

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

## 1. Capital adequacy ratio

	2006	2005
Capital adequacy ratio	13.99%	15.37%
Adjusted capital adequacy ratio	13.93%	15.33%

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 2006 and 31 December 2005 and reported to the HKMA is analysed as follows:

	2006 HK\$'m	2005 HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	20,281	16,096
Profit and loss account	3,970	4,065
Minority interests	1,164	1,009
	68,458	64,213
Supplementary capital:		
Reserves on revaluation of holding of securities not held for trading purposes	(118)	(311)
Collective loan impairment allowances	557	731
Regulatory reserve	3,621	3,571
Total capital base	72,518	68,204
Deduction from total capital base:		
Shareholdings in subsidiaries or holding company	(328)	(337)
Exposures to connected companies	(593)	(597)
Equity investments of 20% or more in non-subsidiary companies	(50)	(64)
Investments in the capital of other banks or other financial institutions	-	(6)
	(971)	(1,004)
Total capital base after deductions	71,547	67,200

### 3. Liquidity ratio

	2006	2005
Average liquidity ratio	<b>50.46%</b>	42.02%

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.

	2006							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Pound Dollars	Renminbi Sterling	Yuan	Others	Total
Spot assets	280,010	2,538	12,922	22,642	6,150	28,521	7,357	360,140
Spot liabilities	(189,454)	(4,346)	(7,485)	(18,126)	(12,217)	(27,729)	(18,185)	(277,542)
Forward purchases	126,163	12,131	15,728	8,009	26,833	1,173	39,626	229,663
Forward sales	(211,509)	(10,313)	(21,195)	(12,533)	(20,786)	(1,098)	(28,627)	(306,061)
Net options position	1,641	144	(105)	68	(8)	-	64	1,804
Net long/(short) position	6,851	154	(135)	60	(28)	867	235	8,004
Net structural position	83	-	-	-	-	309	-	392

	2005							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Pound Dollars	Renminbi Sterling	Yuan	Others	Total
Spot assets	240,430	2,835	12,011	21,345	6,315	24,955	7,331	315,222
Spot liabilities	(165,815)	(6,230)	(7,417)	(25,837)	(13,472)	(24,323)	(19,543)	(262,637)
Forward purchases	123,450	11,936	15,117	13,897	18,737	2	40,459	223,598
Forward sales	(194,998)	(8,545)	(19,794)	(9,452)	(11,588)	(7)	(28,080)	(272,464)
Net options position	836	-	4	91	(13)	-	(140)	778
Net long/(short) position	3,903	(4)	(79)	44	(21)	627	27	4,497
Net structural position	109	-	-	-	-	234	-	343

## 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:

	2006 HK\$'m	2005* HK\$'m
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	19,290	18,536
– Property investment	55,943	52,490
– Financial concerns	10,721	11,624
– Stockbrokers	65	167
– Wholesale and retail trade	13,019	12,796
– Manufacturing	12,417	11,723
– Transport and transport equipment	15,548	11,911
– Others	21,777	26,853
Individuals		
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	14,236	15,983
– Loans for purchase of other residential properties	96,953	99,171
– Credit card advances	5,490	4,668
– Others	8,831	8,080
Total loans for use in Hong Kong	274,290	274,002
Trade finance	16,865	16,079
Loans for use outside Hong Kong	55,935	43,942
Gross advances to customers	347,090	334,023

\* 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

	<b>2006</b> <b>HK\$'m</b>	2005 HK\$'m
Hong Kong	<b>306,911</b>	300,465
Mainland China	<b>22,984</b>	17,743
Others	<b>17,195</b>	15,815
	<b>347,090</b>	334,023

#### (ii) Advances overdue for over three months

	<b>2006</b> <b>HK\$'m</b>	2005 HK\$'m
Hong Kong	<b>1,259</b>	2,742
Mainland China	<b>48</b>	72
Others	<b>51</b>	31
	<b>1,358</b>	2,845

## 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:

	<b>Banks and other financial institutions HK\$'m</b>	<b>Public sector entities HK\$'m</b>	<b>Others HK\$'m</b>	<b>Total HK\$'m</b>
<b>At 31 December 2006</b>				
Asia, other than Hong Kong				
– Mainland China	<b>37,202</b>	<b>25,052</b>	<b>18,486</b>	<b>80,740</b>
– Others	<b>67,088</b>	<b>569</b>	<b>16,710</b>	<b>84,367</b>
	<b>104,290</b>	<b>25,621</b>	<b>35,196</b>	<b>165,107</b>
North America				
– United States	<b>8,923</b>	<b>25,232</b>	<b>74,712</b>	<b>108,867</b>
– Others	<b>12,391</b>	<b>101</b>	<b>133</b>	<b>12,625</b>
	<b>21,314</b>	<b>25,333</b>	<b>74,845</b>	<b>121,492</b>
Western Europe				
– Germany	<b>38,204</b>	–	<b>3,620</b>	<b>41,824</b>
– Others	<b>149,973</b>	<b>133</b>	<b>16,819</b>	<b>166,925</b>
	<b>188,177</b>	<b>133</b>	<b>20,439</b>	<b>208,749</b>
Total	<b>313,781</b>	<b>51,087</b>	<b>130,480</b>	<b>495,348</b>

	Banks and other financial institutions HK\$'m	Public sector entities HK\$'m	Others HK\$'m	Total HK\$'m
<b>At 31 December 2005</b>				
Asia, other than Hong Kong				
– Mainland China	33,928	25,116	15,818	74,862
– Others	63,952	851	10,936	75,739
	97,880	25,967	26,754	150,601
North America				
– United States	8,775	29,856	36,241	74,872
– Others	12,372	296	19	12,687
	21,147	30,152	36,260	87,559
Western Europe				
– Germany	32,925	–	3,399	36,324
– Others	119,850	412	15,830	136,092
	152,775	412	19,229	172,416
Total	271,802	56,531	82,243	410,576

## 7. Overdue and rescheduled assets

## (a) Gross amount of overdue loans

	2006		2005	
	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	318	0.09%	329	0.10%
– one year or less but over six months	202	0.06%	595	0.18%
– over one year	838	0.24%	1,921	0.57%
Advances overdue for over three months	1,358	0.39%	2,845	0.85%

As at 31 December 2006 and 31 December 2005, 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

	2006		2005	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Rescheduled advances to customers	216	0.06%	310	0.09%

As at 31 December 2006 and 31 December 2005, 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**

	2006 HK\$'m	2005 HK\$'m
Estimated market value of repossessed assets held	309	431

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 2006, 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 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 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 minimis 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. On 11 April 2006 the Company has announced its intention to revise the caps for Inter-bank Capital Markets transactions. On 26 May 2006 over 99.99% of the independent shareholders in the extraordinary general meeting voted for such changes. Details of these continuing connected transactions are set out below and are described in the announcements which may be viewed at the Company's website.

**9. Connected transactions (continued)**

<b>Type of Transaction</b>	<b>2006 Cap HK\$m</b>	<b>2006 Actual Amount HK\$m</b>
Securities Transactions	220	196
Fund Distribution Transactions	190	54
Credit Card Services	220	92
Information Technology Services	110	43
Property Transactions	140	97
Bank-note Delivery	100	38
Insurance Agency	410	295
Provision of Insurance Cover	110	62
Foreign Exchange Transactions	550	56
Trading of Interests in Loans	18,500	1,180
Inter-bank Capital Markets	14,000	4,539

3. On 11 April 2006 the Company and BOC Insurance entered into a Sale and Purchase Agreement whereby the Company conditionally agreed to purchase the BOC Life Shares, representing 51% of the issued share capital of BOC Life, for a purchase price of HK\$900 million. As BOC Insurance is wholly owned by BOC, this purchase constitute a connected transaction. On 26 May 2006 an extraordinary general meeting was held and over 99.99% of the independent shareholders vote for the resolutions.

**10. Reconciliation between HKFRSs vs IFRS/PRC GAAP**

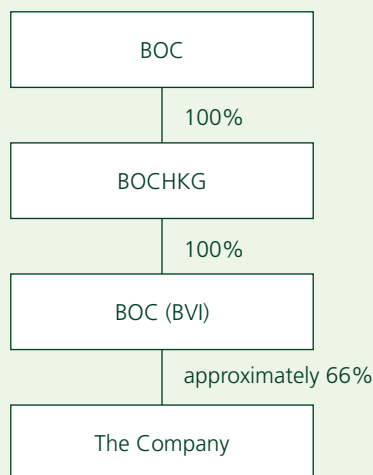
The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and PRC GAAP for which the Company and its subsidiaries will form part of the consolidated financial statements.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its consolidated financial statements is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.



## 10. Reconciliation between HKFRSs vs IFRS/PRC GAAP (continued)

First, the definitions of “BOC Hong Kong Group” (as adopted by BOC for the purpose of its own financial disclosure) and “Group” (as adopted by the Company in preparing and presenting its consolidated financial information) are different: “BOC Hong Kong Group” refers to BOCHKG and its subsidiaries, whereas “Group” refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between “BOC Hong Kong Group” and “Group”, their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



Second, the Group has prepared its consolidated financial statements in accordance with HK GAAP prior to 1 January 2005 and as from 1 January 2005 onwards in accordance with HKFRSs; whereas the consolidated financial information reporting to BOC is prepared in accordance with IFRS and PRC GAAP respectively. Despite the fact that HKFRSs have converged with IFRS, there is a timing difference in the initial adoption of HKFRSs and IFRS by the Group and by BOC respectively.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its financial statements on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRS and PRC GAAP respectively for the periods presented.

The major differences between HKFRSs and IFRS/PRC GAAP, which arise from the difference in measurement basis in IFRS or PRC GAAP and the timing difference in the initial adoption of HKFRSs and IFRS relate to the following:

- loan loss allowance;
- re-measurement of carrying value of treasury products;
- restatement of carrying value of bank premises and investment properties; and
- deferred taxation impact arising from the above different measurement basis.

**10. Reconciliation between HKFRSs vs IFRS/PRC GAAP (continued)****(a) Loan loss allowance**

Such adjustments were mainly due to the different approaches used to determine loan loss allowance under different accounting standards. Before 2005, the provisioning approach adopted by the Company mainly followed the guidelines issued by the Hong Kong Monetary Authority. This approach was different from the requirements of IFRS and PRC GAAP under which impairment losses assessment is based on the estimated future cash flows of the loans or group of loans as of each balance sheet date.

Effective 1 January 2005, the provisioning approach adopted under HKFRSs and IFRS was aligned. Due to the difference in the timing of first adoption of HKFRSs and IFRS, impairment charges to the income statement under HKFRSs and IFRS for 2005 were different. The provisioning approach under IFRS and PRC GAAP is basically the same.

**(b) Re-measurement of carrying value of treasury products**

(i) Non-trading derivatives held for hedging purposes were not required to be marked to market under HK GAAP before 2005. Since 2005, their measurement has been aligned with IFRS and PRC GAAP with slight differences in profit and loss and net assets in 2005 mainly due to timing differences.

(ii) Due to the difference in the timing of first adoption of HKFRSs and IFRS, classification and measurement of certain investment securities under HK GAAP/HKFRSs and IFRS were different. Therefore, investment securities were reclassified and re-measured to align with the accounting policies of BOC for the relevant periods. Classification and measurement under IFRS and PRC GAAP is basically the same.

**(c) Restatement of carrying value of bank premises and investment properties**

The Company has elected for a revaluation basis rather than cost basis to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost convention for bank premises and revaluation basis for investment properties under IFRS; and cost convention for both bank premises and investment properties under PRC GAAP. Therefore, adjustments have been made to restate the carrying value of bank premises and investment properties as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS and PRC GAAP.

**(d) Deferred tax adjustments**

These represent the deferred tax effect of the aforesaid adjustments.

**(e) Merger accounting adjustments**

The Group has applied merger accounting to account for the purchase of the 51% equity interest in BOC Life on 1 June 2006, as if the business combination had occurred from the beginning of the relevant periods. Comparatives under HKFRSs were restated accordingly. For the purpose of segment reporting in respect of BOCHKG in the financial statements of BOC under IFRS and PRC GAAP, comparatives were not restated.

Going forward, the differences relating to the restatement of carrying value of bank premises as a result of the election of the different measurement basis allowed under HKFRSs and IFRS and PRC GAAP will be recurring in the future, while the timing difference related to the measurement of investment securities will be reversed gradually and eliminated in the future years. The difference in the carrying value of investment properties will be eliminated next year after the convergence of PRC GAAP with HKFRSs.

## 10. Reconciliation between HKFRSs vs IFRS/PRC GAAP (continued)

*Profit after tax/Net assets reconciliation*

## (i) HKFRSs Vs IFRS

	Profit after tax		Net assets	
	2006 HK\$'m	2005 HK\$'m	2006 HK\$'m	2005 HK\$'m
<b>Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs</b>	<b>14,284</b>	13,856	<b>86,640</b>	81,713
Add: IFRS adjustments				
Loan loss allowance	–	(172)	–	–
Re-measurement of carrying value of treasury products	<b>(226)</b>	465	<b>44</b>	70
Restatement of carrying value of bank premises	<b>164</b>	439	<b>(7,295)</b>	(6,248)
Deferred tax adjustments	<b>28</b>	(69)	<b>1,230</b>	1,027
Merger accounting adjustments	–	(198)	–	(980)
Other adjustments	–	68	–	–
<b>Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS</b>	<b>14,250</b>	14,389	<b>80,619</b>	75,582

## (ii) HKFRSs Vs PRC GAAP

	Profit after tax		Net assets	
	2006 HK\$'m	2005 HK\$'m	2006 HK\$'m	2005 HK\$'m
<b>Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs</b>	<b>14,284</b>	13,856	<b>86,640</b>	81,713
Add: PRC GAAP adjustments				
Loan loss allowance	–	(172)	–	–
Re-measurement of carrying value of treasury products	<b>(226)</b>	465	<b>44</b>	65
Restatement of carrying value of bank premises & investment properties	<b>(336)</b>	(1,209)	<b>(10,495)</b>	(8,949)
Deferred tax adjustments	<b>59</b>	172	<b>3,162</b>	2,920
Merger accounting adjustments	–	(198)	–	(980)
Other adjustments	<b>(36)</b>	(4)	<b>(108)</b>	(72)
<b>Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under PRC GAAP</b>	<b>13,745</b>	12,910	<b>79,243</b>	74,697