC-CC Business in the Mainland China – Payments retained by and to BOC	36.94
Credit Card Support Services to BOC overseas branches	1.85
Credit Card Training Subsidy	2
Funds Selling Commission Income	70.91
Administrative Services (under the Services and Relationship Agreement and the BOC Markets Services Agreement)	0.39
Audit Services	7.50
Information Technology Services	40.36
Training Services	2.16
Secondments from BOC – Management Fee	0.03
Human Resources Support Services and Secondments to BOC Markets	0.07
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.