



北京2008年奥运会银行合作伙伴  
OFFICIAL BANKING PARTNER OF THE BEIJING 2008 OLYMPIC GAMES

Delivering Growth and  
*Excellence*  
Annual Report 2007



**Bank of China Limited**

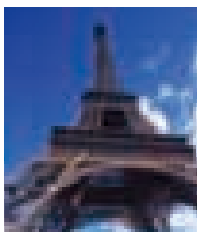
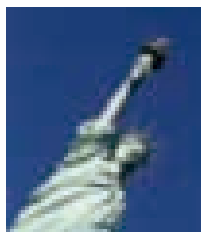
(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 3988



## Bank of China Global Network

Bank of China is the most internationalised bank in China. It established its first overseas office, the London Branch, in 1929. After that, the Bank successively opened branches in global financial centres. Apart from in the Chinese Mainland, it had built up an extensive international network of 689 institutions in Hong Kong, Macau and 26 overseas countries and regions with over 22,000 staff by the end of 2007.



# Financial Highlights

Note: This report is prepared in accordance with International Financial Reporting Standards (IFRS).

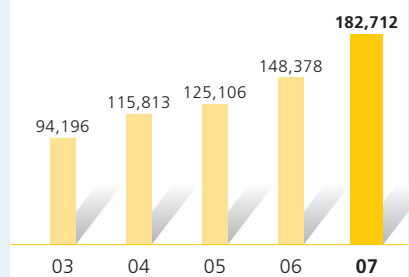
Unit: RMB million

|                                                                                                       | Note | 2007      | 2006      | 2005      | 2004      | 2003      |
|-------------------------------------------------------------------------------------------------------|------|-----------|-----------|-----------|-----------|-----------|
|                                                                                                       |      |           |           |           |           | (Note 1)  |
| <b>Results of operations</b>                                                                          |      |           |           |           |           |           |
| Net interest income                                                                                   |      | 152,745   | 121,371   | 101,008   | 88,435    | 76,597    |
| Non-interest income                                                                                   | 2    | 29,967    | 27,007    | 24,098    | 27,378    | 17,599    |
| Operating income                                                                                      | 3    | 182,712   | 148,378   | 125,106   | 115,813   | 94,196    |
| Operating expenses                                                                                    |      | (85,026)  | (68,731)  | (59,984)  | (54,879)  | (46,080)  |
| Impairment losses on loans                                                                            |      | (8,252)   | (12,342)  | (11,486)  | (23,812)  | (18,100)  |
| Operating profit                                                                                      |      | 89,434    | 67,305    | 53,636    | 37,122    | 30,016    |
| Profit before income tax                                                                              |      | 90,697    | 67,937    | 53,811    | 37,263    | 29,947    |
| Profit for the year                                                                                   |      | 62,036    | 48,264    | 31,558    | 27,065    | 26,785    |
| Profit attributable to the equity holders of the Bank                                                 |      | 56,248    | 42,830    | 25,921    | 22,301    | 23,615    |
| Total dividend                                                                                        |      | 25,384    | 10,154    | 14,112    | 14,200    | –         |
| <b>Balance sheet items</b>                                                                            |      |           |           |           |           |           |
| Total assets                                                                                          |      | 5,991,217 | 5,327,653 | 4,740,048 | 4,265,221 | 3,973,280 |
| Loans, net                                                                                            |      | 2,754,493 | 2,337,726 | 2,152,112 | 2,072,919 | 1,921,861 |
| Investment securities                                                                                 | 4    | 1,712,927 | 1,892,482 | 1,683,313 | 1,321,646 | 1,104,105 |
| Total liabilities                                                                                     |      | 5,540,560 | 4,914,697 | 4,484,529 | 4,037,314 | 3,751,434 |
| Due to customers                                                                                      |      | 4,400,111 | 4,091,118 | 3,699,464 | 3,338,448 | 3,033,364 |
| Capital and reserves attributable to the equity holders of the Bank                                   |      | 420,430   | 382,917   | 226,419   | 200,755   | 196,820   |
| Share capital                                                                                         |      | 253,839   | 253,839   | 209,427   | 186,390   | 186,390   |
| <b>Per share</b>                                                                                      |      |           |           |           |           |           |
| Earnings per share for profit attributable to the equity holders of the Bank (basic and diluted, RMB) |      | 0.22      | 0.18      | 0.14      | 0.12      | 0.13      |
| Dividend per share (before tax, RMB)                                                                  | 5    | 0.10      | 0.04      | 0.07      | 0.08      | N/A       |
| Net assets per share (RMB)                                                                            | 6    | 1.66      | 1.51      | 1.08      | 1.08      | 1.06      |
| <b>Key financial ratios</b>                                                                           |      |           |           |           |           |           |
| Return on average total assets (%)                                                                    | 7    | 1.10      | 0.96      | 0.70      | 0.66      | 0.74      |
| Return on average equity (%)                                                                          | 8    | 14.00     | 14.06     | 12.14     | 11.22     | 12.00     |
| Net interest spread (%)                                                                               | 9    | 2.59      | 2.28      | 2.21      | 2.14      | 2.08      |
| Net interest margin (%)                                                                               | 10   | 2.76      | 2.45      | 2.33      | 2.24      | 2.16      |
| Loan to deposit ratio (%)                                                                             | 11   | 64.78     | 59.45     | 60.42     | 64.33     | 71.24     |
| Non-interest income to operating income (%)                                                           | 12   | 16.40     | 18.20     | 19.26     | 23.64     | 18.68     |
| Cost to income (%)                                                                                    | 13   | 46.54     | 46.32     | 47.95     | 47.39     | 48.92     |
| Cost to income (excluding business and other taxes, %)                                                |      | 41.76     | 41.97     | 43.41     | 43.08     | 44.70     |
| <b>Capital adequacy ratios</b>                                                                        |      |           |           |           |           |           |
| Core capital adequacy ratio (%)                                                                       |      | 10.67     | 11.44     | 8.08      | 8.48      | N/A       |
| Capital adequacy ratio (%)                                                                            |      | 13.34     | 13.59     | 10.42     | 10.04     | N/A       |
| <b>Asset quality</b>                                                                                  |      |           |           |           |           |           |
| Identified impaired loans                                                                             |      | 90,317    | 103,232   | 109,530   | 118,383   | 358,218   |
| Identified impaired loans to gross loans (%)                                                          | 14   | 3.17      | 4.24      | 4.90      | 5.51      | 16.58     |
| Allowance for loan impairment losses                                                                  |      | 96,068    | 94,293    | 83,153    | 74,769    | 239,039   |
| Allowance for loan impairment losses to identified impaired loans (%)                                 | 15   | 106.37    | 91.34     | 75.92     | 63.16     | 66.73     |
| Credit cost (%)                                                                                       | 16   | 0.31      | 0.53      | 0.52      | 1.11      | N/A       |
| <b>Human resources</b>                                                                                |      |           |           |           |           |           |
| Number of employees of the Group                                                                      | 17   | 237,379   | 232,632   | 229,742   | 238,672   | 241,401   |
| Number of employees in the Chinese Mainland                                                           |      | 215,334   | 212,428   | 211,305   | 220,999   | 224,404   |
| Number of branches and outlets of the Group                                                           |      | 10,834    | 11,241    | 11,646    | 11,909    | 12,153    |
| Number of branches and outlets in the Chinese Mainland                                                |      | 10,145    | 10,598    | 11,018    | 11,306    | 11,608    |
| <b>Exchange rate</b>                                                                                  |      |           |           |           |           |           |
| USD/RMB year-end middle rate                                                                          |      | 7.3046    | 7.8087    | 8.0702    | 8.2765    | 8.2767    |
| EUR/RMB year-end middle rate                                                                          |      | 10.6669   | 10.2665   | 9.5797    | 11.2627   | 10.3383   |
| HKD/RMB year-end middle rate                                                                          |      | 0.9364    | 1.0047    | 1.0403    | 1.0637    | 1.0657    |

Please refer to 'Definitions' in this report for notes.

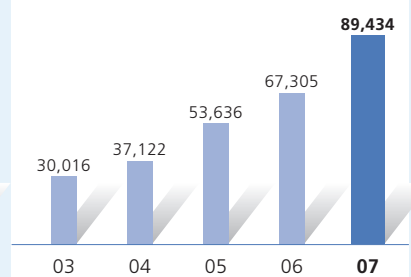
### Operating income

RMB million



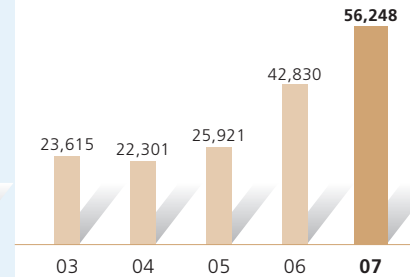
### Operating profit

RMB million



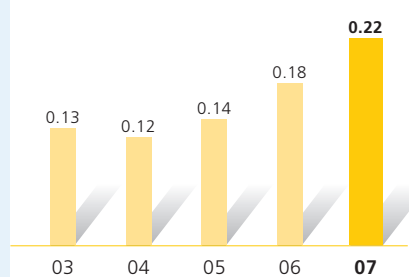
### Profit attributable to the equity holders of the Bank

RMB million



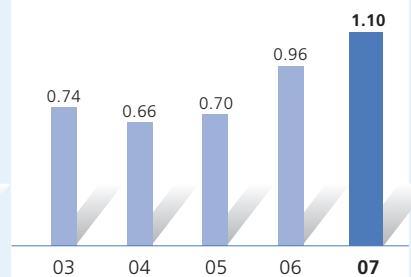
### EPS (basic and diluted)

RMB



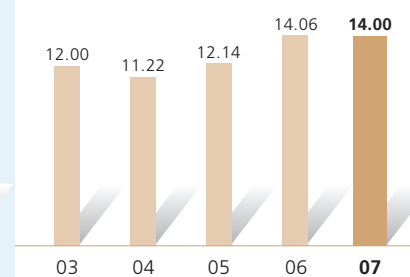
### ROA

%



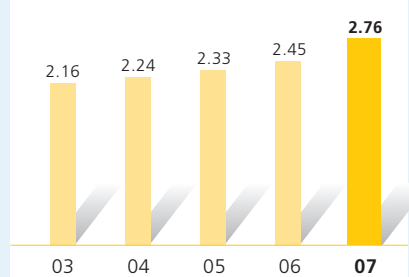
### ROE

%



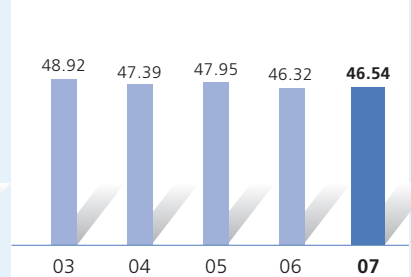
### Net interest margin

%



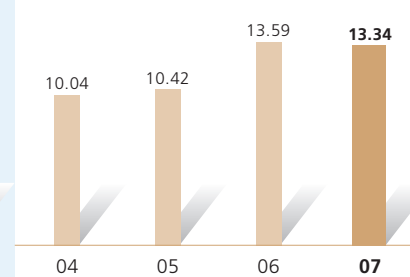
### Cost to income

%



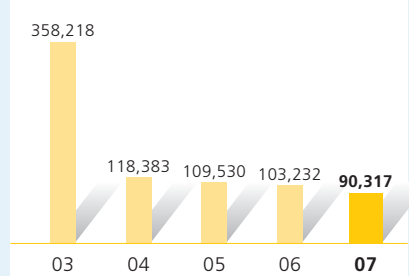
### Capital adequacy ratio

%



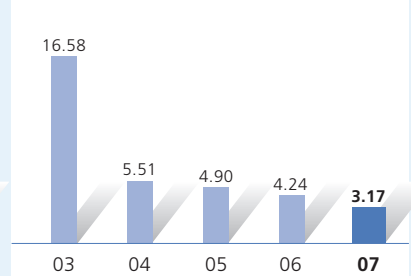
### Identified impaired loans

RMB million



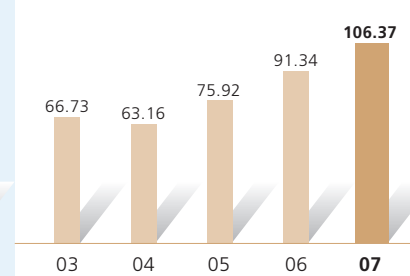
### Identified impaired loans to gross loans

%



### Allowance for loan impairment losses to identified impaired loans

%



Integrity



Performance



Responsibility



Innovation



Harmony



**Bank** of China was formally established in February 1912 pursuant to the approval of Mr. Sun Yat Sen. In the following 37 years until the founding of the People's Republic of China in 1949, the Bank served as the central bank, international exchange bank and specialised foreign trade bank of the country. As the pillar of the country's financial industry during a period of turmoil in history, Bank of China was committed to serving the public and developing the nation's financial industry and achieved significant developments in many areas of its business operations through prudent management and progressive reforms. After the founding of the People's Republic of China, Bank of China became the state-designated specialised foreign exchange and foreign trade bank. Having maintained and promoted its strong entrepreneurial spirit, the Bank contributed substantially to the development of the country's foreign trade and the national economy.

Bank of China is one of the major domestic financial service providers. Its business scope covers commercial banking, investment banking and insurance. Members of the Group include BOCHK, BOCI, BOCG Insurance and other financial institutions. The core business of the Bank is commercial banking which includes corporate banking, personal banking and financial markets. In terms of tier one capital, it ranked 9th among the world's top 1,000 banks by *The Banker* magazine in 2007.

With a history of almost a hundred years in the financial industry of China, Bank of China is well-known for its continuous business innovations while emphasising prudence in its operations. It is widely recognised and commended by its peers and customers in international settlement, foreign exchange, trade finance, etc. Bank of China is the most internationalised bank in China and the forerunner to recruit international experts and to introduce modern business management concepts into its operations with a view to becoming a premier international bank.

As the sole banking partner of the Beijing 2008 Olympic Games, Bank of China will offer efficient and high quality financial services to domestic and foreign customers. It will promote and spread the Olympic spirits and contribute to the success of this magnificent sports event, thereby improving its corporate image and its value to the community.

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# Corporate Information

## Registered Corporate Name in Chinese

中國銀行股份有限公司

## Registered Corporate Name in English

BANK OF CHINA LIMITED

## Legal Representative

XIAO Gang

## Authorised Representatives

LI Lihui

YEUNG Jason Chi Wai

## Secretary to the Board of Directors

YEUNG Jason Chi Wai

## Qualified Accountant

LEUNG Frances Kim Lan

## Listing Affairs Representative

LUO Nan

## Registered Address of Head Office

No.1 Fuxingmen Nei Dajie, Beijing, China

## Office Address

No.1 Fuxingmen Nei Dajie, Beijing, China, 100818

Telephone: 86-10-66592638

Facsimile: 86-10-66594568

Website: <http://www.boc.cn>

E-mail: [bocir@bank-of-china.com](mailto:bocir@bank-of-china.com)

## Place of Business in Hong Kong

Bank of China Tower, 1 Garden Road, Central, Hong Kong

## Selected Newspapers and Websites for Information Disclosure

In accordance with the regulations in the Chinese Mainland, the Bank publishes the CAS announcement on the following newspapers in Chinese:

*China Securities, Shanghai Securities, Securities Times*

Website designated by CSRC for publication of the Annual Report: <http://www.sse.com.cn>

Website of Hong Kong Exchanges and Clearing Limited for publication of the Annual Report: <http://www.hkexnews.hk>

## Annual Reports of the Bank are also available at major business locations

## Hong Kong Legal Advisor

Allen & Overy



## China Legal Advisor

King & Wood PRC Lawyers

## Compliance Advisors

Goldman Sachs (Asia) L.L.C  
UBS AG acting through its business group,  
UBS Investment Bank

## Sponsors for A Share

China Galaxy Securities Co., Ltd.  
CITIC Securities Co., Ltd.  
Guotai Junan Securities Co., Ltd.

## Auditors

### Domestic auditor

PricewaterhouseCoopers Zhong Tian Certified Public  
Accountants Limited Company  
Address:  
11th Floor, PwC Centre, No.202 Hubin Road,  
Shanghai, China, 200021

### International auditor

PricewaterhouseCoopers  
Address:  
22/F, Prince's Building, Central, Hong Kong

## Date of First Registration

31 October 1983

## Modified Registration Date

26 August 2004

## Authority of First Registration

State Administration of Industry and Commerce, PRC

## Corporate Business Licence Serial Number

1000001000134

## Financial Institution Licence Serial Number

B0003H111000001

## Tax Registration Certificate Number

JSZZ 110102100001342

## Stock Information

### A Shares

Shanghai Stock Exchange

### Stock Name

中國銀行

### Stock Code

601988

### H Shares

The Stock Exchange of Hong Kong Limited

### Stock Name

Bank of China

### Stock Code

3988





We uphold **Integrity**

# Message from the Chairman

**During the year, we achieved an after-tax profit attributable to shareholders of RMB56.248 billion, a year-on-year growth of 31.33%. We recorded earnings per share (EPS) of RMB0.22, a return on average total assets (ROA) of 1.10%, and a return on average equity (ROE) of 14.00%.** At the end of 2007, the ratio of identified impaired loans to gross loans decreased from 4.24% at the end of 2006 to 3.17%, and the identified impaired loans dropped by RMB12.915 billion to RMB90.317 billion. The Group's market capitalisation was USD197.8 billion at the end of 2007, making our Bank the fourth largest listed bank across the globe. The Board of Directors has proposed a cash dividend of RMB0.10 per share for the year 2007 to the Annual General Meeting for approval, which is scheduled on 19 June 2008.

The year witnessed sustained growth of the global economy but also turbulence and heightened risks in the financial markets triggered by the US subprime mortgage crisis. The financial markets in the Chinese Mainland are generally stable. Real progress was made in the development of China's capital market and in the flexibility of the RMB exchange rate. The year was also one in which the government stepped up its macro-economic regulation, further enhanced regulation of the banking sector,

advanced its financial reforms and further opened up the economy to the global market.

One of our major accomplishments has been the adoption of the concept of scientific development as a core component of our business strategy, which will go far in helping us attain our goal of becoming a leading international bank in the global financial market. With this objective in mind, we improved our operational and management capabilities by promoting innovation throughout our business and instilling a customer focused culture in our banking practices that will enhance our Bank's brand value and market competitiveness. At the same time, we cooperated with our strategic investors on multiple fronts to strengthen our business and management infrastructure. Our successful efforts were evident in the greater synergies achieved with our strategic investors and within our Bank.

One of our greatest competitive strengths as a provider of financial services is our diversified business platform. During the year, BOC Insurance was authorised to operate as a domestically incorporated company and BOC Investment Management was restructured as a direct subsidiary of the Group in early 2008.

In 2007, we made substantial progress in the strategic transformation of our corporate banking services and enhancing customer focused services by marketing a full range of financial services and products, and promoting the new small and medium sized enterprises business pilot programme. We also implemented a personal banking business strategy that increases the importance of personal banking in our business structure. We have developed a greater range of wealth management products and services for medium-end and high-end customers, an initiative that has already yielded results in the form of an immediate improvement to our profits. In addition, we expanded our overseas operations during the year with the establishment of a UK subsidiary, a Rotterdam branch and European/African Syndicated Loan Center to meet the demands of both our domestic and overseas customers. In support of our ongoing growth, we further improved our risk management capabilities. Among other initiatives, we made improvements to our system of internal controls, implemented new information technology infrastructure, optimised our operational and service systems and enhanced our reform of human resources management, while further developing our Bank's corporate culture.

Equally as important to our long-term growth, we continued to improve our corporate governance structure according to the principles of scientific

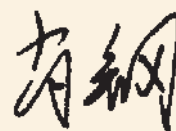
decision-making and effective supervision. During the year, we held our first Annual General Meeting of shareholders after the Bank's IPO and an extraordinary shareholders' meeting. Both occasions provided excellent opportunities for communicating with our shareholders. We also adjusted the composition of our Board and Board Committees, which enhanced the decision-making and supervision capabilities of the Board, and we further strengthened our senior management through a global recruitment process successfully appointing a Chief Credit Officer and a Chief Audit Officer specialising in international bank management. I would like to take this opportunity, on behalf of the Board, to express our heartfelt thanks to the retired Directors Hua Qingshan, Yu Erniu, Zhu Yan, Zhang Xinze, William Peter Cooke and Patrick de Saint-Aignan for their dedication and contributions to the Bank's development. I would also like to extend a warm welcome to our new Directors, Cai Haoyi, Wang Gang, Lin Yongze, Huang Shizhong, Huang Danhan and Zhou Zaiqun, whose rich experience will benefit the Bank enormously.

In 2008, we believe the global economic climate will remain positive on the whole, although elements of uncertainty and risk will undoubtedly continue to affect the international financial markets. As China's economy and financial system becomes further integrated into the global economy, the interaction

between China and the rest of the world will grow stronger. While continuing to introduce further reform measures that open up China's economy, the Government will strengthen and improve its macro-economic regulation and implement prudent fiscal and tightened monetary policies. With the approach of the long-awaited 2008 Beijing Olympic Games, Bank of China as the sole banking partner of the Games has adopted 'Serving the Olympics' as its theme. We look forward to serving the Games with the goal of achieving alignment between the success of this milestone sporting event and the Bank's own development. To this end, we will capitalise on the successes of the 2008 Beijing Olympic Games to further promote our development strategy. As part of this strategy, we will focus on our customers, accelerate business restructuring within the Bank, improve the utilisation of our resources, and support the rapid and sustainable development of all our businesses. We will also be unrelenting in our work to improve the Bank's risk management and internal control systems, and upgrade our infrastructure at both the network and grass-roots levels, bringing an even higher quality service to our valued customers,

and further developing our overseas business. Most importantly, we will combine the Olympic spirit with our corporate culture of 'delivering excellence'.

On a final note, I would like to express my gratitude to the directors for their outstanding guidance and contributions to the Bank during the year. I would also like to avail myself of this opportunity to thank our shareholders and customers who have offered us their consistent support. My thanks also go to all of our staff at Bank of China. Their diligence and dedication have injected new vitality into our Bank, which has been in existence for almost a century, and inspired us to reach our target of becoming a leading international bank.



**Xiao Gang**

*Chairman*

25 March 2008

# Message from the President

**In 2007, Bank of China continued to improve operating performance. In accordance with International Financial Reporting Standards, as of 31 December 2007, total assets of our Bank amounted to RMB5,991.217 billion, total liabilities RMB5,540.560 billion, and equity attributable to shareholders RMB420.430 billion, a year-on-year increase of 12.46%, 12.73% and 9.80% respectively.** We achieved an after-tax profit of RMB62.036 billion in the year, an increase of 28.53% over 2006 and an after-tax profit attributable to our shareholders of RMB56.248 billion, up 31.33% from the year before. Earnings per share reached RMB0.22, an increase of 22.22%. ROA rose by 0.14 percentage point to 1.10%, and ROE maintained stable as the previous year, reaching 14.00%.

The after-tax profit of our Bank maintained rapid growth in 2007, primarily as a result of a stable increase in operating income, a notable improvement in asset quality and maintenance of credit cost at a relatively low level.

Our Bank's net interest spread and net interest margin increased by 31 basis points each to 2.59% and 2.76% respectively, driven by the expansion of our high-yield assets and demand deposits. As a result, net interest income reached RMB152.745 billion, up 25.85% from the previous year. Total deposits grew by 7.55% from the end of 2006, loans increased by 17.21%, and investment securities decreased by 9.49% compared with the previous year-end.

We achieved non-interest income of RMB29.967 billion in 2007, an increase of 10.96% over the previous year. Of this amount, net fee and commission income showed considerable growth of 91.92%. The strength of our diversified operation became more apparent during the year as contributions from our investment banking, direct investment, insurance, leasing and fund management businesses to the total pre-tax profit grew from 7.43% in 2006 to 11.45% in 2007.

We continued to improve our risk management capabilities and significantly enhanced asset quality during the year. In 2007, we were able to maintain credit cost at a low level of 0.31%, a drop of 0.22 percentage point from 2006. Identified impaired loans decreased by RMB12.915 billion from the end of 2006 to RMB90.317 billion at the end of 2007. The ratio of identified impaired loans to gross loans hence dropped by 1.07 percentage points to 3.17%. At the end of 2007, the ratio of allowance for loan impairment losses to identified impaired loans stood at 106.37%, an increase of 15.03 percentage points from the previous year-end.

We rationalised our organisational structure and business processes to improve operating efficiencies. During the year, we established an Executive Committee and under this committee established the management and decision-making committees for corporate banking, personal banking, financial markets and operation service. We also set up the special committees for procurement review and asset disposal. We adjusted geographic distribution and accelerated the upgrading of business outlets, fulfilling the objectives of the 2006 three-year organisational plan ahead of schedule.

We further strengthened our internal control environment by building on the 'three lines of defence' and improving oversight in lower-level outlets with a focus on fraud prevention. During the year, we also paid greater attention on internal controls, which resulted in a decrease of fraud cases and amounts involved by 63% and 96% respectively from 2006.

We developed centralisation of bank-wide management information and financial reporting through implementation of the IT blueprint and improving allocation of IT resources.

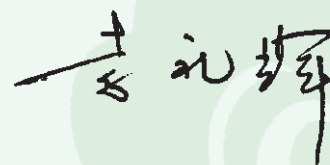
We also further reformed human resources to a market-oriented model. Our Bank has formally set 'delivering excellence' as our core value and developed a corporate culture that places emphasis on integrity, performance, responsibility, innovation and harmony.

During the year, we promoted a policy of cooperation with our strategic investors (including RBS Group, Fullerton Financial Holdings, UBS AG and Asian Development Bank) in areas of corporate banking, personal banking and financial markets

businesses. Significant progress was also made in risk management, internal control, treasury and human resources management.

2008 will be another year of opportunity for us. Following the concept of scientific development, we will enhance our core competitiveness, accelerate the transformation of our operating and growth model, improve our business structure and service models and enhance risk management and internal control. We will also focus on infrastructure development, encourage product innovation, reform human resources management and strengthen the corporate culture of our Bank. As the official banking partner of the Beijing Olympics, we are ready to serve the Olympic Games to the best of our ability. And finally, we are intent on delivering rapid and sustainable growth to achieve our goal of becoming a top-tier international bank.

On behalf of the management of the Bank, I would like to express our sincere gratitude to the Board of Directors and the Board of Supervisors for your guidance and support; to the community at large for your trust and support; and to all our colleagues at home and abroad for your invaluable contributions. I continue to wholeheartedly believe that with our concerted efforts, relentless drive and continued pursuit of excellence, Bank of China can look forward to a bright future.



**Li Lihui**

*President*

25 March 2008



We deliver **Performance**



# Management Discussion and Analysis

## — Brief Review and Forecast on the Economic and Financial Environment

In 2007, the global economy maintained a steady pace of growth. As reported by the International Monetary Fund, the global economy grew by 4.9%, slightly lower than the 5% of the previous year. However, the subprime mortgage loan crisis that began in the US and threw the other major developed economies of the world into turmoil, slowed US economic growth down to 2.2% from 2.9% in the previous year. In contrast, emerging markets were little affected and managed to register robust growth during the year. In 2007, the Chinese economy continued to show strong and rapid growth, with a decade-high GDP growth of 11.4% and a soaring foreign trade surplus of USD262.197 billion, fixed asset investment increases of 24.8%, and consumer sales volumes growth of 16.8%.

The global financial market during the year was marked by turbulence, underlined by increasing risk. Triggered by the subprime mortgage loan crisis in the US and rising uncertainty, market rates fluctuated dramatically. Major bond yield fell during the second half of the year after a steady climb in the first half. The US Dollar depreciated against the currencies of its major trading partners, with margins of 9.6% and 6.5% against the Euro and Yen, respectively. During the year, the world's major stock indices hit record highs, but also experienced an increase in a range of fluctuations. Within this tumultuous financial environment, the international banking sector faced increased operational risk.

In the Chinese financial market, the year was characterised by stable and steady development and the emergence of a booming capital market. The central bank adjusted benchmark interest rates for RMB deposits and loans six times, raised the RMB deposit reserve ratio ten times and issued directional bills seven times in the year. Moreover, the Ministry of Finance issued RMB1.55 trillion in special treasury bonds. Within the year, M2 increased by 16.72%, RMB loans from financial institutions by 16.10% and RMB deposits by 16.07%. The RMB demonstrated

greater flexibility, ending the year at 7.3046 to 1 USD (middle rate), an appreciation of 6.90% compared with the previous year-end. China's total stock market capitalisation reached RMB32.71 trillion at the end of the year, up 265.91%. Financing volumes through public offerings amounted to RMB843.186 billion, the highest in the world. The bond market performed well with the coupon issuance rate rising steadily throughout the year. At the end of 2007, the market value of RMB bonds rose to RMB12.25 trillion, an increase of 29.16% from the beginning of the year.

In 2007, the Chinese banking sector continued to reform and open up, and its supervision became increasingly sophisticated and efficient. Among other measures introduced to develop the banking sector, the PBOC and CBRC strengthened credit management for commercial properties, published the *Guidelines on Operational Risk Management of Commercial Banks*, and established the Reference Benchmark for Measuring Market Risk of Banking Institutions.

The Chinese banking industry experienced higher than expected growth in 2007, mainly thanks to improved operational efficiencies brought about by institutional reform of the banking sector, a rapid rise in interest income, and soaring non-interest income as a result of the prospering capital market.

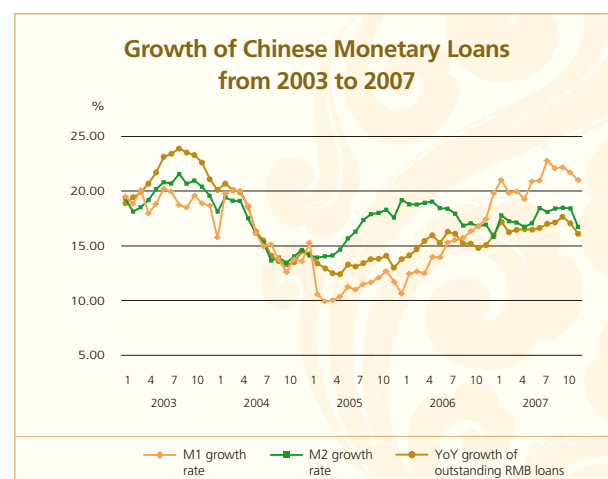
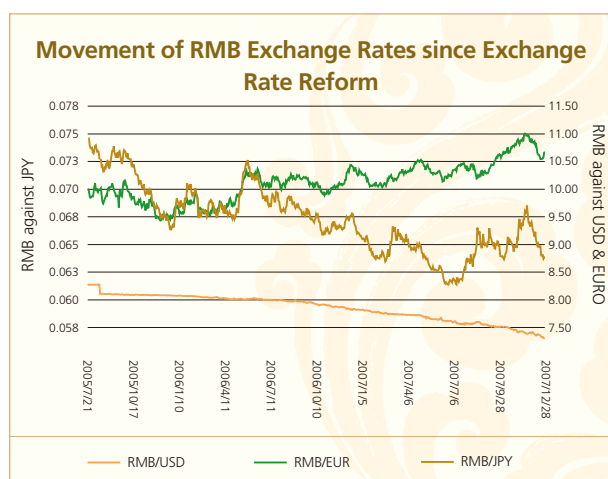
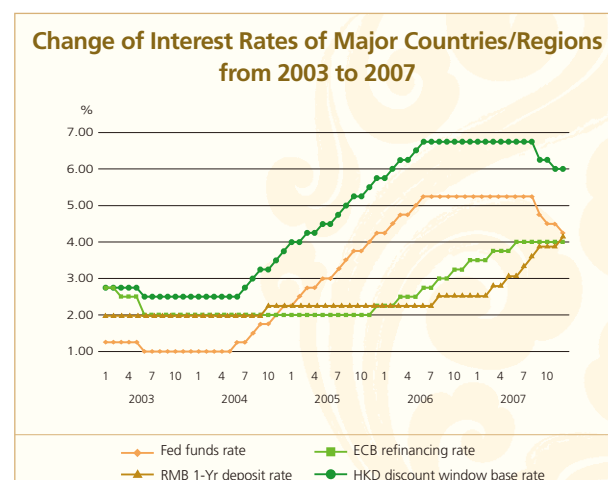
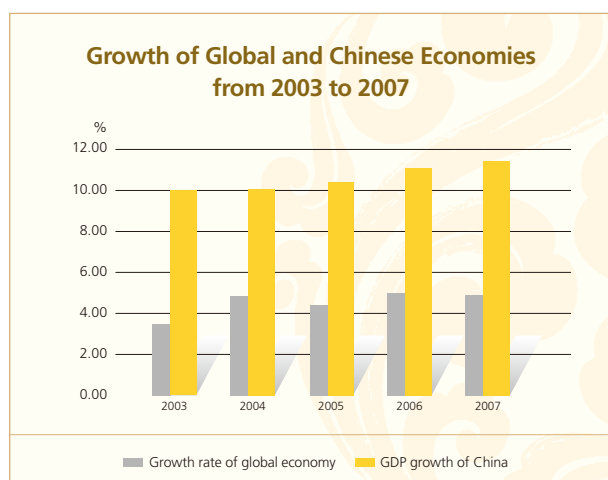
Recently, the global economy has begun to slow with increasing inflation pressure. The financial market is experiencing increased volatility and global economic development is facing increasing uncertainty and risk. Nevertheless, the Chinese economy, driven by industrialisation, urbanisation, internationalisation and the upgrading of industrial and consumer structures, is gaining momentum. To ensure its ongoing development, the Government has identified as its paramount goals for 2008 the need to avoid overheating of the economy, and in particular preventing structural price hikes from



evolving into increased inflation. In support of these objectives, the Government has begun to enforce a tighter monetary policy.

The banking industry will face increasing credit, market and liquidity risks owing to changes in the macro-economic and financial environment and the Government's regulatory policies. However, improving provision coverage ratios, together with business diversification and rapid growth in fee-based income among commercial banks, leads the Bank to believe that the Chinese banking sector will maintain its rapid rate of growth in 2008.

The Bank will follow a scientific approach of development as its guiding principle and focus on enhancing its core competitiveness. To achieve this, the Bank will upgrade its operational mechanisms and development models, improve business framework, transform service orientation, strengthen risk management and internal controls, focus on infrastructure construction and product innovation, reform human resource management, cement corporate culture and push for the stable, rapid and sustainable development of businesses. By fulfilling these targets, the Bank is confident that it can accelerate the development towards a first-class international bank.



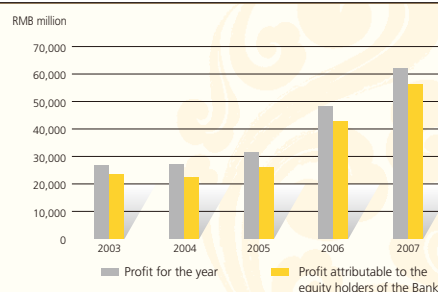
# Management Discussion and Analysis

## — Financial Review

### Summary of Financial Position and Results of Operations of the Group for 2007

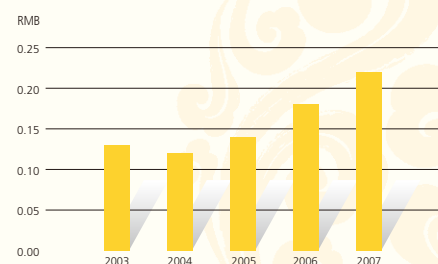
#### Profit for the year

For 2007, the Group earned a profit after tax of RMB62.036 billion, an increase of RMB13.772 billion or 28.53% compared with the prior year. Profit attributable to the equity holders of the Bank amounted to RMB56.248 billion, an increase of RMB13.418 billion or 31.33%. The improvement in profit for the year was attributable to robust growth in operating income, a notable improvement in asset quality, and maintenance of credit cost at a relatively low level.



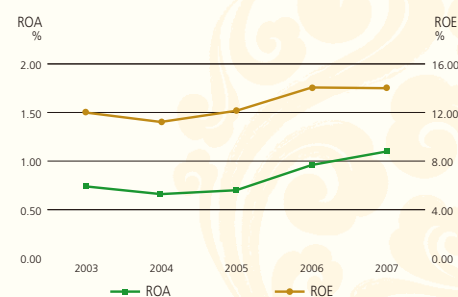
#### Earnings per share

For 2007, both basic and diluted earnings per share were RMB0.22, an increase of RMB0.04 compared with the prior year, showing steady growth since 2004.



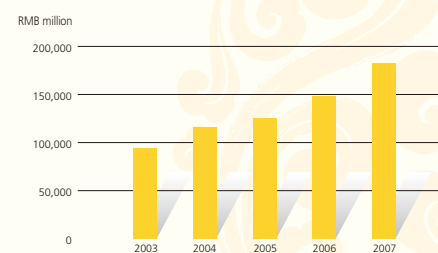
#### ROA & ROE

For 2007, return on average total assets was 1.10%, an increase of 0.14 percentage point compared with the prior year. Return on average equity was 14.00%, maintained stable compared with the prior year.



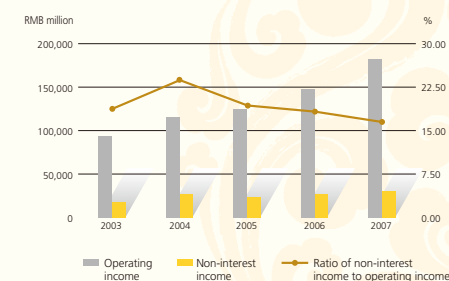
#### Revenue growth

The Group achieved operating income of RMB182.712 billion, an increase of RMB34.334 billion or 23.14% compared with the prior year. This increase was primarily due to the steady increase in the average balance of interest-earning assets, an increase in net interest margin, as well as a continued improvement in non-interest income. Please refer to the 'Net interest income' and 'Non-interest income' sections for more detailed information.



#### Non-interest income to operating income ratio

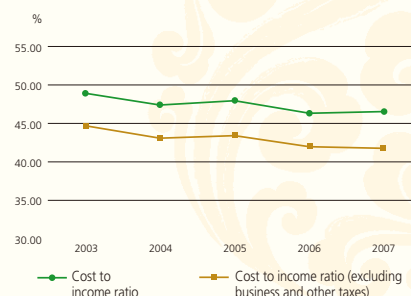
The Group recognised non-interest income of RMB29.967 billion in 2007, an increase of RMB2.960 billion or 10.96% compared with the prior year. The ratio of non-interest income to operating income was 16.40%. Please refer to the 'Non-interest income' section for more detailed information.





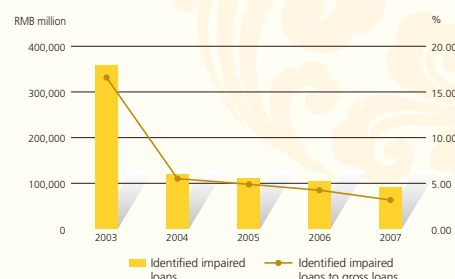
### Cost to income ratio

The cost to income ratio was 46.54%, maintained stable compared with the prior year. Please refer to the 'Operating expenses' section for more detailed information.



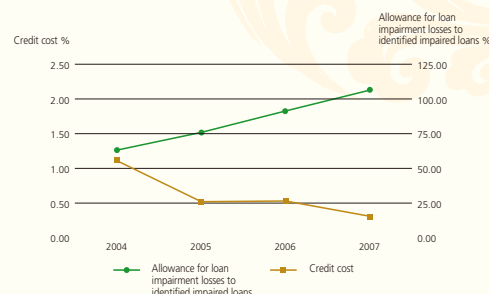
### Identified impaired loans

At the end of 2007, identified impaired loans totalled RMB90.317 billion, a decrease of RMB12.915 billion compared with the prior year-end. The ratio of identified impaired loans to gross loans was 3.17%, a decrease of 1.07 percentage points compared with the prior year-end. With the increase in the size of the Group's loan portfolio in recent years, the asset quality has improved significantly as a result of continuous improvement in the Group's credit risk management processes and a continued focus on disposal of non-performing assets. Please refer to the 'Risk management' section for more detailed information.



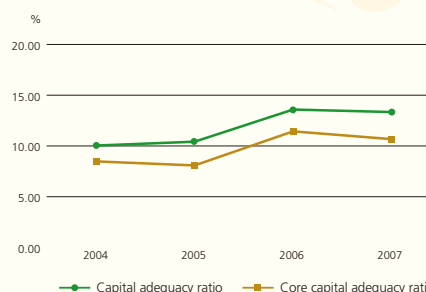
### Credit cost and ratio of allowance for loan impairment losses to identified impaired loans

For 2007, credit cost was 0.31% of average loans, a decrease of 0.22 percentage point compared with the prior year. Credit cost has been maintained at a relatively low level. At the end of 2007, allowance for loan impairment losses was RMB96.068 billion, an increase of RMB1.775 billion compared with the prior year-end. The ratio of allowance for loan impairment losses to identified impaired loans was 106.37%, an increase of 15.03 percentage points compared with the prior year-end, the highest level in the past years. Please refer to the 'Impairment losses on loans' and 'Risk management' sections for more detailed information.



### Capital adequacy ratio

At the end of 2007, the Group's capital adequacy ratio was 13.34% and its core capital adequacy ratio was 10.67%, declined slightly compared with those at the prior year-end.



## Income Statement Analysis

The principal components of the Group's income statement are set out in the following table:

Unit: RMB million

| Items                                                 | 2007            | 2006     | 2005     | 2004     | 2003     |
|-------------------------------------------------------|-----------------|----------|----------|----------|----------|
| Net interest income                                   | <b>152,745</b>  | 121,371  | 101,008  | 88,435   | 76,597   |
| Non-interest income                                   | <b>29,967</b>   | 27,007   | 24,098   | 27,378   | 17,599   |
| Including: net fee and commission income              | <b>27,488</b>   | 14,323   | 9,247    | 8,557    | 7,353    |
| Operating income                                      | <b>182,712</b>  | 148,378  | 125,106  | 115,813  | 94,196   |
| Operating expenses                                    | <b>(85,026)</b> | (68,731) | (59,984) | (54,879) | (46,080) |
| Impairment losses on loans                            | <b>(8,252)</b>  | (12,342) | (11,486) | (23,812) | (18,100) |
| Operating profit                                      | <b>89,434</b>   | 67,305   | 53,636   | 37,122   | 30,016   |
| Profit before income tax                              | <b>90,697</b>   | 67,937   | 53,811   | 37,263   | 29,947   |
| Income tax expense                                    | <b>(28,661)</b> | (19,673) | (22,253) | (10,198) | (3,162)  |
| Profit for the year                                   | <b>62,036</b>   | 48,264   | 31,558   | 27,065   | 26,785   |
| Profit attributable to the equity holders of the Bank | <b>56,248</b>   | 42,830   | 25,921   | 22,301   | 23,615   |

Note: Net gains of RMB7.4 billion on the disposal of BOCHK Holdings' shares were excluded from non-interest income in the year 2003.

### Net Interest Income

In 2007, the Group earned a net interest income of RMB152.745 billion, an increase of RMB31.374 billion or 25.85% compared with the prior year.

Net interest income is affected by the average balances and average interest rates of interest-earning assets and

interest-bearing liabilities. The average balances<sup>1</sup>, average interest rates of major interest-earning assets and interest-bearing liabilities related to the Group and its domestic RMB and foreign currency activities are summarised in the following table:

<sup>1</sup> Average balances of interest-earning assets and interest-bearing liabilities are average daily balances derived from the Bank's management accounts (unaudited).



Unit: RMB million, except percentages

| Items                                                        | 2007            |                       | 2006            |                       | Change <sup>6</sup> |                       |
|--------------------------------------------------------------|-----------------|-----------------------|-----------------|-----------------------|---------------------|-----------------------|
|                                                              | Average balance | Average interest rate | Average balance | Average interest rate | Average balance     | Average interest rate |
| <b>Group</b>                                                 |                 |                       |                 |                       |                     |                       |
| <b>Interest-earning assets</b>                               |                 |                       |                 |                       |                     |                       |
| Loans                                                        | 2,665,549       | 5.94%                 | 2,353,694       | 5.48%                 | 311,855             | 46 BPs                |
| Investment debt securities <sup>1</sup>                      | 1,897,204       | 3.87%                 | 1,895,643       | 3.54%                 | 1,561               | 33 BPs                |
| Balances with central banks                                  | 456,955         | 1.67%                 | 337,362         | 1.57%                 | 119,593             | 10 BPs                |
| Due from banks and other financial institutions <sup>2</sup> | 507,167         | 4.40%                 | 372,961         | 3.72%                 | 134,206             | 68 BPs                |
| Total                                                        | 5,526,875       | 4.74%                 | 4,959,660       | 4.34%                 | 567,215             | 40 BPs                |
| <b>Interest-bearing liabilities</b>                          |                 |                       |                 |                       |                     |                       |
| Due to customers <sup>3</sup>                                | 4,374,893       | 2.04%                 | 4,070,308       | 1.96%                 | 304,585             | 8 BPs                 |
| Due to banks and other financial institutions <sup>4</sup>   | 577,058         | 2.53%                 | 373,811         | 2.51%                 | 203,247             | 2 BPs                 |
| Other borrowed funds <sup>5</sup>                            | 123,503         | 4.35%                 | 109,910         | 4.21%                 | 13,593              | 14 BPs                |
| Total                                                        | 5,075,454       | 2.15%                 | 4,554,029       | 2.06%                 | 521,425             | 9 BPs                 |
| Net interest spread                                          |                 | 2.59%                 |                 | 2.28%                 |                     | 31 BPs                |
| Net interest margin                                          |                 | 2.76%                 |                 | 2.45%                 |                     | 31 BPs                |
| <b>Domestic RMB activities</b>                               |                 |                       |                 |                       |                     |                       |
| <b>Interest-earning assets</b>                               |                 |                       |                 |                       |                     |                       |
| Loans                                                        | 1,872,598       | 6.06%                 | 1,604,617       | 5.43%                 | 267,981             | 63 BPs                |
| Investment debt securities                                   | 967,693         | 2.81%                 | 906,823         | 2.35%                 | 60,870              | 46 BPs                |
| Balances with central banks                                  | 403,662         | 1.75%                 | 274,414         | 1.70%                 | 129,248             | 5 BPs                 |
| Due from banks and other financial institutions              | 111,475         | 3.23%                 | 76,280          | 2.20%                 | 35,195              | 103 BPs               |
| Total                                                        | 3,355,428       | 4.51%                 | 2,862,134       | 4.01%                 | 493,294             | 50 BPs                |
| <b>Interest-bearing liabilities</b>                          |                 |                       |                 |                       |                     |                       |
| Due to customers                                             | 3,079,357       | 1.68%                 | 2,792,952       | 1.57%                 | 286,405             | 11 BPs                |
| Due to banks and other financial institutions                | 319,964         | 1.89%                 | 176,661         | 2.14%                 | 143,303             | (25) BPs              |
| Other borrowed funds                                         | 60,781          | 4.69%                 | 60,001          | 4.62%                 | 780                 | 7 BPs                 |
| Total                                                        | 3,460,102       | 1.75%                 | 3,029,614       | 1.67%                 | 430,488             | 8 BPs                 |
| Net interest spread                                          |                 | 2.76%                 |                 | 2.34%                 |                     | 42 BPs                |
| Net interest margin                                          |                 | 2.70%                 |                 | 2.24%                 |                     | 46 BPs                |
| <b>Domestic foreign currency activities</b>                  |                 |                       |                 |                       |                     |                       |
| <b>Interest-earning assets</b>                               |                 |                       |                 |                       |                     |                       |
| Loans                                                        | 41,776          | 5.57%                 | 40,692          | 5.20%                 | 1,084               | 37 BPs                |
| Investment debt securities                                   | 72,607          | 4.97%                 | 77,096          | 4.74%                 | (4,489)             | 23 BPs                |
| Balances with central banks                                  | 2,658           | 0.08%                 | 2,011           | 0.10%                 | 647                 | (2) BPs               |
| Due from banks and other financial institutions              | 35,351          | 4.54%                 | 25,680          | 3.08%                 | 9,671               | 146 BPs               |
| Total                                                        | 152,392         | 4.95%                 | 145,479         | 4.51%                 | 6,913               | 44 BPs                |
| <b>Interest-bearing liabilities</b>                          |                 |                       |                 |                       |                     |                       |
| Due to customers                                             | 56,908          | 2.30%                 | 59,288          | 1.98%                 | (2,380)             | 32 BPs                |
| Due to banks and other financial institutions                | 27,103          | 2.86%                 | 19,465          | 2.50%                 | 7,638               | 36 BPs                |
| Other borrowed funds                                         | 5,773           | 3.67%                 | 6,391           | 3.65%                 | (618)               | 2 BPs                 |
| Total                                                        | 89,784          | 2.56%                 | 85,144          | 2.22%                 | 4,640               | 34 BPs                |
| Net interest spread                                          |                 | 2.39%                 |                 | 2.29%                 |                     | 10 BPs                |
| Net interest margin                                          |                 | 3.44%                 |                 | 3.21%                 |                     | 23 BPs                |

Notes:

- Investment debt securities include debt securities available for sale, debt securities held to maturity, debt securities classified as loans and receivables, trading debt securities and debt securities designated at fair value.
- Due from banks and other financial institutions includes placements with banks and other financial institutions.
- Due to customers includes structured deposits.
- Due to banks and other financial institutions includes amounts due to central banks, certificates of deposit and placements from banks and other financial institutions.
- Other borrowed funds include bonds issued and other borrowings.
- 100 basis points represent 1 percentage point.

The impact of volume and interest rate changes on consolidated net interest income of the Group, domestic RMB activities and domestic foreign currency activities are summarised in the following table:

| Items                                           | 2007           | 2006           | Change        | Unit: RMB million                         |                            |
|-------------------------------------------------|----------------|----------------|---------------|-------------------------------------------|----------------------------|
|                                                 |                |                |               | Analysis of net interest income variances |                            |
|                                                 |                |                |               | Volume                                    | Interest rate <sup>1</sup> |
| <b>Group</b>                                    |                |                |               |                                           |                            |
| <b>Interest income</b>                          |                |                |               |                                           |                            |
| Loans                                           | 158,390        | 128,934        | 29,456        | 17,090                                    | 12,366                     |
| Investment debt securities                      | 73,500         | 67,195         | 6,305         | 55                                        | 6,250                      |
| Balances with central banks                     | 7,645          | 5,313          | 2,332         | 1,878                                     | 454                        |
| Due from banks and other financial institutions | 22,336         | 13,892         | 8,444         | 4,992                                     | 3,452                      |
| Total                                           | 261,871        | 215,334        | 46,537        | 24,015                                    | 22,522                     |
| <b>Interest expense</b>                         |                |                |               |                                           |                            |
| Due to customers                                | 89,170         | 79,939         | 9,231         | 5,970                                     | 3,261                      |
| Due to banks and other financial institutions   | 14,584         | 9,393          | 5,191         | 5,101                                     | 90                         |
| Other borrowed funds                            | 5,372          | 4,631          | 741           | 572                                       | 169                        |
| Total                                           | 109,126        | 93,963         | 15,163        | 11,643                                    | 3,520                      |
| <b>Net interest income</b>                      | <b>152,745</b> | <b>121,371</b> | <b>31,374</b> | <b>12,372</b>                             | <b>19,002</b>              |
| <b>Domestic RMB activities</b>                  |                |                |               |                                           |                            |
| <b>Interest income</b>                          |                |                |               |                                           |                            |
| Loans                                           | 113,492        | 87,128         | 26,364        | 16,451                                    | 9,913                      |
| Investment debt securities                      | 27,205         | 21,274         | 5,931         | 1,430                                     | 4,501                      |
| Balances with central banks                     | 7,060          | 4,669          | 2,391         | 2,197                                     | 194                        |
| Due from banks and other financial institutions | 3,604          | 1,677          | 1,927         | 774                                       | 1,153                      |
| Total                                           | 151,361        | 114,748        | 36,613        | 20,852                                    | 15,761                     |
| <b>Interest expense</b>                         |                |                |               |                                           |                            |
| Due to customers                                | 51,745         | 43,967         | 7,778         | 3,117                                     | 4,661                      |
| Due to banks and other financial institutions   | 6,039          | 3,773          | 2,266         | 3,067                                     | (801)                      |
| Other borrowed funds                            | 2,849          | 2,774          | 75            | 36                                        | 39                         |
| Total                                           | 60,633         | 50,514         | 10,119        | 6,220                                     | 3,899                      |
| <b>Net interest income</b>                      | <b>90,728</b>  | <b>64,234</b>  | <b>26,494</b> | <b>14,632</b>                             | <b>11,862</b>              |
| <b>Domestic foreign currency activities</b>     |                |                |               |                                           |                            |
| <b>Interest income</b>                          |                |                |               |                                           |                            |
| Loans                                           | 2,326          | 2,116          | 210           | 56                                        | 154                        |
| Investment debt securities                      | 3,610          | 3,658          | (48)          | (213)                                     | 165                        |
| Balances with central banks                     | 2              | 2              | —             | 1                                         | (1)                        |
| Due from banks and other financial institutions | 1,606          | 792            | 814           | 298                                       | 516                        |
| Total                                           | 7,544          | 6,568          | 976           | 142                                       | 834                        |
| <b>Interest expense</b>                         |                |                |               |                                           |                            |
| Due to customers                                | 1,311          | 1,173          | 138           | (37)                                      | 175                        |
| Due to banks and other financial institutions   | 775            | 486            | 289           | 191                                       | 98                         |
| Other borrowed funds                            | 212            | 233            | (21)          | (23)                                      | 2                          |
| Total                                           | 2,298          | 1,892          | 406           | 131                                       | 275                        |
| <b>Net interest income</b>                      | <b>5,246</b>   | <b>4,676</b>   | <b>570</b>    | <b>11</b>                                 | <b>559</b>                 |

Note:

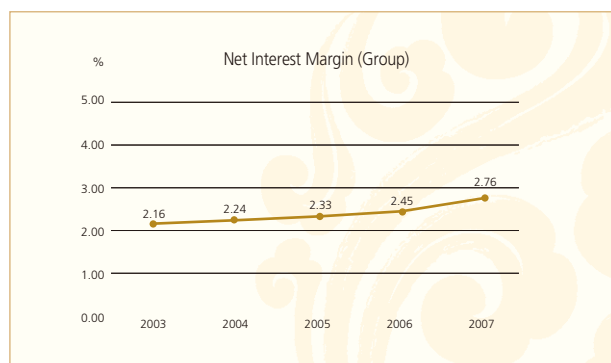
- Impact of changes in volume on interest income and expenses is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. Impact of changes in interest rate on interest income and expenses is computed based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. Impacts relating to the combined changes in both volume and rate have been classified as changes in interest rate.



The average balances and average interest rates of domestic loans and due to customers classified by business type are summarised in the following table:

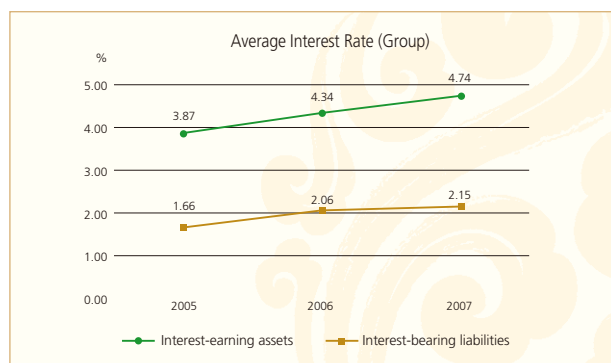
| Items                                       | 2007            |                       | 2006            |                       | Change          |                       |
|---------------------------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|-----------------------|
|                                             | Average balance | Average interest rate | Average balance | Average interest rate | Average balance | Average interest rate |
| Unit: RMB million, except percentages       |                 |                       |                 |                       |                 |                       |
| <b>Domestic RMB activities</b>              |                 |                       |                 |                       |                 |                       |
| <b>Loans</b>                                |                 |                       |                 |                       |                 |                       |
| Corporate loans                             | 1,221,641       | 6.24%                 | 1,033,083       | 5.77%                 | 188,558         | 47 BPs                |
| Personal loans                              | 517,800         | 6.19%                 | 402,951         | 5.69%                 | 114,849         | 50 BPs                |
| Trade bills                                 | 133,157         | 3.88%                 | 168,583         | 2.72%                 | (35,426)        | 116 BPs               |
| Total                                       | 1,872,598       | 6.06%                 | 1,604,617       | 5.43%                 | 267,981         | 63 BPs                |
| <b>Due to customers</b>                     |                 |                       |                 |                       |                 |                       |
| Corporate demand deposits                   | 888,047         | 0.99%                 | 704,060         | 0.93%                 | 183,987         | 6 BPs                 |
| Corporate time deposits                     | 400,606         | 2.49%                 | 393,862         | 2.09%                 | 6,744           | 40 BPs                |
| Personal demand deposits                    | 511,661         | 0.76%                 | 445,755         | 0.73%                 | 65,906          | 3 BPs                 |
| Personal time deposits                      | 1,116,130       | 2.34%                 | 1,112,376       | 2.16%                 | 3,754           | 18 BPs                |
| Others                                      | 162,913         | 1.83%                 | 136,899         | 1.43%                 | 26,014          | 40 BPs                |
| Total                                       | 3,079,357       | 1.68%                 | 2,792,952       | 1.57%                 | 286,405         | 11 BPs                |
| Unit: USD million, except percentages       |                 |                       |                 |                       |                 |                       |
| <b>Domestic foreign currency activities</b> |                 |                       |                 |                       |                 |                       |
| <b>Loans</b>                                | 41,776          | 5.57%                 | 40,692          | 5.20%                 | 1,084           | 37 BPs                |
| <b>Due to customers</b>                     |                 |                       |                 |                       |                 |                       |
| Corporate demand deposits                   | 12,767          | 1.10%                 | 11,530          | 1.07%                 | 1,237           | 3 BPs                 |
| Corporate time deposits                     | 4,180           | 4.04%                 | 4,473           | 3.96%                 | (293)           | 8 BPs                 |
| Personal demand deposits                    | 8,207           | 0.65%                 | 8,402           | 0.67%                 | (195)           | (2) BPs               |
| Personal time deposits                      | 19,101          | 2.19%                 | 23,398          | 2.01%                 | (4,297)         | 18 BPs                |
| Others                                      | 12,653          | 4.18%                 | 11,485          | 3.02%                 | 1,168           | 116 BPs               |
| Total                                       | 56,908          | 2.30%                 | 59,288          | 1.98%                 | (2,380)         | 32 BPs                |

For 2007, the Group's net interest spread (NIS) and net interest margin (NIM) rose by 31 basis points to 2.59%

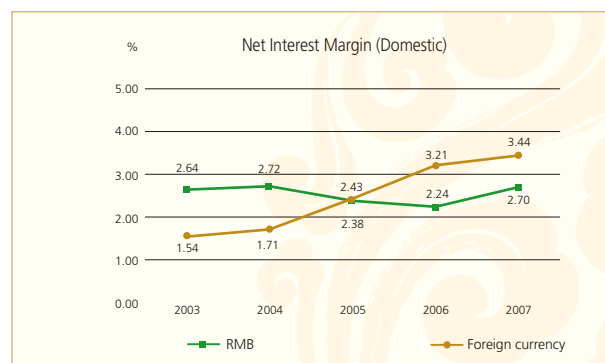


The improvement in NIS and NIM was mainly attributable to the following:

- (1) The PBOC's six adjustments in the benchmark rates of RMB-denominated deposits and loans in 2007, following the two upward adjustments in 2006, increased the benchmark rates of deposits and loans. The market rates of RMB also increased steadily during the year. At the end of 2007, the rates of 1-year RMB deposits and 1-year RMB loans rose by 1.62 and 1.35 percentage points to 4.14% and 7.47%, respectively, compared with the prior year-end. The yield on 1-year central bank notes rose by 1.232 percentage points to 4.038% and

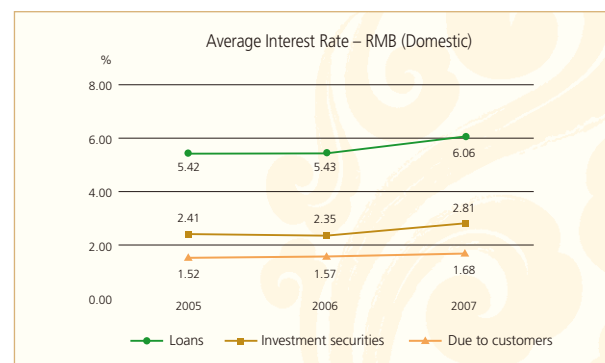


and 2.76%, respectively, compared with the prior year.



1-year SHIBOR rose by 1.5729 percentage points to 4.5751%, respectively, compared with the prior year-end.

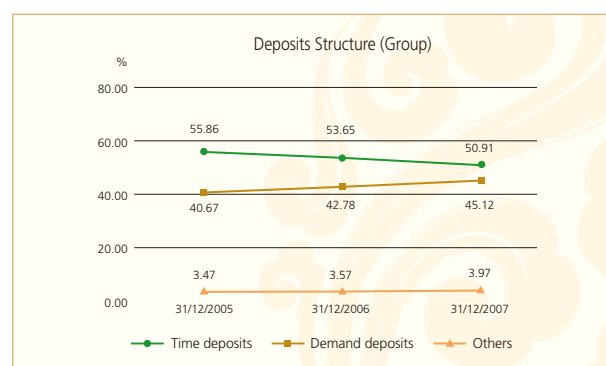
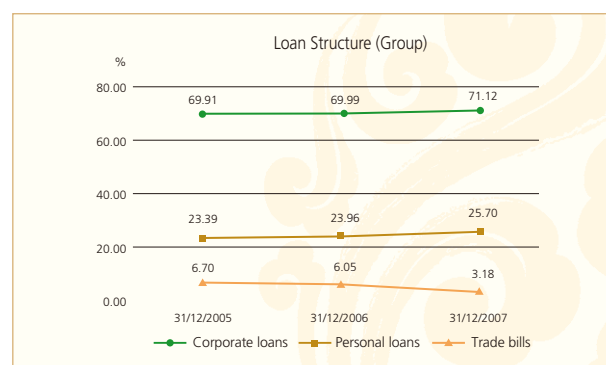
As a result, the average interest rates on major interest-earning assets and interest-bearing liabilities increased. Given that the Bank's RMB demand deposits accounted for a significant portion of its total deposits and the increase in the benchmark rate of this type of deposit was relatively lower<sup>2</sup>, the extent of increase in average interest rate on the liabilities was relatively lower than that of the assets.



<sup>2</sup> The PBOC raised the benchmark interest rate on RMB demand deposit by 9 basis points on 21 July 2007, and then reduced it by 9 basis points on 21 December 2007.



- (2) The Group intensified its efforts to improve asset structure and increase the proportion of higher yield interest-earning assets. At the end of 2007, the loan portfolio accounted for 49.76% of total interest-earning assets, an increase of 2.07 percentage points compared with the prior year-end. The Group also continued to rebalance the mix of the loan portfolio to achieve higher yields by reducing the proportion of lower yielding trade bills in the portfolio. At the end of 2007, trade bills accounted for 3.18% of the loan portfolio, a decrease of 2.87 percentage points compared with the prior year-end.
- (3) Affected by the rapid development of the domestic capital markets, the sentiment of the general public towards investing has increased, and there is a noticeable trend of shifting savings from time deposits to demand deposits. As a result, the proportion of demand deposits to total deposits increased by 2.34 percentage points to 45.12% at the end of 2007, compared with the prior year-end.
- (4) Improvement in asset quality, as a result of continuous improvement in the Group's credit risk management processes and focused efforts



on disposal of non-performing assets, contributed significantly to the continuous decrease in the Group's identified impaired loans.

## Non-interest Income

| Unit: RMB million                           |          |         |        |        |        |
|---------------------------------------------|----------|---------|--------|--------|--------|
| Items                                       | 2007     | 2006    | 2005   | 2004   | 2003   |
| Net fee and commission income               | 27,488   | 14,323  | 9,247  | 8,557  | 7,353  |
| Net trading (losses)/gains                  | (662)    | (1,544) | 4,283  | 8,882  | 4,303  |
| Net (losses)/gains on investment securities | (15,526) | 1,132   | (582)  | 337    | 1,094  |
| Other operating income                      | 18,667   | 13,096  | 11,150 | 9,602  | 4,849  |
| Total                                       | 29,967   | 27,007  | 24,098 | 27,378 | 17,599 |

Note: Net gains of RMB7.4 billion on the disposal of BOCHK Holdings' shares were excluded from non-interest income in the year 2003.

The Group reported a non-interest income of RMB29.967 billion in 2007, an increase of RMB2.960 billion or

10.96%, representing 16.40% of the operating income.

## Net Fee and Commission Income

| Unit: RMB million                    |                |         |         |         |         |
|--------------------------------------|----------------|---------|---------|---------|---------|
| Items                                | 2007           | 2006    | 2005    | 2004    | 2003    |
| <b>Group</b>                         |                |         |         |         |         |
| Agency commissions                   | <b>14,383</b>  | 4,621   | 2,735   | 2,690   | 2,137   |
| Settlement and clearing fees         | <b>4,849</b>   | 3,848   | 2,941   | 2,626   | 2,237   |
| Credit commitment fees               | <b>3,590</b>   | 3,064   | 2,693   | 2,367   | 2,075   |
| Bank card fees                       | <b>3,721</b>   | 2,937   | 2,340   | 1,840   | 1,340   |
| Others                               | <b>5,011</b>   | 2,669   | 1,989   | 1,865   | 1,779   |
| <b>Fee and commission income</b>     | <b>31,554</b>  | 17,139  | 12,698  | 11,388  | 9,568   |
| <b>Fee and commission expense</b>    | <b>(4,066)</b> | (2,816) | (3,451) | (2,831) | (2,215) |
| <b>Net fee and commission income</b> | <b>27,488</b>  | 14,323  | 9,247   | 8,557   | 7,353   |
| <b>Domestic</b>                      |                |         |         |         |         |
| Agency commissions                   | <b>6,742</b>   | 1,406   | 823     | 647     | 425     |
| Settlement and clearing fees         | <b>3,542</b>   | 2,402   | 1,745   | 1,681   | 1,395   |
| Credit commitment fees               | <b>2,839</b>   | 2,164   | 1,784   | 1,407   | 1,191   |
| Bank card fees                       | <b>2,636</b>   | 2,080   | 1,540   | 1,095   | 776     |
| Others                               | <b>3,145</b>   | 1,541   | 1,112   | 654     | 532     |
| <b>Fee and commission income</b>     | <b>18,904</b>  | 9,593   | 7,004   | 5,484   | 4,319   |
| <b>Fee and commission expense</b>    | <b>(970)</b>   | (964)   | (1,797) | (1,432) | (1,128) |
| <b>Net fee and commission income</b> | <b>17,934</b>  | 8,629   | 5,207   | 4,052   | 3,191   |

In 2007, the Group earned a net fee and commission income of RMB27.488 billion, an increase of RMB13.165 billion or 91.92%, representing 15.04% of the operating income, an increase of 5.39 percentage points compared with the prior year. The Group's domestic operations earned a net fee and commission income of RMB17.934 billion, an increase of RMB9.305 billion or 107.83%

compared with the prior year. The significant increase in the Group's agency income, particularly the agency commission income from fund distribution, was largely attributable to the rapid development of the domestic capital markets and positive investment sentiment of the general public.

## Net Trading (Losses)/Gains

| Unit: RMB million                                                      |                |         |       |       |         |
|------------------------------------------------------------------------|----------------|---------|-------|-------|---------|
| Items                                                                  | 2007           | 2006    | 2005  | 2004  | 2003    |
| Net (losses)/gains from foreign exchange and foreign exchange products | <b>(948)</b>   | (1,496) | 2,226 | 5,294 | 9,488   |
| Net (losses)/gains from interest rate products                         | <b>(1,290)</b> | (302)   | 1,753 | 2,294 | (5,333) |
| Net gains/(losses) from equity products                                | <b>1,442</b>   | 324     | 130   | (178) | 3       |
| Net gains/(losses) from precious metals and other commodity products   | <b>134</b>     | (68)    | 150   | 1,271 | (40)    |
| Others                                                                 | —              | (2)     | 24    | 201   | 185     |
| <b>Total</b>                                                           | <b>(662)</b>   | (1,544) | 4,283 | 8,882 | 4,303   |

The Group reported a net trading loss of RMB0.662 billion in 2007, a decrease of RMB0.882 billion compared with

the loss in the previous year. Please refer to Note V.4 to the Financial Statements for more detailed information.



## Net (Losses)/Gains on Investment Securities

| Items                                                    | 2007            | 2006  | 2005  | Unit: RMB million |       |
|----------------------------------------------------------|-----------------|-------|-------|-------------------|-------|
|                                                          |                 |       |       | 2004              | 2003  |
| (Losses)/gains on derecognition of investment securities | <b>(3,263)</b>  | 1,178 | (606) | 529               | 1,217 |
| (Allowance)/write back for impairment losses             | <b>(12,263)</b> | (46)  | 24    | (192)             | (123) |
| Total                                                    | <b>(15,526)</b> | 1,132 | (582) | 337               | 1,094 |

During 2007, the Group disposed of the higher risk portion of the US subprime mortgage related asset-backed securities (Subprime ABS) and all US subprime mortgage related collateralised debt obligations (Subprime CDOs). In addition, the Group recorded an impairment allowance

for the debt securities held at the year-end. Please refer to the 'Business Review-Financial Market Business' section and Note III.3.6 to the Financial Statements for more detailed information.

## Operating Expenses

| Items                                         | 2007          | 2006   | 2005   | Unit: RMB million |        |
|-----------------------------------------------|---------------|--------|--------|-------------------|--------|
|                                               |               |        |        | 2004              | 2003   |
| Staff costs                                   | <b>36,261</b> | 30,896 | 27,106 | 20,545            | 16,824 |
| General operating and administrative expenses | <b>21,736</b> | 16,378 | 14,801 | 13,536            | 10,830 |
| Depreciation and amortisation                 | <b>7,094</b>  | 6,026  | 6,314  | 6,664             | 6,614  |
| Business and other taxes                      | <b>8,726</b>  | 6,462  | 5,680  | 4,981             | 3,972  |
| Insurance benefits and claims                 | <b>9,837</b>  | 7,484  | 4,153  | 3,256             | 2,362  |
| Other expenses                                | <b>1,372</b>  | 1,485  | 1,930  | 5,897             | 5,478  |
| Total                                         | <b>85,026</b> | 68,731 | 59,984 | 54,879            | 46,080 |

In 2007, the Group reported operating expenses of RMB85.026 billion, an increase of RMB16.295 billion or 23.71% compared with the prior year. The increase was mainly attributable to: (a) an increase in staff costs and general operating and administrative expenses in line with the growth of the Group's business activities; (b) significant

growth in taxable income resulting in a corresponding increase in business and other taxes expenses; and (c) an increase in provisions for life insurance claims in line with the rapid growth of the life insurance business in 2007. Please refer to Note V.7 to the Financial Statements for more detailed information.

## Impairment Losses on Loans

In 2007, the Group improved asset quality and achieved its 'dual decrease' objective of reducing both identified impaired loans and the ratio of identified impaired loans to gross loans. Impairment losses on loans for the period amounted to RMB8.252 billion, a decrease of RMB4.090 billion or 33.14%, and the credit cost decreased to

0.31%. The allowance for loan impairment losses totalled RMB96.068 billion at the end of 2007, an increase of RMB1.775 billion compared with the prior year-end. For additional information on loan quality and allowance for loan impairment losses, please refer to the 'Risk Management – Credit Risk' section.

## Income Tax Expense

In 2007, the Group incurred an income tax expense of RMB28.661 billion, an increase of RMB8.988 billion or 45.69% compared with the prior year. The effective tax rate rose by 2.64 percentage points to 31.60%. The change in income tax expense was mainly attributable to: (a) significant growth in taxable income which resulted in a corresponding increase in income tax expense; and (b) approval by the National People's Congress of the PRC Enterprise Income Tax Law on 16 March 2007, which reduced the domestic enterprise income tax rate from

33% to 25% with effect from the beginning of 2008. In accordance with International Financial Reporting Standards, the Group re-measured its deferred tax assets and deferred tax liabilities of the domestic operations, which thereby resulted in an increase in the income tax expense.

The reconciliation of the statutory income tax rate to the effective income tax rate is set forth in Note V.11 to the Financial Statements.

## Balance Sheet Analysis

The principal components of the Group's balance sheet are set out in the table below:

Unit: RMB million

| Items                                                        | As at 31 December |           |           |           |           |
|--------------------------------------------------------------|-------------------|-----------|-----------|-----------|-----------|
|                                                              | 2007              | 2006      | 2005      | 2004      | 2003      |
| <b>Assets</b>                                                |                   |           |           |           |           |
| Loans, net                                                   | <b>2,754,493</b>  | 2,337,726 | 2,152,112 | 2,072,919 | 1,921,861 |
| Investment securities <sup>1</sup>                           | <b>1,712,927</b>  | 1,892,482 | 1,683,313 | 1,321,646 | 1,104,105 |
| Balances with central banks                                  | <b>751,344</b>    | 379,631   | 316,941   | 284,348   | 267,159   |
| Due from banks and other financial institutions <sup>2</sup> | <b>423,904</b>    | 407,840   | 344,537   | 347,379   | 433,500   |
| Other assets                                                 | <b>348,549</b>    | 309,974   | 243,145   | 238,929   | 246,655   |
| <b>Total</b>                                                 | <b>5,991,217</b>  | 5,327,653 | 4,740,048 | 4,265,221 | 3,973,280 |
| <b>Liabilities</b>                                           |                   |           |           |           |           |
| Due to customers                                             | <b>4,400,111</b>  | 4,091,118 | 3,699,464 | 3,338,448 | 3,033,364 |
| Due to banks and other financial institutions <sup>3</sup>   | <b>663,815</b>    | 368,059   | 376,898   | 319,613   | 329,239   |
| Other borrowed funds <sup>4</sup>                            | <b>116,099</b>    | 123,571   | 112,343   | 95,802    | 81,052    |
| Other liabilities                                            | <b>360,535</b>    | 331,949   | 295,824   | 283,451   | 307,779   |
| <b>Total</b>                                                 | <b>5,540,560</b>  | 4,914,697 | 4,484,529 | 4,037,314 | 3,751,434 |

Notes:

- Investment securities include securities available for sale, securities held to maturity, securities classified as loans and receivables, and financial assets at fair value through profit or loss.
- Due from banks and other financial institutions includes placements with banks and other financial institutions.
- Due to banks and other financial institutions includes due to central banks, certificates of deposit and placements from banks and other financial institutions.
- Other borrowed funds include bonds issued and other borrowings.



## Loans

At the end of 2007, the Group had a total loan portfolio of RMB2,850.561 billion, an increase of RMB418.542 billion or 17.21% compared with the prior year-end. The quality of the Group's loan portfolio continued to improve during the year, with loans classified as special-mention decreasing significantly, resulting in an increase in the percentage of higher quality loans. The Group also

continued to rebalance the mix of the loan portfolio to achieve higher yields by reducing the proportion of lower yielding trade bills in the portfolio.

Please refer to the 'Risk Management – Credit Risk' for more detailed information on loans.

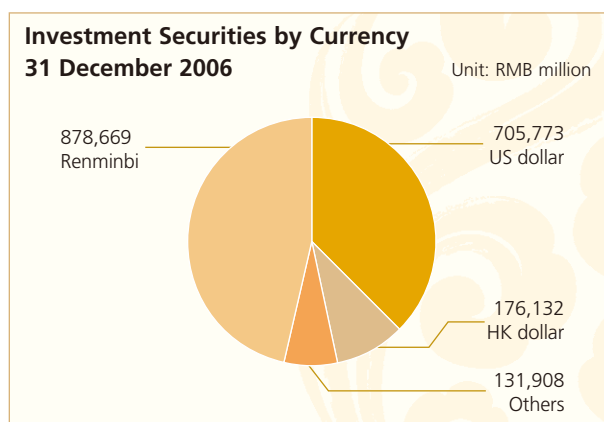
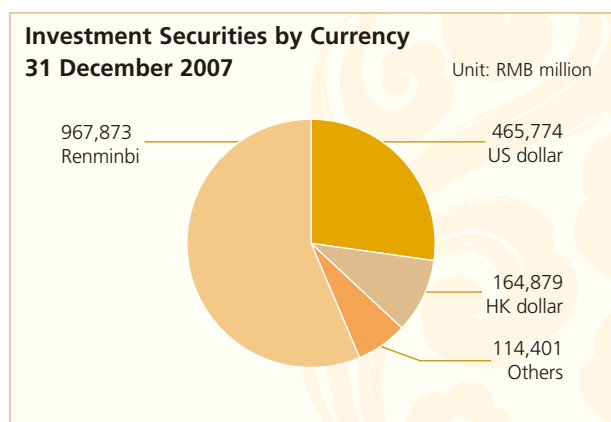
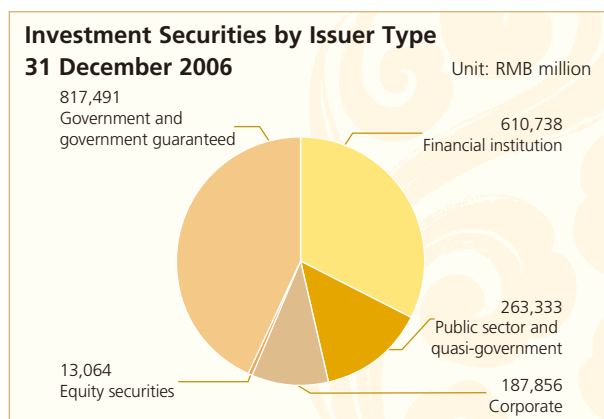
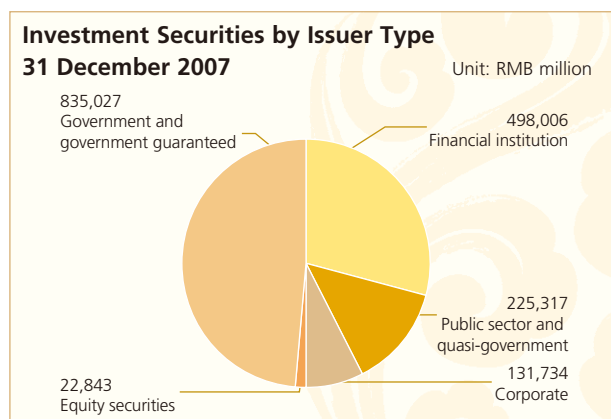
## Investment Securities

At the end of 2007, the Group held investment securities of RMB1,712.927 billion, a decrease of RMB179.555 billion or 9.49% compared with the prior year-end. Balancing the risk and reward, the Group increased its investments in PBOC bills and PRC treasury notes in 2007,

and actively rebalanced the mix of its foreign currency securities investment portfolio. The classification of the Group's investment securities portfolio at the end of 2007 is shown in the following table:

Unit: RMB million, except percentages

| Items                                                 | As at 31 December |            |           |            |           |            |           |            |           |            |
|-------------------------------------------------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
|                                                       | 2007              |            | 2006      |            | 2005      |            | 2004      |            | 2003      |            |
|                                                       | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Financial assets at fair value through profit or loss | 124,665           | 7.28%      | 115,828   | 6.12%      | 111,782   | 6.64%      | 92,124    | 6.97%      | 115,144   | 10.43%     |
| Securities available for sale                         | 682,995           | 39.87%     | 815,178   | 43.07%     | 602,221   | 35.77%     | 357,587   | 27.06%     | 421,471   | 38.17%     |
| Securities held to maturity                           | 446,647           | 26.08%     | 461,140   | 24.37%     | 607,459   | 36.09%     | 457,994   | 34.65%     | 215,175   | 19.49%     |
| Securities classified as loans and receivables        | 458,620           | 26.77%     | 500,336   | 26.44%     | 361,851   | 21.50%     | 413,941   | 31.32%     | 352,315   | 31.91%     |
| Total                                                 | 1,712,927         | 100.00%    | 1,892,482 | 100.00%    | 1,683,313 | 100.00%    | 1,321,646 | 100.00%    | 1,104,105 | 100.00%    |



## Due to Customers

With the rapid development of the domestic capital markets in 2007, the sentiment of the general public towards saving has decreased, resulting in the slower growth of personal deposits. During the same period, the growth in deposits from financial institutions has accelerated. The trend of customers' shifting their savings to demand deposits, which resulted in the shortening of

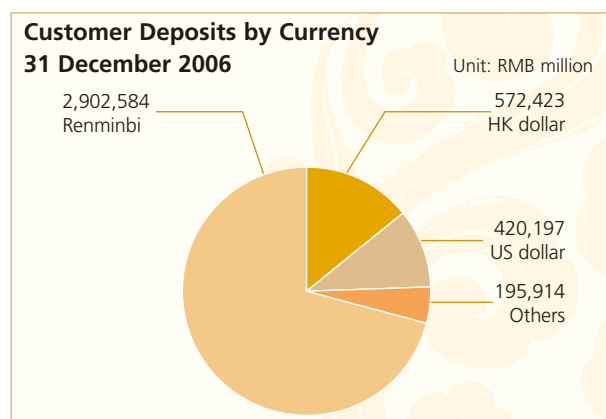
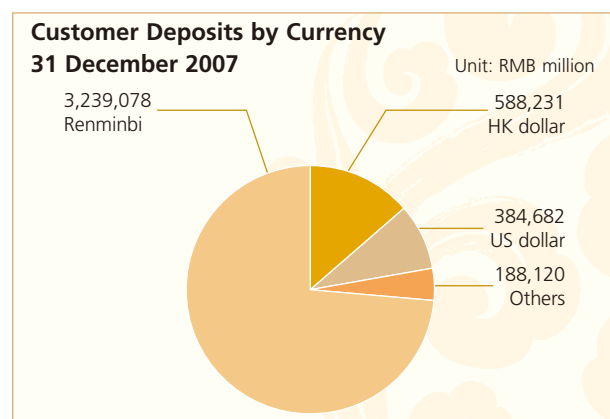
deposit tenors, was made apparent in 2007. At the end of 2007, the Group's deposits from customers amounted to RMB4,400.111 billion, an increase of RMB308.993 billion or 7.55% compared with the prior year-end. At the end of 2007, demand deposits accounted for 45.12% of total deposits, an increase of 2.34 percentage points compared with the prior year-end.



The following table sets forth the principal components of the Group and its domestic deposits from customers:

Unit: RMB million, except percentages

| Items                               | As at 31 December |                |                  |                |                  |                |                  |                |                  |                |
|-------------------------------------|-------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                                     | 2007              |                | 2006             |                | 2005             |                | 2004             |                | 2003             |                |
|                                     | Amount            | % of total     | Amount           | % of total     | Amount           | % of total     | Amount           | % of total     | Amount           | % of total     |
| <b>Group</b>                        |                   |                |                  |                |                  |                |                  |                |                  |                |
| <b>Corporate deposits</b>           |                   |                |                  |                |                  |                |                  |                |                  |                |
| Demand deposits                     | 1,174,722         | 26.70%         | 979,653          | 23.95%         | 836,763          | 22.62%         | 776,648          | 23.26%         | 679,524          | 22.40%         |
| Time deposits                       | 694,995           | 15.79%         | 549,118          | 13.42%         | 511,983          | 13.84%         | 406,019          | 12.16%         | 332,606          | 10.96%         |
| Sub-total                           | 1,869,717         | 42.49%         | 1,528,771        | 37.37%         | 1,348,746        | 36.46%         | 1,182,667        | 35.42%         | 1,012,130        | 33.36%         |
| <b>Personal deposits</b>            |                   |                |                  |                |                  |                |                  |                |                  |                |
| Demand deposits                     | 810,720           | 18.43%         | 770,583          | 18.83%         | 667,957          | 18.05%         | 697,028          | 20.88%         | 607,904          | 20.04%         |
| Time deposits                       | 1,545,001         | 35.11%         | 1,645,914        | 40.23%         | 1,554,369        | 42.02%         | 1,351,692        | 40.49%         | 1,324,511        | 43.66%         |
| Sub-total                           | 2,355,721         | 53.54%         | 2,416,497        | 59.06%         | 2,222,326        | 60.07%         | 2,048,720        | 61.37%         | 1,932,415        | 63.71%         |
| <b>Security and margin deposits</b> |                   |                |                  |                |                  |                |                  |                |                  |                |
| margin deposits                     | 174,673           | 3.97%          | 145,850          | 3.57%          | 128,392          | 3.47%          | 107,061          | 3.21%          | 88,819           | 2.93%          |
| <b>Total</b>                        | <b>4,400,111</b>  | <b>100.00%</b> | <b>4,091,118</b> | <b>100.00%</b> | <b>3,699,464</b> | <b>100.00%</b> | <b>3,338,448</b> | <b>100.00%</b> | <b>3,033,364</b> | <b>100.00%</b> |
| <b>Domestic</b>                     |                   |                |                  |                |                  |                |                  |                |                  |                |
| <b>Corporate deposits</b>           |                   |                |                  |                |                  |                |                  |                |                  |                |
| Demand deposits                     | 1,053,269         | 29.85%         | 871,331          | 26.65%         | 734,140          | 25.08%         | 657,481          | 25.80%         | 574,030          | 25.09%         |
| Time deposits                       | 517,173           | 14.65%         | 420,017          | 12.85%         | 393,394          | 13.44%         | 283,435          | 11.12%         | 240,824          | 10.52%         |
| Sub-total                           | 1,570,442         | 44.50%         | 1,291,348        | 39.50%         | 1,127,534        | 38.52%         | 940,916          | 36.92%         | 814,854          | 35.61%         |
| <b>Personal deposits</b>            |                   |                |                  |                |                  |                |                  |                |                  |                |
| Demand deposits                     | 579,372           | 16.42%         | 544,974          | 16.67%         | 470,508          | 16.07%         | 416,516          | 16.34%         | 351,875          | 15.38%         |
| Time deposits                       | 1,214,757         | 34.42%         | 1,295,672        | 39.62%         | 1,208,176        | 41.27%         | 1,091,760        | 42.84%         | 1,040,315        | 45.46%         |
| Sub-total                           | 1,794,129         | 50.84%         | 1,840,646        | 56.29%         | 1,678,684        | 57.34%         | 1,508,276        | 59.18%         | 1,392,190        | 60.84%         |
| <b>Security and margin deposits</b> |                   |                |                  |                |                  |                |                  |                |                  |                |
| margin deposits                     | 164,409           | 4.66%          | 137,815          | 4.21%          | 121,344          | 4.14%          | 99,417           | 3.90%          | 81,310           | 3.55%          |
| <b>Total</b>                        | <b>3,528,980</b>  | <b>100.00%</b> | <b>3,269,809</b> | <b>100.00%</b> | <b>2,927,562</b> | <b>100.00%</b> | <b>2,548,609</b> | <b>100.00%</b> | <b>2,288,354</b> | <b>100.00%</b> |



## Equity

At the end of 2007, the Group's total equity was RMB450.657 billion, an increase of RMB37.701 billion or 9.13% compared with the prior year-end. This change was mainly attributable to: (a) the Group's profit for the year of RMB62.036 billion, in which the profit attributable to the equity holders of the Bank was RMB56.248 billion; and (b) a dividend of RMB10.154 billion paid in respect of

2006 profit approved by the shareholders of the Bank at the Annual General Meeting held on 14 June 2007.

Please refer to the Consolidated Statement of Changes in Equity in the Financial Statements for more detailed information.

## Off-balance Sheet Items

Off-balance sheet items mainly include derivative financial instruments, contingent liabilities and commitments.

The Group entered into various foreign exchange rate, interest rate, equity, precious metals and other commodity derivative transactions principally for trading, asset and liability management and risk management purposes. Please refer to Note V.17 to the Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments include legal proceedings, assets pledged, collateral accepted, capital commitments, operating leases, Certificate Treasury Bond redemption commitments and credit commitments. Credit commitments were the largest component, totalling RMB1,335.547 billion at the end of 2007. Please refer to Note V.41 to the Financial Statements for more detailed information on contingent liabilities and commitments.

## Segment Reporting by Geography

The Group conducts its business activities in the Chinese Mainland, Hong Kong and Macau and other overseas locations. The geographical analysis of profit attributable

to the business activities, and the related assets and liabilities are set forth in the following table:

Unit: RMB million

| Items                                    | Chinese Mainland |           | Hong Kong & Macau |           | Other Overseas Locations |         | Elimination |           | The Group |           |
|------------------------------------------|------------------|-----------|-------------------|-----------|--------------------------|---------|-------------|-----------|-----------|-----------|
|                                          | 2007             | 2006      | 2007              | 2006      | 2007                     | 2006    | 2007        | 2006      | 2007      | 2006      |
| Net interest income                      | 130,533          | 101,449   | 19,998            | 18,105    | 2,214                    | 1,813   | –           | 4         | 152,745   | 121,371   |
| Non-interest income                      | (160)            | 7,061     | 28,632            | 19,564    | 1,567                    | 931     | (72)        | (549)     | 29,967    | 27,007    |
| Including: net fee and commission income | 17,934           | 8,629     | 8,628             | 5,369     | 926                      | 829     | –           | (504)     | 27,488    | 14,323    |
| Operating expenses                       | (61,134)         | (50,357)  | (22,269)          | (16,951)  | (1,695)                  | (1,483) | 72          | 60        | (85,026)  | (68,731)  |
| Impairment (losses)/write back on loans  | (8,831)          | (15,546)  | 692               | 2,983     | (113)                    | 221     | –           | –         | (8,252)   | (12,342)  |
| Profit before income tax                 | 60,408           | 42,607    | 28,316            | 24,388    | 1,973                    | 1,482   | –           | (540)     | 90,697    | 67,937    |
| Income tax expense                       | (24,577)         | (16,138)  | (3,675)           | (3,435)   | (409)                    | (290)   | –           | 190       | (28,661)  | (19,673)  |
| Profit for the year                      | 35,831           | 26,469    | 24,641            | 20,953    | 1,564                    | 1,192   | –           | (350)     | 62,036    | 48,264    |
| <b>Balance sheet items</b>               |                  |           |                   |           |                          |         |             |           |           |           |
| Assets                                   | 4,778,855        | 4,220,395 | 1,158,713         | 1,084,078 | 236,754                  | 214,766 | (183,105)   | (191,586) | 5,991,217 | 5,327,653 |
| Liabilities                              | 4,451,257        | 3,921,219 | 1,047,913         | 980,389   | 224,495                  | 204,675 | (183,105)   | (191,586) | 5,540,560 | 4,914,697 |



At the end of 2007, the total assets<sup>3</sup> of the Chinese Mainland segment amounted to RMB4,778.855 billion, an increase of RMB558.460 billion or 13.23% compared with the prior year-end, representing 77.40% of the Group's total assets, an increase of 0.93 percentage point. This segment achieved a profit for the year 2007 of RMB35.831 billion, an increase of RMB9.362 billion or 35.37% compared with the prior year, representing 57.76% of the Group's profit for the year.

At the end of 2007, the total assets of the Hong Kong & Macau segment amounted to RMB1,158.713 billion, an increase of RMB74.635 billion or 6.88% compared with the prior year-end, representing 18.77% of the Group's total assets. This segment achieved a profit for the year 2007 of RMB24.641 billion, an increase of

RMB3.688 billion or 17.60% compared with the prior year, representing 39.72% of the Group's profit for the year.

The assets of the other overseas locations segment amounted to RMB236.754 billion, an increase of RMB21.988 billion or 10.24% compared with the prior year-end, representing 3.83% of the Group's total assets. This segment achieved a profit for the year 2007 of RMB1.564 billion, an increase of RMB0.372 billion or 31.21% compared with the prior year, representing 2.52% of the Group's profit for the year.

Please refer to the 'Business Review' section for more detailed information on business segments.

## Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the

circumstances. Management believes that the accounting estimates and assumptions made properly reflected the economic conditions in which the Group was operating. Please refer to Note II and IV to the Financial Statements for more detailed information related to the Group's accounting policies and accounting estimates.

## Other Financial Information

The reconciliation of equity and net profit of the Group prepared in accordance with IFRS to that prepared in accordance with CAS is set forth in 'Supplementary

Information – Financial Statements Prepared in Accordance with CAS'.

<sup>3</sup> The figures for the segment assets, segment profit for the year and their respective percentages are prior to intragroup elimination.

# Management Discussion and Analysis

## — Business Review

The Bank's business scope encompasses three main areas: commercial banking, investment banking and insurance. Commercial banking, as the core business of the Bank, contributed 89.81% of the Bank's operating profits in 2007.

The following table sets forth the operating profits in each line of business for the period indicated:

Unit: RMB million, except percentages

|                    | 2007          |               | 2006   |            |
|--------------------|---------------|---------------|--------|------------|
|                    | Amount        | % of total    | Amount | % of total |
| Commercial banking | <b>80,322</b> | <b>89.81</b>  | 63,392 | 94.19      |
| Investment banking | <b>1,384</b>  | <b>1.55</b>   | 1,055  | 1.57       |
| Insurance          | <b>233</b>    | <b>0.26</b>   | 581    | 0.86       |
| Others             | <b>7,495</b>  | <b>8.38</b>   | 2,769  | 4.11       |
| Elimination        | —             | —             | (492)  | (0.73)     |
| Total              | <b>89,434</b> | <b>100.00</b> | 67,305 | 100.00     |

### Commercial Banking

Commercial banking traditionally is the main business of the Bank, comprising of corporate banking, personal banking and financial market business (mainly treasury

operations). The following table sets forth the operating profit of the main commercial banking business lines for the periods indicated:

Unit: RMB million, except percentages

|                            | 2007          |               | 2006   |            |
|----------------------------|---------------|---------------|--------|------------|
|                            | Amount        | % of total    | Amount | % of total |
| Corporate banking business | <b>47,620</b> | <b>59.29</b>  | 29,084 | 45.88      |
| Personal banking business  | <b>26,707</b> | <b>33.25</b>  | 20,590 | 32.48      |
| Treasury operations        | <b>5,995</b>  | <b>7.46</b>   | 13,718 | 21.64      |
| Total                      | <b>80,322</b> | <b>100.00</b> | 63,392 | 100.00     |

### Corporate Banking Business

Corporate banking contributes the majority of the Bank's profit. In 2007, the focus of corporate banking continued to be improvement of customer service, business coordination, product innovation and management model transformation. During the year, the corporate banking business unit was established to strengthen business line management. The Bank implements a development strategy of serving large-sized, high quality corporate

customers and maintaining long-term relationships with large-sized premium customers. At the same time, the Bank acknowledges the importance of small and medium-sized enterprises (SMEs) as a key component of its corporate banking business and is dedicated to partnering with SMEs and providing them with efficient, professional and comprehensive solutions.



### **Business Operations**

In 2007, the corporate banking business recorded a profit before tax of RMB47.620 billion, an increase of RMB18.536 billion from the previous year. Its average pre-tax ROA reached 2.47%.

### **Deposit Business**

To offset the impact of the rapidly-growing capital market on corporate deposits, the Bank made a strong effort to increase the level of RMB corporate deposits. At the end of 2007, the balance of RMB corporate deposits in domestic operations reached RMB1,447.091 billion, an increase of RMB286.306 billion or 24.66% compared with the previous year-end, accounting for 8.13% of the total market share among all financial institutions. By the end of 2007, the balance of foreign currency-denominated corporate deposits in domestic operations was USD16.887 billion, an increase of USD167 million compared with the previous year-end. This enabled the Bank to maintain its leading position in foreign currency-denominated corporate deposits among all financial institutions in China with a market share of 18.71%, an increase of 1.65 percentage points compared with the previous year end. By the end of 2007, the outstanding balance of foreign currency-denominated corporate deposits in the Bank's overseas operations totalled USD 40.971 billion, up USD10.566 billion or 34.75% compared with the prior year-end.

### **Loan Business**

The Bank further adjusted the corporate lending structure, adding more weight to loans for industries prioritised by the Bank's credit policy, to realise optimal allocation of credit resources. By the end of 2007, the outstanding balance of RMB-denominated corporate loans by the Bank's domestic operations was RMB1,370.321 billion, an increase of RMB125.262 billion or 10.06% compared with the previous year-end. This gave the Bank a market share of 6.25% in RMB lending among all financial institutions in China, down 0.20 percentage point from the previous year-end. The outstanding balance of foreign currency-denominated corporate lending by the Bank's domestic operations was USD49.264 billion, an increase of USD10.620 billion or 27.48% compared with the prior year-end. The Bank was thus able to maintain its leading position in the market for foreign currency-denominated corporate loans in China, with a market share of 22.46%. By the end of 2007, the outstanding balance of foreign currency-denominated corporate lending by the Bank's overseas operations totalled USD53.091 billion, an increase of USD14.358 billion or 37.07% compared with the previous year-end.

### **Financial Institutional Banking Business**

The Bank attaches great importance to cooperation with financial institutions, offering a wide range of financial services to customers through customer referrals, resource sharing and collaborative development of new products. In 2007, the Bank expanded its deposits from financial institutions by taking advantage of the booming capital market. By the end of 2007, the balance of RMB deposits from financial institutions in its domestic operations reached RMB266.274 billion, an increase of RMB124.815 billion compared with the previous year-end; the balance of foreign currency-denominated deposits from financial institutions reached USD15.160 billion, an increase of USD3.977 billion compared with the prior year-end. The third-party cash custodian business also grew steadily in the year with total clients reaching 4.31 million.

The Bank conducted US Dollar, Euro, and Japanese Yen clearing services through its New York, Frankfurt and Tokyo branches. These branches, along with the Singapore branch, are all tier-one clearing banks in their domicile markets. During the year, the Bank endeavored to improve the quality of its clearing services and enhanced coordination between its domestic and overseas branches. As a result, the clearing volumes for US Dollar, Euro and Japanese Yen all hit historical highs in 2007. The New York branch ranked 11th in terms of USD clearing volumes in the Clearing House Inter-bank Payment System (CHIPS), and the Tokyo branch ranked 10th in terms of JPY clearing volume in the Japanese Yen clearing system, FXYCS.

### **International Settlement and Trade Finance**

The international settlement business is one where the Bank enjoys a distinct competitive advantage. Facing intense competition, in 2007 the Bank achieved rapid and steady growth in international settlement and trade finance by strengthening coordination between its domestic and overseas outlets. In 2007, the transaction volume in the international settlement business conducted by the Bank's domestic operations reached USD950.059 billion, up 61.56% from the previous year, in which settlement volume for international trade business was USD603.539 billion, and for non-trade businesses was USD346.52 billion, up 22.46% and 264% from the last year, respectively. As a result, the Bank maintained its leading position in China's international trade settlement service market with the lion's share of the market at 30.51%. Other trade-related advantage businesses in the Bank's domestic operations, including guarantee, factoring, forfeiting and domestic letters of credit, all experienced rapid growth as evidenced by the annual increase of more than 36% in both transaction volume and fee income. Foreign currency-denominated trade

finance transaction volumes reached USD35.793 billion, and the Renminbi-denominated trade finance transaction volume reached RMB71.426 billion, up 32.13% and 60.32% from the previous year, respectively.

### **Other Corporate Banking Businesses**

The Bank offers a wide range of payment and settlement services to corporate customers, including bank drafts, promissory notes, checks, remittance, banker's acceptance, collections, simplified orders for multi-payments, bulk payments, receipt of funds and custody of bills. In 2007, the Bank's domestic operations generated a total of RMB1.173 billion in the payment and settlement business, an increase of 40% compared with the previous year. The Bank offers integrated online solutions to corporate customers, such as RMB account management, payables and receivables management, centralised management of group companies' internal funds, and fund sweeping services. In 2007, the number of Bank's Corporate Banking Services Online customers increased by 44.25% compared with the previous year, with the total transaction volume exceeding RMB27 trillion, up 154.69% from the year before.

### **Product and Service Innovation**

To meet corporate customers' growing demand for innovative products and services, the Bank enhanced its corporate product mix, increased cooperation with other financial institutions and carried out credit asset acquisition business with industrial peers. The Bank enriched its Da series of trade finance products, by introducing the *Rongyi Da* (receivables-based financing), *Tongyi Da* (issuing letters of credit against receivables under other letters of credit), *Rongxin Da* (Export Credit Agency financing) and *Ronghuo Da* (financing based on mortgaged trading goods). New products launched included non-notification



factoring and forfeiting under avalised bills of exchange and promissory notes. In response to the global trend for trade settlement, the Bank was among the first to join the Trade Services Utility (TSU) launched by SWIFT and carried out the first real transaction under TSU in China.

Referring to the best practices of domestic and international peers and taking advantage of the experience shared by its strategic investors, the Bank improved its SMEs business model, modified credit policies and simplified lending procedures to SMEs. To cater for the financing needs of SMEs, the Bank introduced a customised product, 'QFE' (Quickly, Freely, and Economically), a structured receivables-based financing product that meets small and medium-sized corporate customers' short-term financing needs.

By integrating the clearing resources of its overseas branches and correspondent banks, the Bank successfully rolled out new payment products, such as 'Full Value Transfer Service', 'Taiwan Remittance', 'Priority Remittance', and 'Special Remittance Service', making the Bank a pioneer among local financial institutions in these products. The new products and services contributed to the ongoing development of the Bank's overseas branches and their correspondent banks, and helped the Bank expand its market coverage. In particular, the Bank's 'Taiwan Remittance' not only broadened the Bank's product mix, but also broke the monopoly of correspondent banks in this area.

## Outlook

In 2008, the Bank will continue to enhance its corporate fee-based businesses, and focus on improvement of returns by customers and coordination between the head office and its domestic and overseas operations.

The customer relations team will broaden its focus from loan and deposit taking to comprehensive marketing of all product lines and enhance synergies with the product teams. At the same time, concerted efforts will be made to enhance the corporate banking unit. The Bank will also further develop its capabilities in product management, human resources management, credit risk management and internal control in order to sharpen the competitive edge of its corporate banking business.

In implementation of the State's macro regulatory and tightened monetary policies, the Bank controls credit growth in accordance with the ceiling requirement and the Loan Granting Schedule from PBOC. The Bank will maintain a level of loan growth in 2008 equal to that in 2007, with an approximate growth rate of 13%.

## Personal Banking Business

Personal banking is one of the key businesses in the Bank's development strategy. In 2007, the Bank further improved the management and operational structure of its personal banking business by establishing the Personal Banking Unit and strengthening line management. The Bank promoted the transformation of its service network operation models, launched differentiated service programs for various customer groups, reformed its marketing model and approval process for personal credit, and enhanced product and service innovation. All of these efforts have enabled the Bank to improve its business and income structure and expand its sources of revenue.

In 2007, the Bank's personal banking business recorded RMB26.707 billion in profits before-tax, an increase of RMB6.117 billion over the previous year. The pre-tax ROA reached 3.56%.

### Savings Deposits

By the end of 2007, the total balance of RMB-denominated savings deposits in the Bank's domestic operation was RMB1,616.234 billion, an increase of RMB13.479 billion or 0.84% over the previous year-end, with a market share of 9.38% among all financial institutions. The balance of foreign currency deposits in the Bank's domestic operations was USD24.354 billion, a decrease of USD6.111 billion from the previous year-end, giving the Bank a market share of 51.79% among all financial institutions. The Bank's overseas operations maintained deposits of USD76.882 billion in equivalent foreign currencies, an increase of USD3.137 billion or 4.25% from the previous year-end.

In response to an increasing demand from personal banking customers for increasing and preserving the value of their personal financial assets, the Bank adjusted its operational strategy and promoted coordinated development of the savings deposits business and wealth management services.

### Personal Loans

In 2007, the Bank made great efforts to promote the Direct Marketing sales model and improve its online centralised loan approval system. Loans granted to the Bank's personal customers grew substantially during the year.

By the end of 2007, the balance of personal loans in the Bank's domestic operations reached RMB585.533 billion, an increase of RMB141.953 billion or 32.00% from the previous year-end. Total loans of USD20.131 billion were granted by the Bank's overseas operations to personal customers, representing an increase of USD2.309 billion or 12.96% from the previous year.

### Personal Fee-based Business

The Bank's personal fee-based businesses includes domestic and foreign currency remittance, personal exchange settlement and sales, foreign currency exchange, insurance products agency, mutual fund distribution, and agency payment and collection.

Personal foreign currency settlement and sales and personal international remittance are the traditional strengths of the Bank. During the year, the Bank increased the number of outlets dealing with settlement and sales of foreign currencies and fortified cooperation with specialised international remittance companies, increasing its revenue sources from foreign currency business. The Bank further segmented the personal foreign exchange business market, streamlined its foreign exchange products into a one-stop service package, and established the brand 'BOC Foreign Exchange'.

Taking advantage of the booming China capital market and the rapid development of investment products, the Bank's commission income soared due to the exponential growth of the fund distribution business and insurance agency business.

### **'BOC Wealth Management'**

The Bank made a special effort to expand its personal wealth management services during the year, aiming to further professionalise its 'BOC Wealth Management' service. By the end of 2007, a total of 366 wealth management centres had been established to a uniform standard and more than 1,000 wealth management counters and desks in business offices were in operation, forming an extensive, multi-level personal wealth management service network. Moreover, the Bank has established a dedicated wealth management team of



over 200 investment advisors and around 2,500 client managers, providing professional wealth management planning and a full range of wealth management products. Exclusive courtesy channels for 'BOC Wealth Management' VIP customers have been opened in airports of major cities in the Chinese Mainland, which added further value for the Bank's 'BOC Wealth Management' customers. In 2007, the number of the Bank's domestic wealth management customers increased by 18.12% from the previous year.

### **Private Banking Business**

The Bank worked hand-in-hand with the Royal Bank of Scotland Group (RBS) and on 28 March 2007, launched the first private banking business in the Chinese Mainland. Private banking departments have been established in Beijing and Shanghai each. High quality private and bespoke wealth-creation private banking services are offered to high net-worth individuals with financial assets over USD1 million in a number of cities, forming a new platform for the Bank's personal banking business. Both the number of customers and amount of assets under management have grown rapidly, giving the Bank a first-mover advantage.

### **Bank Card Business**

In 2007, the Bank continued to strengthen research, development and marketing, and further developed services and systems for its bank card business. By the end of 2007, the Bank's domestic operations had issued 11.39 million credit cards (including over 1 million BOC Olympic credit cards) and 111.23 million debit cards. The total volume spent using BOC RMB cards in 2007 reached RMB236.93 billion, a year-on-year increase of 51.7%; foreign card merchant acquiring agency transaction volumes amounted to RMB26.01 billion, a year-on-year increase of 16.9%. By the end of 2007, the Bank's domestic operations had signed up 230,000 merchants.

### **Channel Development**

The Bank's 10,145 business outlets at the end of 2007 are its primary strategic resources. During the year, the Bank transformed its outlets by defining core functions, optimising operational processes and implementing Key Performance Indicator (KPI) evaluations.

The Bank also advanced its outlet network standardisation programme with up to 4,011 business outlets or 39.54% of the network refurbished by the end of 2007.

During the year, the Bank continued to increase investment in Automatic Teller Machines (ATMs) and other self-service equipment and further optimised their function and distribution. As a result, the utilisation rate of self-service equipments steadily increased, and the migration rate from counter to self-service equipment reached 67.2%, up 19 percentage points from the previous year.

The Bank has set up a professional marketing team of over 10,000 staff, including duty managers in business outlets, credit client managers, personal wealth managers and personal business relationship managers, to provide improved face-to-face service to customers. This team has improved the sales and professional service capabilities of the Bank's business outlets.

### **Product and Service Innovation**

With a strong global franchise and diversified service platform, the Bank is able to offer comprehensive financial services and an ever-growing range of RMB and foreign currency wealth management products. The Bank continued to expand its overseas wealth management presence during the year to help customer with global asset allocations.

Under 'Ideal Home' (the Bank's brand for personal mortgage loans), the Bank launched Ease Mortgage (fund custody for second-hand property transactions) and Easy &

Safe Mortgage (management of funds from second-hand property transactions) through further segmentation of customers' financing requirements for consumer payment and investment. With these offerings, the 'Ideal Home' brand is winning more customers.

The Bank continued to promote card products extensively during the year. In 2007, the Bank issued the Great Wall Commercial card, BOC-Airchina card, BOC-Ctrip card and BOC-Amway card, catering for the needs of business travellers in domestic enterprises and public institutions, frequent airline passengers, and commercial travel and procurement. Other co-branded products targeting specific market segments issued by the Bank include the BOC-Dazhong card, Great Wall-Ideal Home card and Great Wall-China Life card. The core functions of BOC credit cards have also been enhanced, including an automatic repayment function offered by the Great Wall RMB Card to BOC credit cards and the upgrade of Great Wall International Card to the EMV standard.



## Outlook

In 2008, the Bank will continue to enhance its business structure and banking processes. It will strengthen the professional management, advance the business network transformation, expand savings deposits, further develop the personal loans business and enhance its wealth management business. It will establish a three-tier service system of personal financial planning, wealth management and private banking and promote the bank

card business. Furthermore, the Bank will accelerate the development of its overseas personal banking business through closer interaction between its domestic and overseas operations.

## Financial Market Business

The financial market business mainly includes proprietary trading of local and foreign currency instruments and franchise trading, investments in local and foreign currency securities or indices, debt market business, agency wealth management and asset management, the financial agency business and custody business. The Bank conducts its treasury operations mainly through its five trading centres, located in Beijing, Shanghai, Hong Kong, London and New York.

In 2007, major economies of the world experienced turbulence as a result of the US subprime mortgage crisis. In combination with the Chinese government's tightened monetary policies, the Bank's global market business faced an unfavourable market condition. On the other hand, the enthusiasm for fund investments in 2007, fuelled by the prospering capital market in China, encouraged the development of the Bank's mutual fund agency distribution and custody business. In despite of the complex market conditions, the Bank achieved satisfactory progress in its financial market business by undertaking in-depth market studies, product innovation, business exploration and risk control.

## Business Operations

In 2007, the treasury business registered RMB5.995 billion in profits before-tax, representing a year-on-year decrease of RMB7.723 billion.

## Global Investments

The financial market business of the Bank comprises both local currency-denominated and foreign currency-denominated debt investments. As at 31 December 2007,



the Group held debt securities totalling RMB1,690.084 billion.

The foreign-currency denominated investments comprise primarily government bonds, public sector bonds, credit-linked notes, mortgage backed securities (MBS), asset backed securities (ABS) and placements on monetary markets. The Bank adjusted the structure of its foreign currency-denominated debt investment portfolio by decreasing the average duration of the foreign currency-denominated debt investment from 1.62 to 1.34 over the year in response to the changes in market risks.

As at 31 December 2007, the carrying value of the US subprime mortgage related debt securities was USD4.990 billion (or RMB36.454 billion), representing 2.13% of the investment securities of the Group, of which 71.23% was AAA rated, 25.93% AA rated and 1.10% A rated.

The Bank closely monitored developments in the US subprime mortgage market during the year and disposed the higher risk portion of the US subprime mortgage related asset-backed securities (Subprime ABS) and all US subprime mortgage related collateralised debt obligations (Subprime CDOs) in the fourth quarter of 2007. Losses incurred have been charged into the Bank's Profit and Loss for the year.

The Group has conducted an assessment on the remaining US Subprime ABS and recorded an impairment allowance of USD1.295 billion (or RMB9.461 billion) for the securities as at 31 December 2007. In addition, the Group also recorded a fair value change of USD0.282 billion (or RMB2.058 billion) directly in the 'Reserve for fair value changes of available for sale securities' under the equity, reflecting the decrease in the fair value of the US Subprime ABS positions.

The Bank closely monitored developments in the US credit market and evaluated its impact on the Group's USD investment portfolio on a continuous basis. In

addition to proactively managing relevant risks, the Bank has conducted prudent impairment assessment of such investments.

As at 31 December 2007, the carrying value of US Alt-A mortgage backed securities was USD2.470 billion (or RMB18.040 billion), representing 1.05% of the investment securities of the Group, 98.21% of which was AAA rated. The Group booked an impairment charge of USD0.285 billion (or RMB2.082 billion) on US Alt-A and other US mortgage backed securities held as at 31 December 2007.

The US mortgage related markets have further deteriorated since early 2008. The Group will closely monitor market developments and disclose, as appropriate, the related impact on the fair value of its foreign currency-denominated debt securities portfolio in accordance with the relevant accounting policies.

Please refer to Note V.19 and III.3 to the Financial Statements for the composition of the Group's securities investment, changes and impairment policies.

The RMB investments mainly comprise PRC Treasury bonds, PBOC bills and financial institutional bonds. In 2007, the RMB yield curve climbed sharply in the domestic monetary market. The Bank consistently holds short-duration bonds. The duration dropped from 1.84 at the end of 2006 to 1.47. The Bank increased its floating bond investment portfolio to avoid risks arising from interest increases and rise of the yield curve. Simultaneously, the Bank also increased investment in high-credit rating commercial paper and corporate bonds moderately as the credit spread has been relatively wide.

### **Global Trading**

Global trading by the Bank primarily comprises proprietary trading, market-making and franchise trading.

In 2007, the Bank maintained strict control of trading risks and improved profitability by utilisation of various trading platforms and financial instruments. In its trading of foreign currency-denominated bonds, the Bank, with the pre-requisite of effective risk control, focused on high-liquidity G7 government and institutional bonds and realised profits by using a combination of spot trading and options. In RMB proprietary trading, facing a tightened monetary policy, the Bank conducted short selling in a timely manner, which yielded positive results.

In the market making business, the Bank balanced business development with greater control of market liquidity risk. The Bank maintained its leading position in RMB trading, trading of precious metals and RMB bonds, and RMB swaps in the inter-bank markets. The Bank's trading volume of RMB bonds in 2007 reached RMB8.82 trillion, with the biggest share of 7.02% in the domestic inter-bank market. The Bank also ranked number one in the bond repo market. In gold trading, the Bank maintained its first place ranking in the Shanghai Gold Exchange. Throughout the year, the Bank performed the role of a market maker and provided liquidity to the market, earning it a good reputation in this market.

For franchise trading, the Bank, by taking advantage of the opportunities arising from the RMB interest rate hikes and the increased foreign exchange rate fluctuations, enhanced its marketing of hedging instruments, such as RMB forward trading and RMB-denominated structured interest rate swaps, both of which brought in considerable commission earnings. In 2007, the Bank maintained its leading position in debt hedging business. It explored new growth engines, and promoted gold forward and leasing and retail foreign exchange margin business. Trading volumes in gold forwards skyrocketed.

### ***Asset Management***

In 2007, the Bank managed RMB300 billion in sales volume of local and foreign currency-denominated structural wealth management products, and launched a total of 331 products. Eight RMB asset management products were launched in 16 phases, achieving sales volumes of RMB18.2 billion. As the first domestic bank to offer foreign currency-denominated asset management products, the Bank made further progress in this business by issuing two QDII products, 'BOC Stable Growth ®' and 'BOC Emerging Market ®'. At the end of 2007, the accrued net value of the 'BOC Stable Growth ®' fund reached RMB1.278 per share, and the net value of the 'BOC Emerging Market ®' fund outperformed the industrial benchmark by 897bps, reflecting the first-mover advantage enjoyed by the Bank in foreign currency transactions.

### ***Debt Capital Market (DCM)***

In 2007, the Bank as joint-lead manager and sole bookrunner, underwrote USD bonds issued by the Export-Import Bank of China and China Development Bank and organised syndicated loans for these banks with total volume of USD1.9 billion. The Bank also underwrote RMB19.4 billion in commercial paper during the year. In order to optimise its DCM services, the Bank introduced a financing consultancy business.

### ***Fund Distribution and Custodian Business***

Taking advantage of the rapidly developing capital market, the Bank realised strong growth in its fund distribution and custodian services through agency distribution of mutual funds and custody of annuities, social securities fund, insurance fund, QDII and QFII funds, trust, wealth



management and direct investment funds, with enhanced risk management and internal control and IT services. The Bank distributed 130 funds, up 130% from last year, with a distribution volume of RMB422 billion, a year-on-year increase of 322% by the end of 2007. The accrued net value of assets under custody reached RMB860 billion, up 150% from the previous year.

### **Annuity Management**

In 2007, the Bank successfully obtained dual qualification as an annuity account manager and custodian, further enhancing the potential for future development of this business.

### **Product and Service Innovation**

Design and quotation for new products is one of the Bank's primary competitive advantages in the financial market business. With its rich experience in the foreign exchange business, the expertise of its strategic investors and a customer-focused philosophy of innovation, the Bank is able to attract customers by developing treasury products and services customised to their needs. In 2007, the Bank introduced new trading products, such as commodity derivatives franchise trading, structural RMB interest rate swaps, silver forwards, and retail FX margins. In wealth management, the Bank promoted capital-guaranteed floating-rate products linked to carbon dioxide credit futures prices and fund and commodity indices. It also combined the structural wealth management products as a series product that is sold on a daily basis with quoted and flexible value dates and is redeemable from the Bank. Other products include new stock wealth management and the BOC Money Market Value-Adding Wealth Management Schedule, and a RMB wealth management product invested directly in the commercial paper market. All of these products have won wide acclaim.

### **Outlook**

In 2008, opportunities will arise for the global market business from the structural adjustment of investments and financing strategies as well as the continued diversification of financial markets. Being 'market-oriented and customer-centric' in its global markets business, the Bank will enhance market analysis and customer research, search for new business opportunities, and promote product, service, management and channel innovation, while enriching existing products. The Bank will also optimise its investment portfolio, introduce stricter risk management and enhance its competitiveness in the financial market business.

## **Bank of China (Hong Kong)**

The Bank conducts commercial banking business in Hong Kong through its subsidiary BOCHK. As a major commercial bank in Hong Kong, BOCHK offers a comprehensive range of financial products and services to personal and corporate customers through an extensive service network of over 280 branches and 450 ATMs in Hong Kong as well as other distribution channels. BOCHK is one of the three note-issuing banks in Hong Kong. It has 15 branches and sub-branches in the Chinese Mainland and one overseas branch to provide cross-border services to customers in Hong Kong, the Chinese Mainland and overseas countries and regions. With 65.77% of its shares owned by the Bank, BOC Hong Kong (Holdings) Limited ('BOCHK Holdings'), which holds the entire equity interest in BOCHK, was listed on the main board of the Hong Kong Stock Exchange on 25 July 2002.



The year 2007 marked the 90th anniversary of BOCHK in Hong Kong. Over the past nine decades, BOCHK has been growing and prospering along with Hong Kong and BOCHK has won the support and trust of the various sectors that make up the Hong Kong economy and has been a significant and powerful force in the local financial market. 2007 was the second year of the implementation of BOCHK's strategic plan for 2006-2011, through which it aims to be a top-quality financial services group with a powerful base in Hong Kong, a solid presence in the Chinese Mainland and a strategic foothold in the region.

## *Business Operations*

Benefiting from the favourable economic environment, BOCHK Group recorded remarkable business growth in 2007. Its contribution to the Bank in terms of profit after tax was RMB9.917 billion, a year-on-year increase of 4.96%. Both operating profit before impairment allowances and profit attributable to shareholders reached record high since its IPO in 2002, with marked increases in net interest income and non-interest income. The investment agency business also demonstrated outstanding performance, and the cost-to-income ratio remained at a relatively low level by market standards.

## **Consolidating its Position in Hong Kong**

In 2007, BOCHK reinforced its business platform under the new Relationship-Product-Channel (RPC) model, consolidated its existing businesses and further enhanced its capabilities to innovate and provide service quality. Total customer deposits and advances to customers grew steadily during the year, and business growth in residential mortgages and stock broking volumes outperformed the market. BOCHK also maintained its leading position in the syndicated loan market and RMB banking businesses.

During the year, BOCHK undertook a number of business initiatives to attract deposits, including offering privileged interest rates to customers placing deposits with IPO refunds, the launch of the 'Olympic Target High Yield Deposit', 'Monthly Specials for Selected Currencies' and other deposit services combined with wealth management products. Growth was achieved in all deposits types.

As well as maintaining its position as the market leader in loan syndication, BOCHK launched a variety of customised SME-related banking products and upgraded its operating network, succeeding in bringing in a substantial increase in loans to SME customers. By optimising business workflows and strengthening promotions, BOCHK was able to grow its trade finance business. The introduction of a wider range of mortgage products, including 'Mortgage Insurance Program' and 'Smart Banking Account', enabled BOCHK to maintain its leading position in the underwriting of new mortgages.

In the agency businesses, BOCHK continued to improve trading platforms for its stock broking business and enhance service quality. The business volume of stockbroking showed a marked increase. In addition, BOCHK launched a private placement service that was well received by customers.



BOCHK maintained its leading position in the RMB business in Hong Kong. In early 2007, BOCHK was appointed by PBOC to continue its role as the clearing bank for RMB business in Hong Kong. It further expanded the scope of services and promoted its Renminbi integrated service. Seizing the opportunities arising from the issuance of Renminbi bonds in Hong Kong, BOCHK successfully acted as joint lead manager and bookrunner, as well as placing bank, for Renminbi bonds issued by China Development Bank, the Export-Import Bank of China and Bank of China, further reinforcing its leading market position. BOCHK's Renminbi deposits in Hong Kong recorded an annual increase of 41.3% at the end of 2007. BOCHK also maintained its leading position in RMB credit cards, with the number of cards issued during the year increasing by 31.6% from the end of the previous year. Cardholder spending rose by 65.2% over 2006.

In 2007, BOCHK launched an array of treasury products under its own brand, including structured notes, equity derivative warrants, and QDII products. These new products were well received by customers and recorded satisfactory sales. BOCHK further enhanced its cash management service platforms during the year by providing major customers with tailor-made cash management products.

### Chinese Mainland Business Development

BOCHK developed its Chinese Mainland business during the year while continuing to leverage its close relationship with the Bank.

As part of BOCHK's 'dualist approach' in its Chinese Mainland business strategy, Nanyang Commercial Bank (China) Limited ('NCB (China)'), commenced business on 24 December 2007. With Headquarters in Shanghai, NCB (China) offers comprehensive banking services, including Renminbi personal banking services. The Chinese Mainland branches of BOCHK and Chiyu Banking

Corporation Ltd. maintained their foreign-funded bank status and continued to focus on wholesale corporate banking and foreign exchange business through their existing operations in the Chinese Mainland.

## Outlook

In 2008, BOCHK will adhere to its commitment of 'serving Hong Kong and building a better tomorrow'. It will also strive to achieve its strategic objective of becoming a first-rate international bank through the implementation of its strategic plan. While maintaining its competitive position in Hong Kong, BOCHK will capture the increasing business opportunities arising from the rapid development of the Mainland to further develop its Mainland business. BOCHK will enhance its core competencies towards the goal of becoming the best financial group in Hong Kong and contributing more for the prosperity of Hong Kong as the best choice for shareholders, customers and staff members.

*(For further details of BOCHK's business results and related information, please refer to its annual report for the same period.)*

## Investment Bank Business

The Bank operates an investment banking business through BOC International Holdings Limited ('BOCI'). BOCI, via its establishments in the Chinese Mainland, Hong Kong, the US, the UK and Singapore, offers its clients comprehensive investment banking products and services. These include cross-border listings, mergers and acquisitions, financial advisory, sales and trading of equities and fixed income products, investment research, derivatives and structured products, asset management, direct investment, leveraged and structured finance and private wealth management.

## Business Operations

In 2007, BOCI recorded HKD1.782 billion in after-tax profit, a year-on-year growth of 57.70%.

During the year, BOCI implemented the 'merchant banking' model and made a breakthrough in its strategic transformation. In accordance with this model, BOCI broadened its product and service offerings. Benefiting from enhanced synergy with the Bank, BOCI is continuously improving its core competitiveness and brand image. BOCI has achieved record results since its establishment amid a turbulent capital market and intense competition.

**Underwriting and Financial Advisory** Acting as global coordinator, bookrunner, sponsor or lead manager, BOCI undertook a number of successful IPOs in 2007. It maintained the third ranking in the IPO market in Hong Kong in 2007 in terms of underwriting turnover.

**Trading of Equities** BOCI has established a global institutional sales network. As the Hong Kong and Chinese Mainland capital markets continued to boom, BOCI experienced strong growth in its equities brokerage and trading businesses. It also benefited from close cooperation with Bank of China (Hong Kong) for which sales were made through its extensive distribution network. BOCI stood among the top three brokers in the Hong Kong Stock Exchange in terms of cash equities transaction volume.

**Fixed Income** In 2007, BOCI acted as arranger, joint global coordinator and bookrunner for a number of successful bond issues (including RMB bonds) for corporations and financial institutions in Hong Kong. Of special note was the design of a first-of-its-kind bond-warrant structured product in the overseas initial bond issue for Neo-China Holdings, for which *Asiamoney* awarded the bond 'Best High-Yield Bond in 2007'.

**Asset Management** BOCI Prudential, an asset management joint venture, remained as a leading player in the Hong Kong market with the total assets under management in 2007 of HKD43.3 billion, a year-on-year increase of 51%. BOCI Prudential launched an Exchange-Traded Fund (ETF) product that underlies the CSI 300 Index on the main board of the Hong Kong Stock Exchange. It is the first ETF product linked to the stock market in the Chinese Mainland and was well received in the market on its launch.

**Direct Investment** In 2007, Bohai Industrial Investment Fund successfully invested in a number of large-scale projects, including Tianjin Pipe (Group) Corporation, maintaining a leading position in the RMB industrial investment fund market. Bohai Industrial Investment Fund was awarded '2007 Most Innovative Product in China' by the *Asia Asset Management*.

**Leveraged and Structured Finance** BOCI designs and offers quality financing solutions for customers, such as bridge financing, leveraged financing and structured financing. It also provides fund support and relevant financial advisory services for leveraged acquisitions, corporate restructuring, strategic mergers and acquisitions, project construction and other financing activities.

**Private Wealth Management** BOCI keeps a close watch on the development trends and business opportunities in the Asian wealth management market. During the year, the Private Wealth Management Department was established in Hong Kong. The department is engaged in offering high-net-worth individuals a full complement of investment advisory, equities trading, portfolio advisory and customised product and service offerings.



## *Business in the Chinese Mainland*

BOCI conducts its business in the Chinese Mainland through BOC International (China) Limited ('BOCI China'). BOCI China, with 20 branches in 17 major cities in the Chinese Mainland, provides a broad range of services including IPO sponsorship and underwriting, sales and trading in equities and fixed income products, asset management and investment advisory. As a major underwriter for China government bonds, corporate bonds and financial institution bonds, BOCI maintained the biggest market share of treasury bonds and financial bonds underwriting among all securities firms in the Chinese Mainland in 2007.

The Bank's extensive client base and business network is a platform for BOCI to further expand its business in the Mainland. In 2007, BOCI China made remarkable progress in the underwriting business as the lead underwriter on several IPOs of large-scale Chinese enterprises and received wide-scale recognition from investors. In particular, BOCI and BOCI China were the joint lead underwriters for the unprecedented 'first A then H' dual listing of China Railway Co., Ltd., which demonstrated the Bank's cross-border capability in investment banking.

## *Outlook*

BOCI will continue to enhance its corporate governance, risk management and internal control systems and strive to establish a customer-centric corporate culture that values people. Following the 'merchant banking' development strategy, it will promote product innovation, further optimise its revenue structure and carry out a more concerted marketing programme with the Bank to become the best investment bank in China with sustainable development capacity.

## *Insurance Business*

The Bank operates an insurance business through its wholly-owned subsidiary, Bank of China Group Insurance Company Limited ('BOCG Insurance'), which is registered in Hong Kong. BOCG Insurance operates a general insurance business as well as a life assurance business through its associated company, Bank of China Group Life Assurance Company Limited ('BOCG Life'), which is jointly owned with Bank of China (Hong Kong) Limited. At present, BOCG Insurance owns six branches in Hong Kong. In 2007, as an affirmation of BOCG Insurance's superior financial strength, Standard & Poor's gave BOCG Insurance an 'A-' credit rating.

## *General Insurance Business in Hong Kong*

In 2007, facing an operating environment characterised by fierce price cutting, BOCG Insurance overtook the competition and developed new products, while improving on existing products and expanding its sales network. New products introduced included BOCG Insurance's Healthy Junior Hospital Insurance Plan, Aircraft Damage and Liability Insurance. Without impacting the Bank's general operations, BOCG Insurance carried out a restructuring of its classes of businesses by strengthening its low-risk businesses and tightening underwriting conditions for its high-risk businesses. Through this optimisation process, BOCG Insurance has increased its low-risk business, such as medical insurance, and decreased the proportion of higher risk businesses such as its motor and hull insurance.

In 2007, BOCG Insurance recorded gross written premiums of RMB1.1 billion, a decline of RMB35.63 million or 3.14% from the previous year. Low-risk businesses recorded an increase in business volume during the year, including Accident and Health Insurance, Good in Transit Insurance and Property Damage Insurance,

which achieved 8.57%, 1.65% and 4.55% increases in gross premiums, respectively. Even so, the overall gross written premium was still less than that of last year, due to the strategic reduction in volumes of high-risk business, such as Motor Insurance and Employee's Compensation Insurance with 8.65% and 7.26% decreases in gross premiums respectively.

### *Life Assurance Business in Hong Kong*

BOCHK Holdings and BOCG Insurance hold 51% and 49%, respectively of the shares of BOCG Life. At present, BOCG Life conducts both individual and group life insurance businesses in Hong Kong, and has established a representative office in Beijing.

In 2007, cooperation between BOCG Life and BOCHK increased, bringing greater synergies to BOCHK Group. To meet the needs of BOCHK's customers, BOCG Life continued to develop new insurance products for distribution through BOCHK's extensive sales and marketing network. BOCG Life has succeeded in enhancing its product portfolio by promoting regular premium and investment-linked products.

### *Business in the Chinese Mainland*

In January 2005, BOCG Insurance set up a wholly-owned subsidiary, Bank of China Insurance Company Limited ('BOC Insurance'), to engage in insurance business in the Chinese Mainland. BOC Insurance increased its registered capital to HKD2 billion in 2007, which significantly improved its solvency.

In 2007, BOC Insurance's aggregated actual gross premium income amounted to RMB517 million, an increase of 313% over the previous year. Fifty percent of the income came from the motor insurance business and 33 percent from bancassurance. BOC Insurance's ranking as measured by premium income rose by 2 standings.

2007 was a year of breakthrough for BOC Insurance, during which it accelerated institutional expansion and exploration of new businesses. It established a motor insurance department in addition to the existing commercial insurance, personnel insurance, and marine insurance businesses, increasing the number of main business units to four, and also optimised its internal organisational structure. A total of 12 Chinese Mainland branches were established during the year. By the end of 2007, BOC Insurance had opened branches in 16 provinces, covering most of the Chinese Mainland market.

During the year, BOC Insurance established cooperation with several world-leading insurance brokers and reinsurance companies and also underwrote several large-scale projects with domestic companies.

### *Outlook*

As Bank of China's wholly-owned subsidiary, BOC Insurance will fully capitalise on the Bank's resources, such as its brandname, sales channels, customers and business opportunities to achieve a higher level of synergy between the banking and insurance business. This will satisfy the need for an integrated finance service for customers, enhance customer loyalty and consolidate the Bank's multi-service platform.

The Group will consolidate its leading position in the insurance market in Hong Kong and encourage the development of the insurance business in the Chinese Mainland. At the same time, it will gradually increase the contribution of the insurance business to the Group's total income and become a significant growth business.

In the year ahead, BOCG Insurance will continue developing new products and promoting these through a variety of means and increase its efforts to market professional indemnity insurance and medical insurance. BOCG Insurance will also optimise its business mix, restructure its operating departments and continue exploring overseas markets.



## Investment Business

The Bank is engaged in direct investment and investment management business through its wholly-owned subsidiary, Bank of China Group Investment Limited ('BOCG Investment'). As an important vehicle of the Bank for making direct investments and managing investments, BOCG Investment conducts businesses in Hong Kong, Macau, the Chinese Mainland and overseas through corporate equity investment, fixed asset investment, acquisition and disposal of distressed assets, and asset management.

## Business Operation

In 2007, in accordance with the development strategy of the Bank and the goal of improving core competitiveness, BOCG Investment focused on improving its market operational capacity in the market by diversifying its portfolio, exploring new investments and perfecting organisational structure, all of which yielded good results.

During the year, BOCG Investment made considered investments by hedging price movement risks in order to ensure stable returns. It also improved the value management of its investment projects to increase returns on its business operations and to preserve and appreciate the value of investments. At the same time, BOCG Investment was able to achieve satisfactory returns by predicting market movements and making the right exit decisions. As of the end of 2007, BOCG Investment earned a profit after tax of HKD5.683 billion, an increase of 191.88% compared with the previous year.

In 2007, BOCG Investment strengthened cooperation with major investment banks, professional funds, asset management companies, Chinese government authorities and other strategic partners, which led to a number of successful corporate equity investments.

BOCG Investment endeavored to extend its value chain during the year by testing new business models. In 2007, in addition to the further expansion of its IPO investments, it achieved substantial progress in private equity investments, expanded the scale of its fund investments, and investigated overseas investment opportunities. In an environment of rapid economic growth and improved asset quality, BOCG Investment explored the possibility of acquiring equities and collateralised assets within the Bank and loan acquisition at book value after examining mature models of solely funded or jointly funded buyouts and structured transactions. BOCG Investment played an important role in disposing of collateralised assets, and made further progress in the business of mergers and reorganisation.

## Outlook

In 2008, based on its existing well-developed business channels and extensive customers' networks, BOCG Investment will continue to monitor macroeconomic developments as well as changes in domestic and overseas markets, strengthen its research capabilities, explore new investment opportunities, develop innovative investment products, advance operation reform and further increase its core competitiveness. Through this strategy, BOCGI will create more value for the Bank and its customers, and become a vital source of returns for the Bank's overseas strategy, which is featured by diversified business development.

## BOC Aviation

The Bank acquired Singapore Aircraft Leasing Enterprise Pte. Ltd (SALE), a leading aircraft leasing company on 15 December 2006. The purchase was BOC's first major overseas acquisition and the first by a Chinese bank in the global aircraft leasing business. Soon after the acquisition, the Singapore-based company was renamed BOC Aviation Private Limited.

By the end of 2007, BOC Aviation's portfolio had 76 aircraft in service with 29 airlines in 19 countries worldwide. The company's multi-national staff team, totalled 63, of whom 55 were based in Singapore, 4 in Europe and 4 in the US.

BOC Aviation registered a profit after tax of USD81 million for the year, a year-on-year increase of 67%.

From 2007 to 2012, an order of 60 aircraft from Airbus and Boeing will be delivered to BOC Aviation, with 45 of those aircraft already leased to airline companies. Taking advantage of market opportunities, BOC Aviation has secured a pipeline of strong and steady lease revenues. BOC Aviation will seize significant opportunities to increase revenue through the acquisition of assets and the provision of comprehensive services, including pre-delivery financing to airlines around the world.

BOC Aviation has enabled the Bank to enhance its profile in the international aircraft financing market. In the first half of 2007, assisted by BOC Aviation, the Bank's London

branch secured a deal of debt financing to British Airways for four A321 aircraft.

A successful first year of operation has proved BOC Aviation to be a productive addition to the Group. With the resources and financial strength of the Bank behind, BOC Aviation is ready to take its place as one of the world's leading players in the aircraft leasing business and to enhance the position of the Bank in the global aircraft finance market.

## BOC Investment Management

Bank of China Investment Management Co., Ltd. (BOCIM) is a joint-venture fund management company between Bank of China and Black Rock Inc. The Bank holds a stake in BOCIM after acquiring the 67% and 16.5% stakes held by BOC International (China) Limited and BOC International Holdings Limited respectively on 8 January 2008. BOCIM is now mainly engaged in the issue and management of fund products for domestic investors, and dedicated to providing a full range of services, including investment management and consulting, for institutional and personal customers.

The Bank attaches great importance to the expansion of its asset management business. As an important force in expanding the asset management business of the Bank in the Chinese Mainland, BOCIM will take full advantage of the Bank's strong network and customer resources to widen its marketing channels, advance the investment business and further enhance its competitiveness.



## Business Operations

As at 31 December 2007, assets managed by BOCIM exceeded RMB25 billion, a year-on-year increase of 303%. Accumulative dividends distributed to fund investors stood at RMB3.16 billion. Operating income reached RMB238 million, up 252% from the year before.

Thanks to a thriving capital market, four open-ended funds, namely, 'BOC China Fund', 'BOC Money Market Fund', 'BOC Growth Fund' and 'BOC Benefit Fund', achieved satisfactory results and received wide acclaim from investors during the year. BOC China Fund and BOC Growth Fund were recognised successively as a Five-Star Allocation Fund by the *Securities Times*, and BOC China Fund was awarded 'China's Star Fund in 2007'.

BOC Money Market Fund puts the highest priority on security and liquidity. In 2007, this fund resisted liquidity pressure and was widely recognised in an environment where most money market funds faced tremendous redemption pressures and liquidity risk.

## Outlook

The value delivered in BOCIM's funds will continue to be underpinned by professional investment management and excellent teamwork using the Bank's global experience and local expertise, as well as the resources of BOCIM's shareholders in respect of talent, technology, network and customers. Serving its clients with integrity and creating wealth through collective wisdom, BOCIM will continue to advance towards a first-class fund management company in China.

Over the next three to five years, BOCIM plans to make a breakthrough in the size of assets under management, team personnel, product line, risk management, investment results, customer service and marketing to establish a leading position in China's fund industry. Always concerned for the interests of investors, BOCIM will also continue to build on its brand image, improve managerial level, expand its business and maintain its advantages in risk management, investor education and investment management, while making full use of the resources of its domestic and foreign shareholders to ensure its continued rapid development.

# Management Discussion and Analysis

## — Risk Management

### Overview

In 2007, the Bank implemented proactive risk management and further improved the risk management capabilities and infrastructure with a view to promoting independence, centralisation and professionalism in its risk management.

The Bank seeks to maintain a moderate risk appetite and a balance between risk and return in a rational, stable and prudent manner. Its primary risk management objectives are to maximise value for its shareholders, maintain risk within acceptable parameters and satisfy the requirements of the regulatory authorities, its depositors and other interest groups for the Bank's prudent and stable development.

The risk management framework of the Bank is mainly composed of Board of Directors and the Risk Policy Committee under the Board, Internal Control Committee, Anti-Money-Laundering Committee and Asset Disposal Committee under the Senior Management, Risk Management Department, Credit Administration Department, Treasury and Legal & Compliance Department. The Head Office manages the risks in branches through the vertical management model, the risks in business departments through window management model, and monitors and controls the risks in subsidiaries by appointing certain members of the Boards of Directors or risk management committees of the subsidiaries.

### Credit Risk

#### Overview

Credit risk is the risk that a customer or counter-party may be unable or unwilling to meet a repayment obligation that it has entered into with the Bank. The major credit risks are mainly from loans, trade finance and treasury businesses.

In 2007, as part of the ongoing efforts to further improve the centralised credit approval system, Chief Credit Officers (CCOs) of tier one branches and the authorised credit application approvers, both in the Head Office and tier one branches were appointed and rotate periodically. In accordance with the principle of 'differentiating authorisation depending on individual capability, customers type and geographical region', the authorisation of the CCOs and the authorised credit application approvers of tier one branches were reviewed and adjusted as appropriate and credit approval criteria was standardised. The Bank further centralised management of credit ratings and improved the associated procedures, authorisation controls and responsibilities. All corporate customer credit ratings must be reviewed and approved by either the Head Office or tier one branches. All the 'BBB' or higher credit ratings and all credit ratings on loans with outstanding balances over RMB100 million must be reviewed and approved by the Head Office. The Bank implemented the possibility of default (PD) model-based corporate customer credit rating system in all domestic institutions from July 2007. At the end of 2007, outstanding loans extended to borrowers with a credit rating of 'A' accounted for 50.6% of the total loan balance outstanding of the rated corporate customers in domestic operations, an increase of 5.4 percentage points compared with the prior year-end.

In 2007, the Bank further enhanced the monitoring and controls on credit quality. The Bank implements a watchlist on high-risk customers with large outstanding balances and key group customers. The Bank further strengthened the risk categorising management, and monitoring of special-mention loans, ensuring effective control of the special-mention loans.

In 2007, the Bank progressed in its preparation for Basel II implementation. The Bank set up a Basel II Implementation Steering Committee to lead the integrated planning and implementation process, with the Group President as Chairman and the Group CCO as Deputy Chairman. The



Bank set up the Basel II Planning and Coordination Office, responsible for detailed planning, coordination and progress monitoring under the guidance of the Steering Committee. The Bank of China Basel II Implementation Gap Analysis Assessment and Overall Planning Report, which specifies the implementation standards, roadmap and timetable of Basel II implementation by the Bank,

was approved by the Board of Directors and submitted to CBRC.

For better understanding and assessment of the credit risk the Bank is taking, set forth below are the details of distribution, quality and allowance for impairment losses of the loan portfolio, respectively.

## Distribution of loans

### Loan concentrations by geographic region

As at 31 December 2007, loans made by the domestic operations of the Bank accounted for 81.24% of the total loan portfolio of the Group, and the overseas operations accounted for 18.76%, respectively. Domestic loans were mainly concentrated in eastern China, and central and southern China, accounting for 41.71% and

25.39%, respectively, of the total domestic loan portfolio. In 2007 loans in eastern China and central and southern China achieved a relatively high growth, increasing by RMB146.376 billion and RMB102.71 billion, respectively, compared to last year.

#### Group

Unit: RMB million, except percentages

|                     | As at 31 December |            |           |            |           |            |           |            |
|---------------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|
|                     | 2007              |            | 2006      |            | 2005      |            | 2004      |            |
|                     | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Domestic operations | 2,315,705         | 81.24%     | 1,988,334 | 81.76%     | 1,800,142 | 80.53%     | 1,735,528 | 80.81%     |
| Overseas operations | 534,856           | 18.76%     | 443,685   | 18.24%     | 435,123   | 19.47%     | 412,160   | 19.19%     |
| Total               | 2,850,561         | 100.00%    | 2,432,019 | 100.00%    | 2,235,265 | 100.00%    | 2,147,688 | 100.00%    |

Note: In 2006, the Bank transferred impaired loans of RMB2.066 billion from overseas institutions. The transferred impaired loans, together with the allowance for loan impairment losses of RMB1.849 billion are adjusted in the Management Discussion and Analysis section for the comparison purposes. Such adjustments are included in the following disclosed information.

#### Domestic

Unit: RMB million, except percentages

|                          | As at 31 December |            |           |            |           |            |           |            |
|--------------------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|
|                          | 2007              |            | 2006      |            | 2005      |            | 2004      |            |
|                          | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Northern China           | 387,527           | 16.73%     | 348,596   | 17.53%     | 322,451   | 17.91%     | 314,843   | 18.14%     |
| Northeastern China       | 146,106           | 6.31%      | 136,119   | 6.85%      | 131,649   | 7.32%      | 128,600   | 7.41%      |
| Eastern China            | 965,810           | 41.71%     | 819,434   | 41.21%     | 719,759   | 39.98%     | 679,773   | 39.17%     |
| Central & southern China | 587,995           | 25.39%     | 485,285   | 24.41%     | 444,869   | 24.71%     | 433,860   | 25.00%     |
| Western China            | 228,267           | 9.86%      | 198,900   | 10.00%     | 181,414   | 10.08%     | 178,452   | 10.28%     |
| Total                    | 2,315,705         | 100.00%    | 1,988,334 | 100.00%    | 1,800,142 | 100.00%    | 1,735,528 | 100.00%    |

Note: In 2006, to improve the recovery and disposal of the NPLs, we centralised credit management of the NPLs of RMB12.643 billion to the Head Office from 7 domestic branches, namely Heilongjiang, Jilin, Liaoning, Hubei, Shaanxi, Shanxi and Xinjiang. For the convenience of comparison, such NPLs and related allowance are adjusted in the Management Discussion and Analysis section. Such adjustments are included in the following disclosed information.

## Loan concentration by industry and product

In 2007, China continued with its macro-economic regulation. The Bank further intensified its credit risk checking of outstanding balances in high-risk industries and enhanced the risk categorising management of the outstanding balance in manufacturing industry. The Bank improved industry risk management by further strengthening the monitoring of overcapacity industries, potential overcapacity industries and industries impacted by the macro regulatory measures.

### Group

Unit: RMB million, except percentages

|                                 | As at 31 December |                |                  |                |                  |                |                  |                |
|---------------------------------|-------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                                 | 2007              |                | 2006             |                | 2005             |                | 2004             |                |
|                                 | Amount            | % of total     | Amount           | % of total     | Amount           | % of total     | Amount           | % of total     |
| <b>Corporate Loans</b>          |                   |                |                  |                |                  |                |                  |                |
| Manufacturing                   | 687,925           | 32.48%         | 603,078          | 32.61%         | 531,410          | 31.04%         | 523,732          | 31.67%         |
| Commerce and Services           | 357,702           | 16.89%         | 301,254          | 16.29%         | 301,863          | 17.63%         | 348,432          | 21.07%         |
| Real Estate                     | 247,481           | 11.69%         | 217,960          | 11.79%         | 190,297          | 11.11%         | 187,110          | 11.32%         |
| Energy, Mineral and Agriculture | 291,810           | 13.78%         | 260,706          | 14.10%         | 230,854          | 13.48%         | 203,544          | 12.31%         |
| Transportation and Logistics    | 266,905           | 12.60%         | 211,786          | 11.45%         | 193,428          | 11.30%         | 185,449          | 11.21%         |
| Public Utilities                | 113,355           | 5.35%          | 106,141          | 5.74%          | 91,924           | 5.37%          | 87,731           | 5.31%          |
| Construction                    | 45,343            | 2.14%          | 38,897           | 2.10%          | 36,050           | 2.11%          | 36,059           | 2.18%          |
| Financial Services              | 53,474            | 2.52%          | 72,909           | 3.94%          | 96,245           | 5.62%          | 46,518           | 2.81%          |
| Others                          | 53,982            | 2.55%          | 36,544           | 1.98%          | 40,191           | 2.34%          | 35,072           | 2.12%          |
| <b>Sub-total</b>                | <b>2,117,977</b>  | <b>100.00%</b> | <b>1,849,275</b> | <b>100.00%</b> | <b>1,712,262</b> | <b>100.00%</b> | <b>1,653,647</b> | <b>100.00%</b> |
| <b>Personal loans</b>           |                   |                |                  |                |                  |                |                  |                |
| Mortgage loans                  | 577,655           | 78.85%         | 456,930          | 78.41%         | 413,007          | 78.97%         | 360,595          | 72.99%         |
| Credit card advances            | 10,677            | 1.46%          | 8,458            | 1.45%          | 6,785            | 1.30%          | 5,973            | 1.21%          |
| Others                          | 144,252           | 19.69%         | 117,356          | 20.14%         | 103,211          | 19.73%         | 127,473          | 25.80%         |
| <b>Sub-total</b>                | <b>732,584</b>    | <b>100.00%</b> | <b>582,744</b>   | <b>100.00%</b> | <b>523,003</b>   | <b>100.00%</b> | <b>494,041</b>   | <b>100.00%</b> |
| <b>Total</b>                    | <b>2,850,561</b>  | <b>100.00%</b> | <b>2,432,019</b> | <b>100.00%</b> | <b>2,235,265</b> | <b>100.00%</b> | <b>2,147,688</b> | <b>100.00%</b> |



## Domestic

Unit: RMB million, except percentages

|                                 | As at 31 December |                |                  |                |                  |                |                  |                |
|---------------------------------|-------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                                 | 2007              |                | 2006             |                | 2005             |                | 2004             |                |
|                                 | Amount            | % of total     | Amount           | % of total     | Amount           | % of total     | Amount           | % of total     |
| <b>Corporate loans</b>          |                   |                |                  |                |                  |                |                  |                |
| Manufacturing                   | 629,327           | 36.37%         | 556,032          | 35.99%         | 491,117          | 34.58%         | 497,543          | 35.94%         |
| Commerce and Services           | 280,465           | 16.21%         | 255,787          | 16.56%         | 255,460          | 17.99%         | 284,772          | 20.57%         |
| Real Estate                     | 143,613           | 8.30%          | 113,589          | 7.35%          | 96,390           | 6.79%          | 100,932          | 7.29%          |
| Energy, Mineral and Agriculture | 266,323           | 15.39%         | 240,314          | 15.56%         | 210,281          | 14.81%         | 186,942          | 13.51%         |
| Transportation and Logistics    | 223,355           | 12.91%         | 182,398          | 11.81%         | 165,396          | 11.64%         | 158,762          | 11.47%         |
| Public Utilities                | 112,231           | 6.49%          | 105,933          | 6.86%          | 91,924           | 6.47%          | 87,731           | 6.34%          |
| Construction                    | 38,560            | 2.23%          | 34,676           | 2.25%          | 30,089           | 2.12%          | 27,938           | 2.02%          |
| Financial Services              | 33,897            | 1.96%          | 53,333           | 3.45%          | 77,237           | 5.44%          | 32,079           | 2.32%          |
| Others                          | 2,401             | 0.14%          | 2,692            | 0.17%          | 2,290            | 0.16%          | 7,484            | 0.54%          |
| <b>Sub-total</b>                | <b>1,730,172</b>  | <b>100.00%</b> | <b>1,544,754</b> | <b>100.00%</b> | <b>1,420,184</b> | <b>100.00%</b> | <b>1,384,183</b> | <b>100.00%</b> |
| <b>Personal loans</b>           |                   |                |                  |                |                  |                |                  |                |
| Mortgage loans                  | 454,984           | 77.70%         | 337,834          | 76.16%         | 286,829          | 75.49%         | 240,640          | 68.49%         |
| Credit card advances            | 5,307             | 0.91%          | 2,876            | 0.65%          | 1,929            | 0.51%          | 1,441            | 0.41%          |
| Others                          | 125,242           | 21.39%         | 102,870          | 23.19%         | 91,200           | 24.00%         | 109,264          | 31.10%         |
| <b>Sub-total</b>                | <b>585,533</b>    | <b>100.00%</b> | <b>443,580</b>   | <b>100.00%</b> | <b>379,958</b>   | <b>100.00%</b> | <b>351,345</b>   | <b>100.00%</b> |
| <b>Total</b>                    | <b>2,315,705</b>  | <b>100.00%</b> | <b>1,988,334</b> | <b>100.00%</b> | <b>1,800,142</b> | <b>100.00%</b> | <b>1,735,528</b> | <b>100.00%</b> |

## Loan concentration by currency

### Group

Unit: RMB million, except percentages

|                  | As at 31 December |                |                  |                |                  |                |                  |                |
|------------------|-------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                  | 2007              |                | 2006             |                | 2005             |                | 2004             |                |
|                  | Amount            | % of total     | Amount           | % of total     | Amount           | % of total     | Amount           | % of total     |
| RMB              | 1,968,119         | 69.04%         | 1,692,980        | 69.61%         | 1,477,859        | 66.12%         | 1,378,760        | 64.20%         |
| Foreign currency | 882,442           | 30.96%         | 739,039          | 30.39%         | 757,406          | 33.88%         | 768,928          | 35.80%         |
| <b>Total</b>     | <b>2,850,561</b>  | <b>100.00%</b> | <b>2,432,019</b> | <b>100.00%</b> | <b>2,235,265</b> | <b>100.00%</b> | <b>2,147,688</b> | <b>100.00%</b> |

### Domestic

Unit: RMB million, except percentages

|                  | As at 31 December |                |                  |                |                  |                |                  |                |
|------------------|-------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                  | 2007              |                | 2006             |                | 2005             |                | 2004             |                |
|                  | Amount            | % of total     | Amount           | % of total     | Amount           | % of total     | Amount           | % of total     |
| RMB              | 1,955,638         | 84.45%         | 1,688,414        | 84.92%         | 1,475,821        | 81.98%         | 1,378,343        | 79.42%         |
| Foreign currency | 360,067           | 15.55%         | 299,920          | 15.08%         | 324,321          | 18.02%         | 357,185          | 20.58%         |
| <b>Total</b>     | <b>2,315,705</b>  | <b>100.00%</b> | <b>1,988,334</b> | <b>100.00%</b> | <b>1,800,142</b> | <b>100.00%</b> | <b>1,735,528</b> | <b>100.00%</b> |

## Loan concentration by types of guarantee

### Group

Unit: RMB million, except percentages

|                            | As at 31 December |            |           |            |           |            |           |            |
|----------------------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|
|                            | 2007              |            | 2006      |            | 2005      |            | 2004      |            |
|                            | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Unsecured                  | 747,923           | 26.24%     | 536,293   | 22.05%     | 475,983   | 21.29%     | 449,026   | 20.91%     |
| Guaranteed                 | 708,039           | 24.84%     | 731,759   | 30.09%     | 684,824   | 30.64%     | 650,905   | 30.31%     |
| Collateralised and pledged | 1,394,599         | 48.92%     | 1,163,967 | 47.86%     | 1,074,458 | 48.07%     | 1,047,757 | 48.78%     |
| Total                      | 2,850,561         | 100.00%    | 2,432,019 | 100.00%    | 2,235,265 | 100.00%    | 2,147,688 | 100.00%    |

### Domestic

Unit: RMB million, except percentages

|                            | As at 31 December |            |           |            |           |            |           |            |
|----------------------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|
|                            | 2007              |            | 2006      |            | 2005      |            | 2004      |            |
|                            | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Unsecured                  | 542,450           | 23.42%     | 433,087   | 21.78%     | 369,163   | 20.51%     | 365,100   | 21.04%     |
| Guaranteed                 | 652,635           | 28.18%     | 632,985   | 31.84%     | 600,323   | 33.35%     | 582,577   | 33.57%     |
| Collateralised and pledged | 1,120,620         | 48.40%     | 922,262   | 46.38%     | 830,656   | 46.14%     | 787,851   | 45.39%     |
| Total                      | 2,315,705         | 100.00%    | 1,988,334 | 100.00%    | 1,800,142 | 100.00%    | 1,735,528 | 100.00%    |

## Concentrations by maturity

### Group

Unit: RMB million, except percentages

|                                              | As at 31 December |            |           |            |
|----------------------------------------------|-------------------|------------|-----------|------------|
|                                              | 2007              |            | 2006      |            |
|                                              | Amount            | % of total | Amount    | % of total |
| Overdue                                      | 70,110            | 2.46%      | 87,331    | 3.59%      |
| Due less than 1 year (1 year included)       | 1,204,840         | 42.27%     | 1,081,992 | 44.49%     |
| Due between 1 and 5 years (5 years included) | 786,264           | 27.58%     | 642,817   | 26.43%     |
| Due more than 5 years                        | 789,347           | 27.69%     | 619,879   | 25.49%     |
| Total                                        | 2,850,561         | 100.00%    | 2,432,019 | 100.00%    |



## Domestic

Unit: RMB million, except percentages

|                                              | As at 31 December |            |           |            |
|----------------------------------------------|-------------------|------------|-----------|------------|
|                                              | 2007              |            | 2006      |            |
|                                              | Amount            | % of total | Amount    | % of total |
| Overdue                                      | 63,789            | 2.75%      | 82,548    | 4.15%      |
| Due less than 1 year (1 year included)       | 1,039,682         | 44.90%     | 953,495   | 47.96%     |
| Due between 1 and 5 years (5 years included) | 566,120           | 24.45%     | 464,060   | 23.34%     |
| Due more than 5 years                        | 646,114           | 27.90%     | 488,231   | 24.55%     |
| Total                                        | 2,315,705         | 100.00%    | 1,988,334 | 100.00%    |

## Loan concentration by borrower

The Bank focused on controlling borrower concentration risk and is in full compliance with the regulatory requirements on borrower concentration.

| Main regulatory ratios                                              | Criteria | As at 31 December |      |      |
|---------------------------------------------------------------------|----------|-------------------|------|------|
|                                                                     |          | 2007              | 2006 | 2005 |
| Proportion of outstanding loans of the largest single borrowers (%) | ≤10      | 3.4               | 2.2  | 4.7  |
| Top ten customers ratio (%)                                         | ≤50      | 16.1              | 15.7 | 25.6 |

Note: Proportion of outstanding loans of largest single borrowers = Total outstanding loans to the largest single borrowers/net regulatory capital

Top ten customers ratio = Total outstanding loans to the top ten customers/net regulatory capital

The following table sets forth the ten largest individual borrowers as of the date indicated.

Unit: RMB million, except percentages

|            |                                 | As at 31 December 2007       |                  |
|------------|---------------------------------|------------------------------|------------------|
| Industry   |                                 | Outstanding principal amount | % of total loans |
| Customer A | Transportation and Logistics    | 16,902                       | 0.59%            |
| Customer B | Transportation and Logistics    | 9,081                        | 0.32%            |
| Customer C | Transportation and Logistics    | 8,280                        | 0.29%            |
| Customer D | Energy, Mineral and Agriculture | 8,140                        | 0.29%            |
| Customer E | Commerce and Services           | 7,700                        | 0.27%            |
| Customer F | Transportation and Logistics    | 7,194                        | 0.25%            |
| Customer G | Energy, Mineral and Agriculture | 6,041                        | 0.21%            |
| Customer H | Commerce and Services           | 5,952                        | 0.21%            |
| Customer I | Transportation and Logistics    | 5,865                        | 0.20%            |
| Customer J | Manufacturing                   | 5,336                        | 0.19%            |
| Total      |                                 | 80,491                       | 2.82%            |

## Loan Quality

### Five-category loan classification

The Bank generally measures and manages the quality of credit risk bearing assets based on the Guidance of Loan Credit Risk Classification issued by CBRC, which requires Chinese commercial banks to classify loans into the following five asset quality categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. For the overseas operations of the Bank, if applicable local regulations and requirements are more prudent than the Guidance of Loan Credit Risk Classification, the Bank classifies the assets according to local regulations and requirements.

In 2007, the Bank made progress in centralising the management of loan classification in the domestic branches. All loan classifications are reviewed and approved by either the Head Office or at tier one branches. When the loans are classified, consideration

is given to various factors that will affect the quality of loans and the probability of asset recovery and the extent of loss. To obtain a loan's final risk classification, the Bank must perform a standard process of classifying, checking, reviewing and approving. The loan classification of a corporate customer may be revised when there are significant changes to the customer or its loan risk status.

At the end of 2007, the Group reported non-performing loans (NPLs) of RMB88.802 billion, and an NPL ratio of 3.12%, representing a decrease of RMB9.418 billion and 0.92 percentage point compared with the prior year-end, respectively. Domestic NPLs and NPL ratio was RMB87.011 billion and 3.76%, respectively representing a decrease of RMB8.811 billion and 1.06 percentage points compared with the prior year-end.

At the end of 2007, the amount of outstanding special-mention loans was RMB144.991 billion, a decrease of RMB53.154 billion compared to those as at the end of last year, accounting for 5.08% of the total loan portfolio and a decrease of 3.07 percentage points from the end of last year.

### Group

Unit: RMB million, except percentages

|                 | As at 31 December |            |           |            |           |            |           |            |
|-----------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|
|                 | 2007              |            | 2006      |            | 2005      |            | 2004      |            |
|                 | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Pass            | 2,616,768         | 91.80%     | 2,135,654 | 87.81%     | 1,847,991 | 82.67%     | 1,612,936 | 75.10%     |
| Special-mention | 144,991           | 5.08%      | 198,145   | 8.15%      | 284,048   | 12.71%     | 424,606   | 19.77%     |
| Substandard     | 35,105            | 1.23%      | 39,390    | 1.62%      | 45,573    | 2.04%      | 61,515    | 2.87%      |
| Doubtful        | 40,897            | 1.43%      | 44,100    | 1.81%      | 44,550    | 1.99%      | 32,931    | 1.53%      |
| Loss            | 12,800            | 0.46%      | 14,730    | 0.61%      | 13,103    | 0.59%      | 15,700    | 0.73%      |
| Total           | 2,850,561         | 100.00%    | 2,432,019 | 100.00%    | 2,235,265 | 100.00%    | 2,147,688 | 100.00%    |
| NPLs            | 88,802            | 3.12%      | 98,220    | 4.04%      | 103,226   | 4.62%      | 110,146   | 5.13%      |



## Domestic

Unit: RMB million, except percentages

|                 | As at 31 December |            |           |            |           |            |           |            |
|-----------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|
|                 | 2007              |            | 2006      |            | 2005      |            | 2004      |            |
|                 | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Pass            | 2,089,139         | 90.21%     | 1,703,908 | 85.69%     | 1,430,429 | 79.46%     | 1,228,414 | 70.78%     |
| Special-mention | 139,555           | 6.03%      | 188,604   | 9.49%      | 271,504   | 15.08%     | 408,571   | 23.54%     |
| Substandard     | 34,216            | 1.48%      | 38,517    | 1.94%      | 44,056    | 2.45%      | 57,882    | 3.33%      |
| Doubtful        | 40,308            | 1.74%      | 43,119    | 2.17%      | 42,852    | 2.38%      | 29,787    | 1.72%      |
| Loss            | 12,487            | 0.54%      | 14,186    | 0.71%      | 11,301    | 0.63%      | 10,874    | 0.63%      |
| Total           | 2,315,705         | 100.00%    | 1,988,334 | 100.00%    | 1,800,142 | 100.00%    | 1,735,528 | 100.00%    |
| NPLs            | 87,011            | 3.76%      | 95,822    | 4.82%      | 98,209    | 5.46%      | 98,543    | 5.68%      |

In 2007, the Bank recovered and disposed of non-performing loans by various procedures, including demand for payment, legal proceedings, arbitration and restructuring.

## Overdue Loans

### Group

Unit: RMB million, except percentages

|                              | As at 31 December |            |           |            |           |            |           |            |
|------------------------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|
|                              | 2007              |            | 2006      |            | 2005      |            | 2004      |            |
|                              | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Not overdue                  | 2,753,960         | 96.61%     | 2,313,465 | 95.13%     | 2,108,794 | 94.34%     | 2,025,487 | 94.31%     |
| Overdue                      |                   |            |           |            |           |            |           |            |
| 1-90 days                    | 33,407            | 1.17%      | 44,336    | 1.82%      | 50,450    | 2.26%      | 65,540    | 3.05%      |
| 91-180 days                  | 4,760             | 0.17%      | 8,957     | 0.37%      | 14,012    | 0.63%      | 15,842    | 0.74%      |
| More than 180 days           | 58,434            | 2.05%      | 65,261    | 2.68%      | 62,009    | 2.77%      | 40,819    | 1.90%      |
| Total overdue loans          | 96,601            | 3.39%      | 118,554   | 4.87%      | 126,471   | 5.66%      | 122,201   | 5.69%      |
| Total loans                  | 2,850,561         | 100.00%    | 2,432,019 | 100.00%    | 2,235,265 | 100.00%    | 2,147,688 | 100.00%    |
| Overdue by more than 90 days | 63,194            | 2.22%      | 74,218    | 3.05%      | 76,021    | 3.40%      | 56,661    | 2.64%      |

## Domestic

Unit: RMB million, except percentages

|                              | As at 31 December |            |           |            |           |            |           |            |
|------------------------------|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|
|                              | 2007              |            | 2006      |            | 2005      |            | 2004      |            |
|                              | Amount            | % of total | Amount    | % of total | Amount    | % of total | Amount    | % of total |
| Not overdue                  | 2,226,749         | 96.16%     | 1,876,397 | 94.37%     | 1,682,110 | 93.44%     | 1,626,070 | 93.69%     |
| Overdue                      |                   |            |           |            |           |            |           |            |
| 1-90 days                    | 26,788            | 1.16%      | 39,307    | 1.98%      | 47,587    | 2.64%      | 61,930    | 3.57%      |
| 91-180 days                  | 4,524             | 0.19%      | 8,625     | 0.43%      | 13,643    | 0.76%      | 15,261    | 0.88%      |
| More than 180 days           | 57,644            | 2.49%      | 64,005    | 3.22%      | 56,802    | 3.16%      | 32,267    | 1.86%      |
| Total overdue loans          | 88,956            | 3.84%      | 111,937   | 5.63%      | 118,032   | 6.56%      | 109,458   | 6.31%      |
| Total loans                  | 2,315,705         | 100.00%    | 1,988,334 | 100.00%    | 1,800,142 | 100.00%    | 1,735,528 | 100.00%    |
| Overdue by more than 90 days | 62,168            | 2.68%      | 72,630    | 3.65%      | 70,445    | 3.92%      | 47,528    | 2.74%      |

## Identified impaired loans

In accordance with IAS 39, loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence

of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances.

## Movement of identified impaired loans

At the end of 2007, the Group reported identified impaired loans totalling RMB90.317 billion, a decrease of RMB12.915 billion compared with last year-end. The Group's impaired loan ratio was 3.17%, representing a reduction of 1.07 percentage points year-on-year. Domestic operations reported identified impaired loans totalling RMB89.437 billion, a decrease of RMB9.212

billion compared to last year-end. The domestic impaired loan ratio was 3.86%, representing a reduction of 1.1 percentage points year-on-year. Overseas operations reported impaired loans totalling RMB0.88 billion, a decrease of RMB3.703 billion compared to last year-end. The overseas impaired loan ratio was 0.16%, representing a reduction of 0.87 percentage point year-on-year.

## Group

Unit: RMB million

|                                      | 2007     | 2006     | 2005     | 2004      |
|--------------------------------------|----------|----------|----------|-----------|
| Balance at the beginning of the year | 103,232  | 109,530  | 118,383  | 358,218   |
| Increase during the year             | 33,006   | 41,928   | 41,190   | 76,583    |
| Reduction during the year            | (45,921) | (48,226) | (50,043) | (316,418) |
| Balance at the end of the year       | 90,317   | 103,232  | 109,530  | 118,383   |



## Domestic

Unit: RMB million

|                                      | 2007     | 2006     | 2005     | 2004      |
|--------------------------------------|----------|----------|----------|-----------|
| Balance at the beginning of the year | 98,649   | 102,359  | 104,553  | 324,252   |
| Increase during the year             | 31,814   | 40,924   | 39,721   | 74,077    |
| Reduction during the year            | (41,026) | (44,634) | (41,915) | (293,776) |
| Balance at the end of the year       | 89,437   | 98,649   | 102,359  | 104,553   |

## Identified impaired loans by region

### Group

Unit: RMB million, except percentages

|                     | As at 31 December |            |                     |         |            |                     |         |            |                     |         |            |                     |
|---------------------|-------------------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|
|                     | 2007              |            |                     | 2006    |            |                     | 2005    |            |                     | 2004    |            |                     |
|                     | Amount            | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio |
| Domestic operations | 89,437            | 99.03%     | 3.86%               | 98,649  | 95.56%     | 4.96%               | 102,359 | 93.46%     | 5.69%               | 104,553 | 88.32%     | 6.02%               |
| Overseas operations | 880               | 0.97%      | 0.16%               | 4,583   | 4.44%      | 1.03%               | 7,171   | 6.54%      | 1.64%               | 13,830  | 11.68%     | 3.36%               |
| Total               | 90,317            | 100.00%    | 3.17%               | 103,232 | 100.00%    | 4.24%               | 109,530 | 100.00%    | 4.90%               | 118,383 | 100.00%    | 5.51%               |

Notes:

- Loans and advances to customers are considered impaired, and the Bank recognises losses on the loans and advances, if there is objective evidence of a measurable decrease in estimated future cash flows from the loans and advances.
- Impaired loan ratio=amount of identified impaired loans/total balance of that category of loan.

### Domestic

Unit: RMB million, except percentages

|                          | As at 31 December |            |                     |        |            |                     |         |            |                     |         |            |                     |
|--------------------------|-------------------|------------|---------------------|--------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|
|                          | 2007              |            |                     | 2006   |            |                     | 2005    |            |                     | 2004    |            |                     |
|                          | Amount            | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio |
| Northern China           | 20,820            | 23.28%     | 5.37%               | 18,718 | 18.97%     | 5.37%               | 17,699  | 17.29%     | 5.49%               | 22,600  | 21.62%     | 7.18%               |
| Northeastern China       | 10,592            | 11.84%     | 7.25%               | 12,673 | 12.85%     | 9.31%               | 12,582  | 12.29%     | 9.56%               | 13,396  | 12.81%     | 10.42%              |
| Eastern China            | 20,132            | 22.51%     | 2.08%               | 24,269 | 24.60%     | 2.96%               | 27,811  | 27.17%     | 3.86%               | 28,595  | 27.34%     | 4.21%               |
| Central & southern China | 24,663            | 27.58%     | 4.19%               | 28,008 | 28.39%     | 5.77%               | 30,611  | 29.91%     | 6.88%               | 26,611  | 25.46%     | 6.13%               |
| Western China            | 13,230            | 14.79%     | 5.80%               | 14,981 | 15.19%     | 7.53%               | 13,656  | 13.34%     | 7.53%               | 13,351  | 12.77%     | 7.48%               |
| Total                    | 89,437            | 100.00%    | 3.86%               | 98,649 | 100.00%    | 4.96%               | 102,359 | 100.00%    | 5.69%               | 104,553 | 100.00%    | 6.02%               |

## Domestic identified impaired loans by industry and product

### Domestic identified corporate impaired loans by industry

Unit: RMB million, except percentages

|                                 | As at 31 December |            |                     |        |            |                     |        |            |                     |        |            |                     |
|---------------------------------|-------------------|------------|---------------------|--------|------------|---------------------|--------|------------|---------------------|--------|------------|---------------------|
|                                 | 2007              |            |                     | 2006   |            |                     | 2005   |            |                     | 2004   |            |                     |
|                                 | Amount            | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio |
| Manufacturing                   | 32,873            | 41.21%     | 5.22%               | 34,123 | 38.33%     | 6.14%               | 33,188 | 35.73%     | 6.76%               | 32,444 | 33.54%     | 6.52%               |
| Commerce and Services           | 18,912            | 23.71%     | 6.74%               | 22,579 | 25.36%     | 8.83%               | 25,443 | 27.39%     | 9.96%               | 26,344 | 27.22%     | 9.25%               |
| Real Estate                     | 6,992             | 8.77%      | 4.87%               | 10,710 | 12.03%     | 9.43%               | 12,763 | 13.74%     | 13.24%              | 13,453 | 13.90%     | 13.33%              |
| Energy, Mineral and Agriculture | 5,606             | 7.03%      | 2.10%               | 6,153  | 6.91%      | 2.56%               | 6,665  | 7.18%      | 3.17%               | 6,588  | 6.81%      | 3.52%               |
| Transportation and Logistics    | 8,922             | 11.18%     | 3.99%               | 8,258  | 9.28%      | 4.53%               | 7,759  | 8.35%      | 4.69%               | 9,729  | 10.05%     | 6.13%               |
| Public Utilities                | 4,547             | 5.70%      | 4.05%               | 4,523  | 5.08%      | 4.27%               | 4,627  | 4.98%      | 5.03%               | 5,564  | 5.75%      | 6.34%               |
| Construction                    | 1,651             | 2.07%      | 4.28%               | 2,322  | 2.61%      | 6.70%               | 2,226  | 2.40%      | 7.40%               | 2,569  | 2.65%      | 9.20%               |
| Financial Services              | 255               | 0.32%      | 0.75%               | 187    | 0.21%      | 0.35%               | 215    | 0.23%      | 0.28%               | 72     | 0.07%      | 0.22%               |
| Others                          | 8                 | 0.01%      | 0.33%               | 171    | 0.19%      | 6.35%               | —      | —          | —                   | 6      | 0.01%      | 0.08%               |
| Total corporate impaired loans  | 79,766            | 100.00%    | 4.61%               | 89,026 | 100.00%    | 5.76%               | 92,886 | 100.00%    | 6.54%               | 96,769 | 100.00%    | 6.99%               |

### Domestic identified personal impaired loans by product

Unit: RMB million, except percentages

|                               | As at 31 December |            |                     |        |            |                     |        |            |                     |        |            |                     |
|-------------------------------|-------------------|------------|---------------------|--------|------------|---------------------|--------|------------|---------------------|--------|------------|---------------------|
|                               | 2007              |            |                     | 2006   |            |                     | 2005   |            |                     | 2004   |            |                     |
|                               | Amount            | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio |
| Mortgage loans                | 4,066             | 42.05%     | 0.89%               | 4,100  | 42.61%     | 1.21%               | 3,837  | 40.50%     | 1.34%               | 3,608  | 46.35%     | 1.50%               |
| Credit card advances          | 279               | 2.88%      | 5.26%               | 219    | 2.28%      | 7.63%               | 228    | 2.41%      | 11.82%              | 218    | 2.80%      | 15.13%              |
| Others                        | 5,326             | 55.07%     | 4.25%               | 5,304  | 55.11%     | 5.16%               | 5,408  | 57.09%     | 5.93%               | 3,958  | 50.85%     | 3.62%               |
| Total personal impaired loans | 9,671             | 100.00%    | 1.65%               | 9,623  | 100.00%    | 2.17%               | 9,473  | 100.00%    | 2.49%               | 7,784  | 100.00%    | 2.22%               |



## Identified impaired loans by customer type

### Group

Unit: RMB million, except percentages

|                              | As at 31 December |            |                     |         |            |                     |         |            |                     |         |            |                     |
|------------------------------|-------------------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|
|                              | 2007              |            |                     | 2006    |            |                     | 2005    |            |                     | 2004    |            |                     |
|                              | Amount            | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio |
| Corporate loans and advances | 80,455            | 89.08%     | 3.80%               | 92,237  | 89.35%     | 4.99%               | 98,888  | 90.28%     | 5.78%               | 108,230 | 91.42%     | 6.54%               |
| Personal loans and advances  | 9,862             | 10.92%     | 1.35%               | 10,995  | 10.65%     | 1.89%               | 10,642  | 9.72%      | 2.03%               | 10,153  | 8.58%      | 2.06%               |
| Total                        | 90,317            | 100.00%    | 3.17%               | 103,232 | 100.00%    | 4.24%               | 109,530 | 100.00%    | 4.90%               | 118,383 | 100.00%    | 5.51%               |

### Domestic

Unit: RMB million, except percentages

|                              | As at 31 December |            |                     |        |            |                     |         |            |                     |         |            |                     |
|------------------------------|-------------------|------------|---------------------|--------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|
|                              | 2007              |            |                     | 2006   |            |                     | 2005    |            |                     | 2004    |            |                     |
|                              | Amount            | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio |
| Corporate loans and advances | 79,766            | 89.19%     | 4.61%               | 89,026 | 90.25%     | 5.76%               | 92,886  | 90.74%     | 6.54%               | 96,769  | 92.56%     | 6.99%               |
| Personal loans and advances  | 9,671             | 10.81%     | 1.65%               | 9,623  | 9.75%      | 2.17%               | 9,473   | 9.26%      | 2.49%               | 7,784   | 7.44%      | 2.22%               |
| Total                        | 89,437            | 100.00%    | 3.86%               | 98,649 | 100.00%    | 4.96%               | 102,359 | 100.00%    | 5.69%               | 104,553 | 100.00%    | 6.02%               |

## Identified impaired loans by currency

### Group

Unit: RMB million, except percentages

|                  | As at 31 December |            |                     |         |            |                     |         |            |                     |         |            |                     |
|------------------|-------------------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|
|                  | 2007              |            |                     | 2006    |            |                     | 2005    |            |                     | 2004    |            |                     |
|                  | Amount            | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio |
| RMB              | 80,209            | 88.81%     | 4.08%               | 86,816  | 84.10%     | 5.13%               | 87,980  | 80.33%     | 5.96%               | 84,469  | 71.36%     | 6.13%               |
| Foreign currency | 10,108            | 11.19%     | 1.15%               | 16,416  | 15.90%     | 2.22%               | 21,550  | 19.67%     | 2.84%               | 33,914  | 28.64%     | 4.41%               |
| Total            | 90,317            | 100.00%    | 3.17%               | 103,232 | 100.00%    | 4.24%               | 109,530 | 100.00%    | 4.90%               | 118,383 | 100.00%    | 5.51%               |

### Domestic

Unit: RMB million, except percentages

|                  | As at 31 December |            |                     |        |            |                     |         |            |                     |         |            |                     |
|------------------|-------------------|------------|---------------------|--------|------------|---------------------|---------|------------|---------------------|---------|------------|---------------------|
|                  | 2007              |            |                     | 2006   |            |                     | 2005    |            |                     | 2004    |            |                     |
|                  | Amount            | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio | Amount  | % of total | Impaired loan ratio |
| RMB              | 80,209            | 89.68%     | 4.10%               | 86,816 | 88.01%     | 5.14%               | 87,980  | 85.96%     | 5.96%               | 84,469  | 80.79%     | 6.13%               |
| Foreign currency | 9,228             | 10.32%     | 2.56%               | 11,833 | 11.99%     | 3.95%               | 14,379  | 14.04%     | 4.43%               | 20,084  | 19.21%     | 5.62%               |
| Total            | 89,437            | 100.00%    | 3.86%               | 98,649 | 100.00%    | 4.96%               | 102,359 | 100.00%    | 5.69%               | 104,553 | 100.00%    | 6.02%               |

## Identified impaired loans by impairment loss assessment methodology

### Group

Unit: RMB million, except percentages

|                       | As at 31 December |            |         |            |         |            |         |            |
|-----------------------|-------------------|------------|---------|------------|---------|------------|---------|------------|
|                       | 2007              |            | 2006    |            | 2005    |            | 2004    |            |
|                       | Amount            | % of total | Amount  | % of total | Amount  | % of total | Amount  | % of total |
| Individually assessed | 71,721            | 79.41%     | 81,730  | 79.17%     | 83,242  | 76.00%     | 89,768  | 75.83%     |
| Collectively assessed | 18,596            | 20.59%     | 21,502  | 20.83%     | 26,288  | 24.00%     | 28,615  | 24.17%     |
| Total                 | 90,317            | 100.00%    | 103,232 | 100.00%    | 109,530 | 100.00%    | 118,383 | 100.00%    |

### Domestic

Unit: RMB million, except percentages

|                       | As at 31 December |            |        |            |         |            |         |            |
|-----------------------|-------------------|------------|--------|------------|---------|------------|---------|------------|
|                       | 2007              |            | 2006   |            | 2005    |            | 2004    |            |
|                       | Amount            | % of total | Amount | % of total | Amount  | % of total | Amount  | % of total |
| Individually assessed | 70,968            | 79.35%     | 78,409 | 79.48%     | 78,309  | 76.50%     | 81,747  | 78.19%     |
| Collectively assessed | 18,469            | 20.65%     | 20,240 | 20.52%     | 24,050  | 23.50%     | 22,806  | 21.81%     |
| Total                 | 89,437            | 100.00%    | 98,649 | 100.00%    | 102,359 | 100.00%    | 104,553 | 100.00%    |



## Allowance for Impairment Losses on Loans

The Bank makes adequate allowance for impairment losses on a timely basis and in accordance with prudent and established principles. Allowance for impairment losses on loans consists of two components, individually

assessed and collectively assessed allowances. For a further discussion of the accounting policy in relation to impairment losses, please refer to Note II.8 to the Financial Statements.

## Movements of allowances for impairment losses on loans

At the end of 2007, the Group's allowance for impairment losses was RMB96.068 billion, representing an increase of RMB1.775 billion from the previous year-end, with the coverage ratio of allowance for impairment losses to identified impaired loans increasing by 15.03 percentage points to 106.37% from last year-end. The impairment losses for the year were RMB8.252 billion, representing a decrease of RMB4.090 billion from last year. The credit cost ratio was 0.31%, representing a decrease of 0.22 percentage point from last year. Allowance for

impairment losses on domestic loans reached RMB93.283 billion, representing an increase of RMB3.123 billion from last year-end, with the coverage ratio of allowance for impairment losses to identified impaired loans increasing by 12.91 percentage points to 104.3% from last year-end. The impairment losses of loans in the Bank's domestic operations in 2007 were RMB8.734 billion, representing a decrease of RMB6.811 billion from last year, with the domestic credit cost ratio of 0.41%, representing a decrease of 0.41 percentage point from last year.

### Group

|                                                              | Unit: RMB million |         |         |           |
|--------------------------------------------------------------|-------------------|---------|---------|-----------|
|                                                              | 2007              | 2006    | 2005    | 2004      |
| As at 1 January                                              | 94,293            | 83,153  | 74,769  | 239,039   |
| Impairment losses for the year                               | 8,252             | 12,342  | 11,486  | 23,812    |
| Written off                                                  | (6,798)           | (3,711) | (4,852) | (189,945) |
| Recovery of loans and advances written off in previous years | 1,671             | 3,589   | 2,954   | 2,507     |
| Exchange difference                                          | (1,066)           | (452)   | (675)   | —         |
| Unwind of discount on allowance                              | (284)             | (628)   | (529)   | (644)     |
| As at 31 December                                            | 96,068            | 94,293  | 83,153  | 74,769    |

### Domestic

|                                                             | Unit: RMB million |         |         |           |
|-------------------------------------------------------------|-------------------|---------|---------|-----------|
|                                                             | 2007              | 2006    | 2005    | 2004      |
| As at 1 January                                             | 90,160            | 78,193  | 67,158  | 223,758   |
| Impairment losses for the year                              | 8,734             | 15,545  | 15,346  | 26,926    |
| Written off                                                 | (4,510)           | (2,829) | (3,527) | (183,405) |
| Recovery of loans and advances written off in previous year | 19                | 83      | 120     | 523       |
| Exchange difference                                         | (863)             | (293)   | (508)   | —         |
| Unwind of discount on allowance                             | (257)             | (539)   | (396)   | (644)     |
| As at 31 December                                           | 93,283            | 90,160  | 78,193  | 67,158    |

## Allowance for impairment losses by region

### Group

Unit: RMB million, except percentages

|                     | As at 31 December |            |                              |        |            |                              |        |            |                              |        |            |                              |
|---------------------|-------------------|------------|------------------------------|--------|------------|------------------------------|--------|------------|------------------------------|--------|------------|------------------------------|
|                     | 2007              |            |                              | 2006   |            |                              | 2005   |            |                              | 2004   |            |                              |
|                     | Amount            | % of total | Impaired loan coverage ratio | Amount | % of total | Impaired loan coverage ratio | Amount | % of total | Impaired loan coverage ratio | Amount | % of total | Impaired loan coverage ratio |
| Domestic operations | 93,283            | 97.10%     | 104.30%                      | 90,160 | 95.62%     | 91.39%                       | 78,193 | 94.04%     | 76.39%                       | 67,158 | 89.82%     | 64.23%                       |
| Overseas operations | 2,785             | 2.90%      | 316.47%                      | 4,133  | 4.38%      | 90.18%                       | 4,960  | 5.96%      | 69.16%                       | 7,611  | 10.18%     | 55.03%                       |
| Total               | 96,068            | 100.00%    | 106.37%                      | 94,293 | 100.00%    | 91.34%                       | 83,153 | 100.00%    | 75.92%                       | 74,769 | 100.00%    | 63.16%                       |

## Allowance for impairment losses on domestic loans by customer type

Unit: RMB million, except percentages

|                               | As at 31 December |            |                              |        |            |                              |        |            |                              |        |            |                              |
|-------------------------------|-------------------|------------|------------------------------|--------|------------|------------------------------|--------|------------|------------------------------|--------|------------|------------------------------|
|                               | 2007              |            |                              | 2006   |            |                              | 2005   |            |                              | 2004   |            |                              |
|                               | Amount            | % of total | Impaired loan coverage ratio | Amount | % of total | Impaired loan coverage ratio | Amount | % of total | Impaired loan coverage ratio | Amount | % of total | Impaired loan coverage ratio |
| Allowance for corporate loans | 74,093            | 79.43%     | 92.89%                       | 71,234 | 79.01%     | 80.01%                       | 60,267 | 77.07%     | 64.88%                       | 49,135 | 73.16%     | 50.78%                       |
| Allowance for personal loans  | 19,190            | 20.57%     | 198.43%                      | 18,926 | 20.99%     | 196.68%                      | 17,926 | 22.93%     | 189.23%                      | 18,023 | 26.84%     | 231.54%                      |
| Total                         | 93,283            | 100.00%    | 104.30%                      | 90,160 | 100.00%    | 91.39%                       | 78,193 | 100.00%    | 76.39%                       | 67,158 | 100.00%    | 64.23%                       |

## Allowance for impairment losses on loans by assessment methodology

### Group

Unit: RMB million, except percentages

|                                                               | As at 31 December |            |        |            |        |            |        |            |
|---------------------------------------------------------------|-------------------|------------|--------|------------|--------|------------|--------|------------|
|                                                               | 2007              |            | 2006   |            | 2005   |            | 2004   |            |
|                                                               | Amount            | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Allowance for individually assessed identified impaired loans | 51,837            | 53.96%     | 53,846 | 57.10%     | 45,738 | 55.00%     | 35,699 | 47.75%     |
| Allowance for collectively assessed identified impaired loans | 12,334            | 12.84%     | 12,735 | 13.51%     | 12,009 | 14.44%     | 12,614 | 16.87%     |
| Allowance for non-impaired loans                              | 31,897            | 33.20%     | 27,712 | 29.39%     | 25,406 | 30.56%     | 26,456 | 35.38%     |
| Total                                                         | 96,068            | 100.00%    | 94,293 | 100.00%    | 83,153 | 100.00%    | 74,769 | 100.00%    |



## Domestic

Unit: RMB million, except percentages

|                                                               | As at 31 December |            |        |            |        |            |        |            |
|---------------------------------------------------------------|-------------------|------------|--------|------------|--------|------------|--------|------------|
|                                                               | 2007              |            | 2006   |            | 2005   |            | 2004   |            |
|                                                               | Amount            | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Allowance for individually assessed identified impaired loans | 51,349            | 55.05%     | 51,269 | 56.86%     | 42,720 | 54.64%     | 31,539 | 46.96%     |
| Allowance for collectively assessed identified impaired loans | 12,241            | 13.12%     | 12,610 | 13.99%     | 11,379 | 14.55%     | 10,861 | 16.17%     |
| Allowance for non-impaired loans                              | 29,693            | 31.83%     | 26,281 | 29.15%     | 24,094 | 30.81%     | 24,758 | 36.87%     |
| Total                                                         | 93,283            | 100.00%    | 90,160 | 100.00%    | 78,193 | 100.00%    | 67,158 | 100.00%    |

## Market Risk

### Overview

The Bank is exposed to market risks that may cause losses in on-and-off balance sheet as of result of adverse changes in market prices. Market risk arises from open positions in the trading and banking books in interest rate, exchange risk, equities, and commodities. Both the Bank's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are free of any restrictive covenants on their tradability and held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (includes those financial instruments in the investment purchased with surplus funds and managed in the investment book).

The Board of Directors of the Bank takes the ultimate responsibility for the oversight of market risk management, including the approval of investment strategy, market risk management strategy, policies and procedures and the determination of market risk tolerance. Senior management is responsible for developing market risk management policies, procedures and specific operational

rules, inspecting and monitoring on a regular basis and compliance with these policies, procedures and rules, and setting market limits within the Group's overall market risks appetite determined by the Board.

Within the Risk Management Department, the Bank has set up an independent market risk management team, which is dedicated to the identification, measurement, monitoring and control of market risks at the Group level, and reports in line with risk management policies and procedures. Risk monitoring teams have been set up within each market risk-taking business line to monitor and report on the market risks within their respective business lines.

In keeping with the guiding requirements of CBRC on market risk management, in 2007, the Bank continued to improve its management of Group market risk management and worked hard to improve policies of market risk management and the monitoring and reporting systems, thus progressively enhancing its ability to identify and measure market risks. Measures included the re-examination of the market risk management policies of the Bank; implementing a series of policies on Value at Risk and stress testing and further clarification of management rules on trading book classification, so as to unify the procedures, models, standards and methods

for the Group's risk management; adjustment of market risk limits and constant improvement of market risk measurement methods; and an increase in the frequency of market risk monitoring and intensification of risk analysis and warning.

To effectively monitor market risk in an increasingly volatile financial market in 2007, the Bank further strengthened its management of investment securities and improved decision-making mechanisms around such investment securities. These measures included reviewing investment procedures; formulating the *Bank of China Limited Securities Investment Policy*; standardising the investment securities decision-making mechanism; setting up the Securities Investment Management Committee (SIMC); reviewing the major business strategies of investment securities; completing the investment securities impairment allowance criteria and evaluating any investment securities impairment on a timely, conservative, and objective basis; adjusting the risk appetite in response to market movements; strengthening the risk management over investment securities, and conducting *ad hoc* analysis and monitoring of the high risk investment securities as required.

In 2008, the Bank will further strengthen the framework for market risk management, enhance its risk measuring capabilities for structured products and promote the integration of group risk information as part of the implementation of the Basel II framework.

### **Market Risk of the Trading Book**

The Bank manages the market risk of the trading book primarily through setting up the overall Value-at-Risk (VaR) and stop-loss limits on the trading book and establishing and allocating exposure limits and stop-loss limits for each trading desk and trader. Traders can only trade financial instruments that meet certain pre-determined criteria (e.g. the liquidity of the financial instruments, etc.). The

Bank monitors the utilisation of risk limits of the trading book on a daily basis.

VaR is the possible loss arising from changes in market conditions, given a specified time horizon and specified confidence level. The Bank currently uses a one-day time horizon and 95% confidence level to calculate the VaR for the domestic trading book. Based on such a calculation, within the one-day time horizon, the probability of loss on the trading book exceeding the VaR is limited to 5% or below.

Please refer to Note III.4 to the Financial Statements for detailed information about the VaR of the Bank's trading book.

## **Market Risk of the Banking Book**

### **Interest rate risk management**

The Bank's primary market risk for the banking book is interest rate risk. Interest rate risk arises mainly from mismatches in the maturities or repricing periods of the assets and liabilities of the Bank's banking book. The Bank manages the interest rate risk of the banking book primarily through interest rate gap analysis. Interest rate gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be re-priced within certain periods. The data generated by gap analysis is used to perform sensitivity analysis, scenario analysis and stress testing, which allows adjustment of the maturities of the interest-earning assets and interest-bearing liabilities. At the same time, the Bank closely follows domestic and foreign currency interest rate trends and promptly adjusts interest rates of local and foreign currency deposits and loans in order to reduce interest rate risk.

For details of the interest rate sensitivity gaps, please refer to Note III.4 to the Financial Statements.



Assuming the yield curves of all currencies shift up or down 100 basis points in parallel at the beginning of 2008, the Group's sensitivity analysis of net interest income on major currencies was as follows:

### Group

Unit: RMB million

|             | RMB     | USD     | HKD   |
|-------------|---------|---------|-------|
| Up 100bps   | (6,525) | (1,128) | 524   |
| Down 100bps | 6,525   | 1,128   | (524) |

The analysis is in accordance with the CBRC rules, and includes all off-balance-sheet positions. It is based on the Group's gap position at the end of 2007 and does not take into consideration any change in customer behaviour, basis risk or any prepayment options on debt securities.

## Exchange rate risk management

The Bank's management of exchange rate risk covers both non-trading books and trading books. Non-trading exchange rate risk mainly arises from foreign currency profit and loss and investment in overseas subsidiaries. Trading exchange rate risk mainly arises from foreign exchange transactions in which the Bank is engaged on its own account or on behalf of customers.

The Bank has undertaken the following measures to reduce its foreign exchange exposure:

In 2005, the Bank entered into a foreign currency option agreement with Huijin with a notional amount of USD18 billion to economically hedge a portion of the net foreign currency position arising from a capital injection. The option was fully exercised from January to December of 2007 in 12 equal monthly installments.

In 2007, the Bank entered into certain foreign exchange transactions to reduce its net foreign currency position by USD17.3 billion.

By these measures, the Bank's net foreign currency exposure had reduced from USD15.7 billion at the end of 2006 to USD4.1 billion at the end of 2007, effectively reducing the Bank's exposure to exchange rate risk.

For details of the foreign currency exposure of the Bank, please refer to Note III.4 to the Financial Statements.

## Liquidity Risk

Liquidity risk is the risk that the Bank is unable to obtain funds at a reasonable cost in a certain period of time when required to meet a repayment obligation and fund its asset portfolio. The Bank's objective in liquidity management is to ensure the availability of adequate funding to meet its needs to fund deposit withdrawals and other liabilities as they fall due, as well as being able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Bank and its overseas subsidiaries manage liquidity risk on their own basis. The Bank manages the liquidity risk of all branches, domestic and overseas. The Bank takes market financing capabilities and other factors into account and adopts a prudent manner when developing liquidity decisions.

The Bank follows a proactive liquidity management strategy and develops all asset-liability businesses in line with the requirements of its liquidity management. Moreover, the Bank monitors and manages the liquidity of local and foreign currencies separately, and has established a RMB and foreign currency liquidity portfolio to ensure funding of sources and applications of different currencies meet the requirements of liquidity management.

The Bank's liquidity management considers both the normal operational environment and emergency measures for unexpected events or extreme conditions. In a normal operational environment, liquidity management covers management of the liquid asset portfolio, liquidity gap management, position management, management of fund transfers between the Head Office and branches and liquidity analysis. The Bank also has a proactive liability management and enhanced market financing capabilities, and maintains close contact with other banks and the central bank with a view to borrowing funds

from the money market or by open market operations to hedge short-term liquidity risk and ensure the smooth development of the Bank's business. The Bank has also developed emergency measures to ensure financing for the Bank in the event of a sudden crisis.

In 2007, significant volatility posed major challenges to the Bank's liquidity position. From the second quarter, there was a significant slowdown in the growth of new RMB deposits due to a continued boom in the stock market and mutual fund market, while loan growth was maintained at a fast pace, resulting in a decrease in stable sources of funds. In addition, the Bank experienced substantial fund inflows and outflows due to the increase in A-Share IPOs, and the central bank implemented tightening monetary policies in order to control the fast growth in lending.

Under such circumstances, the Bank managed to maintain adequate liquidity levels by continuously improving liquidity management capabilities, integrating liquidity risk and reward, improving proactive liability management, strengthening monitoring of internal positions and maximising returns on capital, in order to meet normal business needs and at the same time improve the effectiveness of operational funds.



## Regulatory Ratios on Liquidity

At of 31 December 2007, the Bank's liquidity position, as shown in the table below, met regulatory requirements: (liquidity ratio is the primary indicator of the Group's liquidity; loan to deposit ratio, excess reserve ratio and inter-bank ratios are the indicators of liquidity of the Bank's domestic operations in the Chinese Mainland)

| Main regulatory ratios    |                             |     | Regulatory standard | As at 31 December |      |      |
|---------------------------|-----------------------------|-----|---------------------|-------------------|------|------|
|                           |                             |     |                     | 2007              | 2006 | 2005 |
| Liquidity ratio (%)       | RMB                         | ≥25 | 32.6                | 37.7              | 48.9 |      |
|                           | Foreign Currency            | ≥25 | 75.9                | 64.1              | 87.4 |      |
| Loan to deposit ratio (%) | RMB & Foreign Currency      | ≤75 | 64.0                | 59.0              | 59.1 |      |
| Excess reserve ratio(%)   | RMB                         |     | 3.1                 | 2.8               | 3.0  |      |
|                           | Foreign Currency            |     | 20.7                | 25.8              | 16.9 |      |
| Inter-bank ratio (%)      | Inter-bank borrowings ratio | ≤4  | 1.3                 | 0.9               | 2.7  |      |
|                           | Inter-bank loans ratio      | ≤8  | 0.7                 | 0.7               | 0.2  |      |

Note:

Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of PBOC and CBRC. Financial data are based on the Chinese Accounting Standards 2006. Data for the year 2005 and 2006 is not adjusted retrospectively.

Loan to deposit ratio = outstanding loans/outstanding deposits

RMB excess reserve ratio = (reserve in excess of the mandatory requirements + cash)/(balance of deposits + remittance payables)

Foreign currency excess reserve ratio = (reserve in excess of the mandatory requirements + cash + due from banks and due from overseas branches and subsidiaries)/outstanding deposits

Inter-bank borrowings ratio = Total Renminbi inter-bank borrowings from other banks and financial institutions/Total Renminbi deposits

Inter-bank loans ratio = Total Renminbi inter-bank loans to other banks and financial institutions/Total Renminbi deposits

## Liquidity Gap Analysis

The Bank assesses liquidity risk through liquidity gap analysis. Liquidity gap results are periodically calculated and monitored and used for sensitivity analysis and stress testing. At of 31 December 2007, the Bank's liquidity gap situation was as follows:

(for details of the liquidity position, please refer to Note III.5 to the Financial Statements)

### Group

Unit: RMB million

|                        | Overdue | On demand   | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total   |
|------------------------|---------|-------------|---------------|------------|-------------|-----------|--------------|---------|
| As at 31 December 2007 | 25,062  | (2,164,164) | 46,676        | (23,953)   | (5,335)     | 1,334,986 | 1,237,385    | 450,657 |
| As at 31 December 2006 | 48,754  | (1,889,251) | 4,183         | 55,597     | 41,576      | 1,070,214 | 1,081,883    | 412,956 |

### Bank

Unit: RMB million

|                        | Overdue | On demand   | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total   |
|------------------------|---------|-------------|---------------|------------|-------------|-----------|--------------|---------|
| As at 31 December 2007 | 19,367  | (1,879,644) | 246,426       | (14,644)   | (52,936)    | 1,051,031 | 1,016,880    | 386,480 |
| As at 31 December 2006 | 46,738  | (1,617,769) | 243,207       | 41,472     | (46,568)    | 804,957   | 883,357      | 355,394 |

Note: Liquidity gap = assets that mature in a certain period – liabilities that mature for the same period

Influenced by the market environment, the percentage of demand deposits to total deposits increased and the proportion of current liabilities to total liabilities remained high, as a result, the majority of gaps below 1 year bucket was negative. The balance of assets in the remaining periods all exceeded the balance of liabilities, resulting in a positive liquidity gap position.

## Internal Control and Operational Risk

### Internal Control

Branches, business departments and staff at various levels of the Bank take responsibility for internal control when promoting business development and are the Bank's first line of defence. The Legal and Compliance Department together with various business departments, are responsible for making overall plans for establishing

internal control policies, directing, examining, monitoring and assessing the work of the first line of defence, and playing the role of the second line of defence. The Internal Audit Department is responsible for reviewing and assessing the appropriateness and effectiveness of the Bank's operating activities, risk management, internal control and corporate governance using a systematic and consistent methodology, thus, playing the role of the third line of defence.

In 2007, the Bank continued to establish and improve its three lines of defence of internal control. In order to enhance the self-controlling capacity in the first line of defence, the Bank implemented a process of self-review, self-checking, self-assessment, self-improvement and self-training at the grass-root level of operating branches.

In respect of examining the second line of defence, the Bank specified and standardised the examination programme and conducted on-site and off-site



examinations of all business lines and key controls. In terms of remediating controls, the Bank standardised the internal control remediation, enhanced the monitoring of the implementation of corrective measures on identified issues and established a central repository for Issues. The Bank also improved performance evaluation techniques for internal control and compliance.

## Operational Risk

In accordance with the *Guide on Operational Risk Management to Commercial Banks* published by CBRC, the Bank has established its Operational Risk Management ('ORM') framework, developed and implemented measures on ORM, improved ORM policies and developed the process for operational risk regulatory capital calculations. The Bank has rolled out a new assessment process for operational risk and control of assessment, recording and reporting of operational risk exposure and related controls in various business processes on a Bank-wide and regular basis to enhance its capacity to identify and assess operational risk.

The Bank has defined its Key Risk Indicators (KRI) of operational risk and started to develop these at Group level. Through periodic tracking, monitoring and measurement of KRIs, the Bank aims to enhance its control and monitoring capacity over operational risk.

In addition, the Bank has implemented the following initiatives to enhance control over its branches:

- Sending duty managers to lower level branch outlets to facilitate separation of risk control from business operation so as to better control the risk inherent in its business operations;
- Improving the policy framework to define the behavioral code for branch outlet management and staff;
- Implementing certain control initiatives specifically for the branch outlets, namely, vault security enhancement, business stamp and seal application and management survey, electronic stamp verification system, and centralised account opening approval processes for RMB transaction accounts.

## Internal Audit

As the third line of defence in the internal control framework of the Bank, internal audit forms the independent and objective confirmation and consultation process of the Bank under the Audit Committee of the Board of Directors. Following the principle of improving the operations of the Bank and creating value, internal audit assists the Bank's management in the performance of their controlling duties and employs systematic and standardised approaches to evaluate and assist in the improvement of internal control, risk management and corporate governance.

In 2007, the Bank set up and adopted a vertically integrated management audit model; completed the vertical management of domestic internal audit departments, allocated human resources, budgeting, audit plans and work functions; established mutually linked audit policies, institutions, systems and frameworks with clear and distinctive layers; and enhanced the functions of audit assurance, anti-fraud, advisory service and internal control evaluation. Interim goals have been achieved in respect of the Bank's vertical organisational structure, integrated management system, value-added service requirements, systematic work standards, advanced programs, comprehensive quality control, sound evaluation mechanism and human resources, together with further enhanced independence, professionalism and authority.

In 2007, according to the requirements of the Audit Committee of the Board and the Management, internal audit focused on the priorities of effective duty enforcement and value adding and carried out audit assurance to prevent major and serious fraud cases with attention to systematic risk throughout the Bank. In the year, eight audit inspection projects were carried out at the Head Office, 26 at tier-one and directly-controlled branches and 14 at overseas institutions and affiliated companies. Internal audit personnel also inspected and confirmed high-risk businesses and key control processes in 2,780 domestic institutions (including 26 tier-one institutions, 462 tier-two institutions and 2,292 local level operations), exceeding the annual inspection plan.

In addition, internal audit strengthened line processing and utilisation of special audit tests and regional audit results; rendered value-added services to related parties by means of audit risk prompting letters and management proposals; organised the first and second lines of defence to conduct internal control evaluations; and completed the transformation from a compliance inspection function to a risk-oriented internal control evaluation function, taking prevention as its goal.

## Connected Transactions Management

The Bank has formulated the *Connected Transactions Management Regulations of Bank of China Limited* and its Implementation Rules in accordance with the relevant laws, administrative regulations and regulatory requirements. It carefully identifies and monitors connected transactions in compliance with approval and disclosure obligations to safeguard the interests of the Bank and its shareholders.

In 2007, the Bank updated its database of connected parties and improved the accuracy of information surveys. Training sessions on connected transactions were held across the Bank with a view to improving vigilance of front office staff and identification capabilities of the compliance officers.

## Anti-money Laundering

The Bank attaches great importance to anti-money laundering oversight, and its domestic and overseas operations are committed to enhancing anti-money laundering oversight and controlling money laundering risk in accordance with the Group's policy on anti-money laundering and combating the financing of terrorism as well as local regulatory requirements.

In 2007, the Bank revised its *Administrative Measures on Reporting of Large-value and Suspicious Transactions* to meet the new requirements of PBOC on the reporting of large-value and suspicious transactions, which specify the responsibilities of outlets, business lines and operations at different levels and the reporting procedures required. The Bank upgraded its reporting system and interfaced with the system at the China Anti-Money Laundering Monitoring & Analysis Centre on schedule and also completed procedures for uniform reporting of information on large-value and suspicious transactions, thus controlling regulatory risk effectively.

With a view to improving the ability of employees to identify suspicious transactions and enhance the reporting of suspicious transactions, the Bank developed the reporting system for collection of suspicious data, formulated the *Guidelines on Identification of Suspicious Transactions for Anti-money Laundering and Combating the Financing of Terrorism*, and employed case study training to enable employees to understand and identify suspicious transactions.



To enhance the supervision of anti-money laundering of its domestic and overseas operations and promote long-term effective monitoring, the Bank followed up the assessment of anti-money laundering of its overseas operations initiated in 2006, and selected branches for further inspection. Furthermore, the domestic operations conducted extensive self-inspection of anti-money laundering. The Bank also performed special audits of anti-money laundering at several domestic and overseas branches. By adopting the above measures, the Bank has improved its supervision of anti-money laundering activities of its domestic and overseas operations and the Group's control of money laundering risk.

To address the new customer identification requirements of PBOC, the Bank revised the guidelines for business lines on anti-money laundering and operating procedures of relevant businesses, and updated relevant contracts and vouchers as part of 'Know Your Customer' procedures to avoid the Bank being used as a channel for money laundering or financing of terrorism.

Ongoing training is part and parcel of the Bank's anti-money laundering framework. In 2007, the Bank held training sessions for staff at various levels of the Bank. During the year, a total of 2,500 training sessions were held in the domestic operations with over 200,000 participations.



# Management Discussion and Analysis

## — IT Blueprint

The overall objective of the IT blueprint is to improve customer service, consolidate data, standardise operations, accelerate product innovation and mitigate risks. The IT blueprint implementation is focused on two systems, namely, the Core Banking System (CBS) for front and middle office processing and the Management Information System (MIS) for back office operations. CBS supports transaction processing and MIS supports decision making of the Bank by processing customer and transaction information. In 2007 the Bank made steady progress towards CBS and MIS implementation.

### Core Banking System Implementation

The Bank completed phase one Core Banking System customisation and the first stage of the System Integration Test (SIT), captured customer information and started the overall system improvement program. Smooth progress was also made in the voucher review and consolidation, system parameter setting, and user screen translations and standardisation. Training sessions were held to address the different needs of the management and staff.

### Management Information Systems Improved

Substantial progress was made in the construction of information infrastructure and the CBS peripheral systems during the year. Ten sub-systems were improved in this period, including General Ledger, Data Extraction and Transfer Platform, Reporting Platform, Historical Data Inquiry, Profit Analysis, Single View of Enterprise-Level Customer, Corporate/Individual Credit System, Core Database Construction, Data Dictionary and Information Service Platform. This enabled the Bank for the first time to fulfill the centralised reporting and centralised information management.

In 2008, the Bank will continue to accelerate implementation of the IT blueprint, whilst assuring quality and guaranteeing safety. The Bank will construct a powerful information network as well as a new innovation and service platform. This will encourage effective interaction between the IT system and the Bank's business innovation, broaden the Bank's service channels, provide customers with more convenient, efficient, and customised services, and as a result enhance the Bank's core competitiveness.

# Management Discussion and Analysis

## — Organisational Information, Human Resources Development and Management



### Organisational Management

#### Organisational Information

As at the end of 2007, the Bank had a total of 10,834 domestic and overseas branches and outlets, including 37 tier one branches, 283 tier two branches and 9,824

outlets in the Mainland and 689 branches, subsidiaries and representative offices in Hong Kong, Macau, and others countries, a reduction of 407 from the beginning of the year.

The following table shows the geographic breakdown of the domestic operations at the end of 2007.

| As at 31 December 2007     |                      |            |
|----------------------------|----------------------|------------|
|                            | Branches and outlets | % of total |
| Northern China             | 1,516                | 15.0%      |
| Northeastern China         | 895                  | 8.8%       |
| Eastern China              | 3,438                | 33.9%      |
| Central and Southern China | 2,723                | 26.8%      |
| Western China              | 1,573                | 15.5%      |
| Total                      | 10,145               | 100.0%     |

#### Process Reengineering and Organisational Restructuring

In 2007, the Bank further reengineered and restructured its organisation framework with the establishment of the Group Executive Committee, and under this committee, the Corporate Banking Committee, the Retail Banking Committee, the Financial Markets Committee and the Operation Service Committee. These management and decision-making committees fulfill their duties under the authority limits delegated by the Group Executive Committee.

Through the establishment of these management and decision-making committees, the Bank aims to change the traditional service, product and management model, and move to a more customer-oriented approach. All resources will be utilised to satisfy customers and provide a full range of financial services to the customers so as to promote business development. Meanwhile, delegation of authority to these management and decision-making committees will improve the efficiency and

professionalism of the decision-making process. Decisions made will be pursuant to the Bank's overall strategy and supported by stakeholders. In this process, the business line management will be strengthened.

The major responsibilities of the Corporate Banking Committee, the Retail Banking Committee, the Financial Markets Committee and the Operation Service Committee are as follows:

- Establish the business line development strategies, annual business plan and budget, and the execution of the plan and budget as approved by the Group Executive Committee;
- Coordinate cross marketing of products and business cooperation and support for the business lines throughout the Group (including both domestic and overseas branches and subsidiaries);
- Take responsibility for the business line operational risk management and internal control; and

- Take responsibility for the business line credit approval, price setting, product R&D, HR management and finance management within authority limits.

Under this matrix management framework, business line management was strengthened to promote effectiveness of strategy communication and execution throughout, and by, the branch network. Internal control managers were dispatched to the operating units of the Bank to improve risk prevention and internal control, an integral part of the establishment of three lines of defence.

## Human Resources Management and Development

### Staff Profile

As at the end of 2007, the Bank had 237,379 employees (including 52,992 external contractual staff in domestic institutions), of which 22,045 were locally engaged staff

in overseas branches and subsidiaries. By the end of 2007, the Bank paid retirement expenses for a total of 7,183 retirees.

Staff composition in terms of age, education background and professions at the end of the year was as follows:

| Category               | Detailed distribution                                         | Number of employees | % of total |
|------------------------|---------------------------------------------------------------|---------------------|------------|
| Age                    | Below 30                                                      | 23,547              | 14.51%     |
|                        | Between 31 and 40                                             | 87,510              | 53.91%     |
|                        | Between 41 and 50                                             | 44,016              | 27.11%     |
|                        | Between 51 and 60                                             | 7,214               | 4.44%      |
|                        | Above 60                                                      | 55                  | 0.03%      |
| Educational Background | Holders of a Master's degree and above                        | 3,444               | 2.12%      |
|                        | Bachelor degree holders                                       | 67,314              | 41.47%     |
|                        | Associate degree or professional training certificate holders | 65,051              | 40.07%     |
|                        | Others                                                        | 26,533              | 16.34%     |
| Professions            | Corporate finance                                             | 17,708              | 10.90%     |
|                        | Personal finance                                              | 16,734              | 10.31%     |
|                        | Financial market                                              | 1,297               | 0.80%      |
|                        | Operational services                                          | 20,611              | 12.70%     |
|                        | Financial management and accounting                           | 11,171              | 6.88%      |
|                        | Risk management, internal audit and legal and compliance      | 12,009              | 7.40%      |
|                        | Management <sup>1</sup>                                       | 4,269               | 2.63%      |
|                        | Others <sup>2</sup>                                           | 78,543              | 48.38%     |

Notes:

1. This category includes deputy general managers of tier-two branches, deputy general managers of functional departments in tier-one branches and managerial personnel of team heads and above in the Head Office.
2. This category includes front line staff, administrative staff and other supporting staff.



## **Human Resources Management Reform**

In 2007, the Bank released *'Measures to Deepen the Human Resources Management Reform'* developed from past experience, which specified the major objectives of reform in current and future human resources management. The Bank will implement this ongoing human resources reform in line with market practice.

In 2007, the Bank further standardised position designation, recruitment procedures, qualifications and responsibilities. Remuneration and benefits schemes were adjusted based on prevailing market conditions, employees' competency levels and contributions to the Bank's operating results in order to maintain competitiveness in compensation in the market. Moreover, a new remuneration management mechanism was put in place to maintain staff cost increases at a rate proportional to the Bank's operating results. The Bank also refined staff performance indicators for the Head Office departments, tier-one branches and management. All of these measures helped to support the Bank's human resources development strategy and business targets.

The Bank further enhanced its human resources planning capabilities by proposing employee target numbers, benefits, structural adjustments and a human resources management mechanism for the years ahead. In 2007, the Bank enhanced its talent pool planning by establishing the objectives in talent management that emphasises number of staff, human resources efficiency and structure, human resources mechanism upgrades, and detailed measures and tasks for the formation of managerial, professional and operational position lines.

In 2007, the Bank also improved its talent development system by emphasising senior management leadership, professional staff development, nurturing training and instructors and producing textbooks. Training resources were deployed to increase staff training and development. During the year, 24,000 off-site course sessions were offered with 830,000 class participations.

# Management Discussion and Analysis

## — Cooperation with Strategic Investors

In 2007, strategic cooperation between the Bank and RBS Group, Fullerton Financial Holdings (FFH), UBS and Asian Development Bank (ADB) in the relevant business and management infrastructure areas progressed. The Bank's broad-ranging and in-depth cooperation initiatives achieved substantial results during the year.

### Overview

In 2007, the Bank and RBS Group promoted bilateral cooperation with a specific focus on corporate banking, personal banking, financial market business, risk management and internal control, treasury and capital management, as well as human resource management. A total of 60 RBS senior managers worked together with the Bank's staff on various projects. The Bank established a joint steering committee with UBS, cooperating in such areas as direct investment business, global markets products and services, treasury, market risk management and training. FFH seconded five experts to the Bank, providing consultation on SME business models and cooperating with the Bank in areas of corporate governance, risk management and product management consultation, as well as special training. ADB continued to provide the Bank with technical support in areas such as operational risk.

### Corporate Banking Business

In line with the strategy of serving mid-and-high-end customers, the Bank worked with RBS Group to leverage their expertise in customer relationships and technology to promote high-end businesses of aircraft financing, shipping financing and syndicated loans. These included receivables financing, letters of guarantee and other trade finance businesses, as well as implementation of a supply chain financing project. All of these efforts

have laid a solid foundation for the enhancement of the Bank's international service capabilities. Both parties also discussed a new joint financing model and worked together in real estate financing. In order to better serve overseas customers, the Bank and RBS Group established a customer referral channel in the U.K. One senior relationship manager was seconded to Citizens Bank – the subsidiary of RBS Group in the U.S. – to set up a 'BOC work team' for promoting customer referrals between the Bank and RBS Group, and enhancing their services in account opening, trade finance and consignment lending. Targeting the emerging SME market, the Bank developed a new business model with technical support from FFH secondees, and is now ready to implement the model.

### Personal Banking Business

A joint credit card business unit was established between the Bank and RBS Group in the first half of 2007. Both parties enhanced cooperation in product design, direct selling, financial management, risk management, operating service and information technology. Supported by more than 10 specialists in credit cards from RBS Group, a credit scorecard, a scorecard tracking and analysis framework and a series of credit cards was developed and a pilot run on direct selling of credit card was conducted. As a result of the cooperation with RBS Group, the Bank was able to increase credit card volumes and improve credit card management capacity.

The Bank and RBS Group achieved a breakthrough in private banking during the year. Two private banking pilot operations were officially launched in March 2007, in Beijing and Shanghai. RBS Group assisted the Bank in recruiting private banking managers and investment consultants, and a professional team of private bankers of the Bank is emerging.



## Financial Market Business

The Bank's cooperation with RBS Group allowed the Bank to make significant strides forward in the global markets business in 2007. The two parties forged a close strategic partnership for developing opportunities in foreign exchange, fixed income and derivative products, and conducted interactive marketing for global markets products and provided hedging solutions for many joint transactions. In addition, through training sessions, site visits and exchanges, RBS Group shared its experience in fixed income products and debt capital market management and operation. The Bank also continued cooperation with UBS in global market businesses through training and exchange of staff. A joint programme on QFII is under way.

## Risk Management, Legal and Compliance, and Audit

The Bank's strategic investors continued to provide expert consultation and training support in areas such as credit risk, market risk, operational risk, compliance risk, anti-money laundering and the implementation of Basel II. RBS Group assisted the Bank to improve daily monitoring of market risk in its trading book. The Bank also gained insights from RBS secondees on risk and control assessment (RACA), reporting of key risk indicators (KRI) and significant operational risk events, lost data collection and other sophisticated experiences in operational risk management. These experiences have been translated into actual operational guidelines within the Bank's framework. FFH employed a consulting firm to assist the Bank in market risk management. With support from ADB, a Basel II operational risk training program has been launched.

## Treasury, Financial Management and Strategic Planning

RBS Group provided the Bank with training support in treasury operations, financial management and strategic

planning. The Bank has dispatched staff for on-site training at the Group Finance and Group Strategy departments of RBS Group. The Bank also further strengthened cooperation with UBS in treasury management. Both parties carried out in-depth research and discussions regarding interest rate risk management, internal fund transfer pricing, regulatory capital management and planning, risk management of structural exchange rate and interest rate pricing. Moreover, the treasury departments of both banks discussed setting up a regular communication and consulting support mechanism. With support from FFH, the Bank's Treasury Department cooperated with an external consulting firm on how to improve liquidity risk and interest rate risk management.

## Human Resources

The Bank continued its cooperation with RBS Group in leadership model development and leadership enhancement. With the guidance of RBS Group, the Bank completed a preliminary application scheme for its leadership model and selected eight senior managers to attend a training course jointly organised by RBS Group and Harvard Business School. The Bank discussed with UBS on many human resources issues, including group leadership development, successor planning, performance evaluation, competence models, staff appraisals and employee satisfaction surveys. FFH organised the second corporate governance training course for the Bank's directors. In addition, a joint training programme on wealth management has been initiated.

## Overseas Cooperation and Publicity

The Bank's overseas branches and RBS Group continued their close cooperation in the area of marketing of overseas student accounts. With support from RBS Group, the Bank organised visits to the Chelsea Flower Show in the U.K. for VIP customers, which was widely reported in local and Chinese media.

# Management Discussion and Analysis

## — Olympics Creates Value



On 14 July 2004, Bank of China and the Beijing Organising Committee for the Games of the XXIX Olympiad (BOCOG) announced that Bank of China was appointed Official Banking Partner of the Beijing 2008 Olympic Games. The Bank made a solemn commitment to providing quality financial products and services to the Beijing 2008 Olympic Games and Paralympics, the BOCOG, the Chinese Olympic Committee (COC) and the 2008 Chinese Olympic Team. This commitment carries with it the high expectations of the Chinese people for the first Olympics in China and showcases the Bank's passion and dream for the Olympics.

As the official banking partner of the Beijing 2008 Olympic Games, the Bank aims to increase its profile and promote the Olympic spirit. In order to share the Olympic dream together with its clients, the Bank is making full use of its Olympic rights when designing the Olympic marketing strategy and products in an effort to create more value for clients through the Olympic platform.

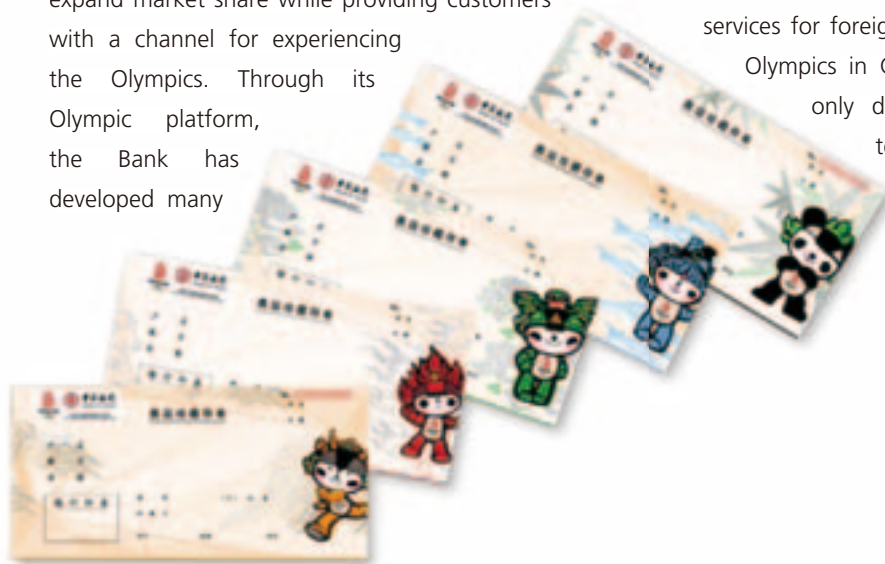
### Innovative Olympic Financial Products

The Beijing 2008 Olympic Games provides the Bank with unique opportunities to improve its service quality and expand market share while providing customers with a channel for experiencing the Olympics. Through its Olympic platform, the Bank has developed many

Olympic-themed financial products geared towards different customer segments such as the Olympic Growth Account targeting young people and the first Fuwa (Beijing Olympic mascot) Courtesy Certificate of Deposit. The Bank issued the first Olympic-themed Euro credit card in Asia, the first Beijing Olympic-themed BOC VISA Olympic credit card and co-brand credit cards of BOC Lenovo VISA Olympic credit card and Air China BOC VISA Olympic credit card, teaming up as the BOC Olympic bank card series. They function as both a payment tool and bearer of the Olympic spirit, whose popularity were greatly enhanced.

### Improving Olympic Services

In 2007, the Bank organised a number of foreign language workshops and training sessions with a focus on providing Olympic financial services. The Bank's call centre launched an Olympic hotline and began to offer the pioneering multi-lingual services covering English, French, Japanese, Korean and Spanish, all of which have strengthened BOC's distinctive brand value. The Bank also refurbished its branches with wheelchair ramps and lower counters to allow better access for all customers. To assist BOCOG and foreign institutions and individuals that need financial services during the Games, the Bank, with the support of PBOC and SAFE, will provide 'green channel' services for foreign people who come to work with the Olympics in China. The Bank will also become the only domestic financial institution to open temporary accounts for qualified non-resident legal persons.





## Ready for the Beijing Olympics

In 2007, the Bank enhanced its Olympic marketing campaign and geared up for the Olympics and Paralympics. The Bank successfully implemented the Olympic ticketing program. As the Games enter into the final preparation stage, the Bank is pressing ahead with its own Olympic financial services program. The Bank has a detailed 2008 Olympic workplan, which includes an organisational framework, branch setup, personnel arrangements, foreign language services, contingency plans and budgeting.



## Market Recognition

The Bank's Olympic marketing program has received extensive recognition from the public. A survey published in early 2007 by the China Brand Research Academy showed that Bank of China is one of the most successful sponsors in Olympic-themed marketing. In June 2007, the Bank was listed in the 2007 World Top 500 Brands by World Brand Lab. The Bank also received the 'Chinese Enterprises Marketing Innovation' award from the *Sales and Marketing*, China's leading periodical for marketing science, for its outstanding Olympic-themed marketing performance.



As the official banking partner of the Beijing 2008 Olympic and Paralympic Games, Bank of China has named 2008 as its 'Year of Olympics Services'. The Bank will enhance its publicity campaign in the theme of 'Serving the Olympics' and will continue to develop its business by enhancing service levels and building on its brand image as a 100-year-old bank celebrating the 100-year Olympics.



# Management Discussion and Analysis

## — Awards and Corporate Social Responsibilities

### Awards

In 2007, the Bank received wide recognition for its performance from the banking industry, domestic and foreign customers and the media. The following awards were received for the Bank's performance in many areas, including commercial banking and products, information disclosure, marketing and social benefits:

#### **Global Finance**

Best Foreign Exchange Bank – China  
Best Trade Finance Bank – China

#### **Fortune**

Ranked 215th in Fortune's Global 500

#### **The Banker**

Ranked 9th among the 'Top 1,000 World Banks'

#### **Finance Asia**

Asia's Best Companies (Best Managed Company,  
Best Corporate Governance, Best Dividend Policy)  
Best Foreign Exchange Bank – China

#### **Asia Money**

Best Local Cash Management Bank  
Best Domestic Provider for Structured Currency Products  
Best Domestic Providers for Structured Interest-Rate  
Products

#### **Lloyd's Register Group**

Lloyd's International Ship Finance Bank Award

#### **Trade Finance**

Best Trade Finance Bank in China

### Universum

2007 Ideal Employer

#### **Basis Point**

Rank 1st in domestic syndicated loan market

#### **Sales and Marketing**

Marketing Innovation Award for Chinese Enterprise

#### **China Children and Teenagers Foundation**

Institution with Greatest Passion for Children

#### **Hexun Finance Billboard**

'Award for Excellent Service in China's Banking Industry'  
'Award for Excellent Marketing in China's Marketing  
Sector'  
'Award for Wealth Management Product with Most  
Investment Potential in China's Banking Industry'

#### **2006 Annual Report won**

Platinum Award from LACP

Honorary Award for Annual Report of Listed Companies  
at US ARC awards

Honorary Award for Annual Report of Listed Companies  
from Hong Kong Management Association

#### **BOCI**

ranked 5th among the top 10 most reliable investment  
banks awarded by *CEO*, *People.Com* and *Sina.Com*.

#### **BOCI China**

received Best Investment Bank 2007 and Best Bond  
Underwriter 2007 awards from the *21 Century Economic  
Journal*.



## BOCIM

won a number of awards, including 'China's Best Risk Control Fund Management Company in 2007' and the 'Chinese Investor Education Merit Award'.

## Corporate Social Responsibilities

The Bank is committed to fulfilling its social responsibilities by contributing to the community and giving to society wholeheartedly. Over the past year, it continued to provide support for a wide range of social causes.

### *Poverty Reduction and Disaster Relief*

In 2007, the Bank increased its support to impoverished and underdeveloped areas, and supported poverty alleviation programs such as road repair, provision of drinking water, education and agricultural projects. In addition, the Bank provided aid to help reconstruction efforts following natural disasters.

### *Funding of Education*

In 2007, the Bank continued to provide education loans to poverty-stricken students for state and local colleges and



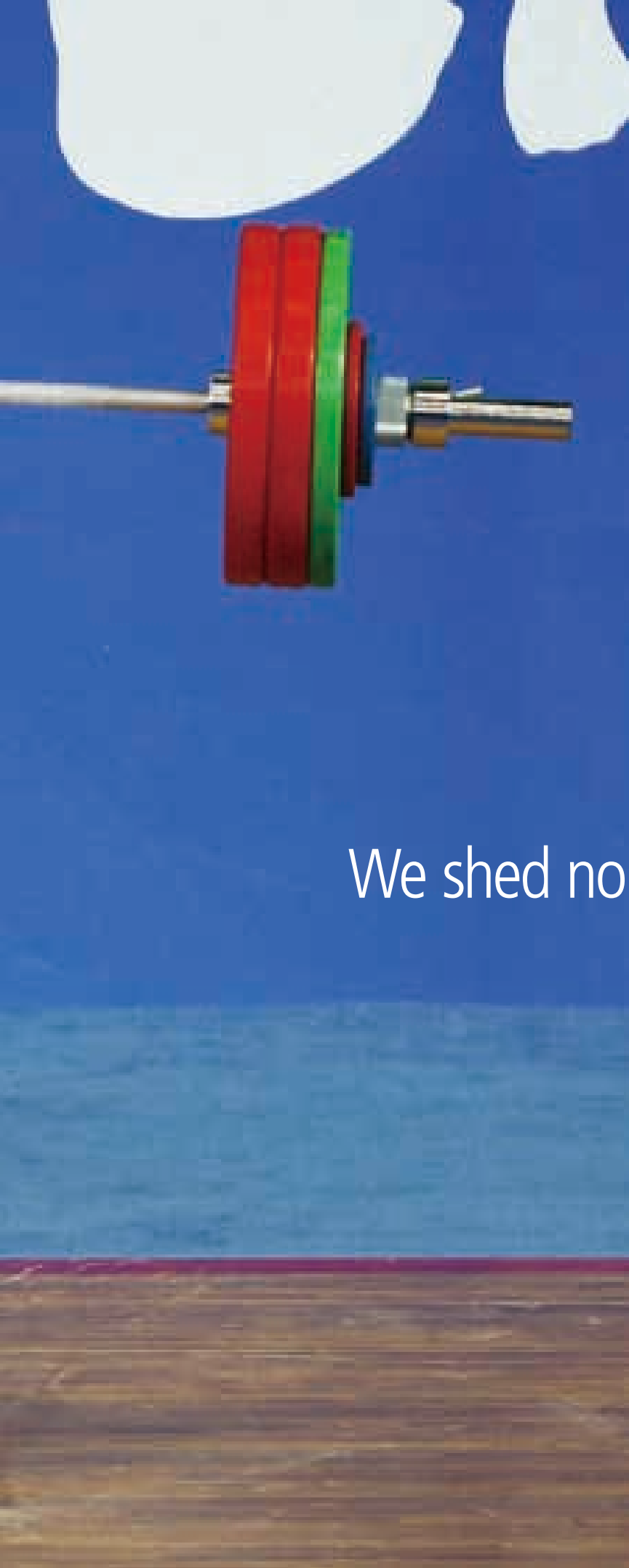
universities. A total sum of RMB8.554 billion education loans have been granted to 1,163,700 students since the Bank introduced the business. By the end of 2007, the outstanding amount of education loans provided by the Bank was RMB6.826 billion.

### *Support for Culture and Education*

In 2007, the Bank launched its 'Participation of the Whole Nation in Olympic Publicity' programme and held exhibitions on the centennial of the Olympic Games in 100 communities in Beijing. The Bank also sponsored the Flower Exhibition in Chelsea, the UK, in 2007, displaying for the first time the art of Chinese gardening to a Western audience. The bank donated RMB2 million to the China Pavilion of World Expo. The Bank became a partner with the Water Tube (National Swimming Center) through the Beijing Joint Olympic Construction Committee with Hong Kong, Macau, Taiwan and Overseas Chinese, for which Bank of China reduces the remittance fee charged on overseas donations via the Bank's overseas branch offices. By the end of 2007, the Committee had received donations from 350,000-odd people in 102 countries and regions totalling RMB930 million or USD130 million.

# LUCK





We shed no Responsibility



# Changes in Share Capital and Shareholdings of Substantial Shareholders

## Shareholdings under A-Share Regulation

### Changes in Share Capital during the Reporting Period

|                                                      | 1 January 2007         |                | Increase/decrease during the reporting period |              |                                             |                 |                 | Unit: Share<br>31 December 2007 |                |
|------------------------------------------------------|------------------------|----------------|-----------------------------------------------|--------------|---------------------------------------------|-----------------|-----------------|---------------------------------|----------------|
|                                                      | Number of shares       | %              | Issue of new shares                           | Bonus shares | Shares transferred from the surplus reserve | Others          | Sub-total       | Number of shares                | %              |
| <b>I. Shares subject to selling restriction</b>      | 224,417,610,678        | 88.41%         | -                                             | -            | -                                           | (8,130,508,469) | (8,130,508,469) | <b>216,287,102,209</b>          | <b>85.21%</b>  |
| 1. State-owned shares                                | 179,702,746,069        | 70.79%         |                                               |              |                                             |                 |                 | <b>179,702,746,069</b>          | <b>70.79%</b>  |
| 2. Shares held by state-owned legal persons          |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| 3. Shares held by other domestic investors           | 2,162,335,469          | 0.85%          |                                               |              |                                             | (876,623,469)   | (876,623,469)   | <b>1,285,712,000</b>            | <b>0.51%</b>   |
| Including:                                           |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| Shares held by domestic legal persons                |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| Shares held by domestic natural persons              |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| 4. Shares held by foreign investors                  | 42,552,529,140         | 16.77%         |                                               |              |                                             | (7,253,885,000) | (7,253,885,000) | <b>35,298,644,140</b>           | <b>13.91%</b>  |
| Including:                                           |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| Shares held by foreign legal persons                 |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| Shares held by foreign natural persons               |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| <b>II. Shares not subject to selling restriction</b> | 29,421,551,331         | 11.59%         | -                                             | -            | -                                           | 8,130,508,469   | 8,130,508,469   | <b>37,552,059,800</b>           | <b>14.79%</b>  |
| 1. RMB-denominated ordinary shares                   | 4,331,170,531          | 1.71%          |                                               |              |                                             | 876,623,469     | 876,623,469     | <b>5,207,794,000</b>            | <b>2.05%</b>   |
| 2. Domestically listed foreign shares                |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| 3. Overseas listed foreign shares                    | 25,090,380,800         | 9.88%          |                                               |              |                                             | 7,253,885,000   | 7,253,885,000   | <b>32,344,265,800</b>           | <b>12.74%</b>  |
| 4. Others                                            |                        |                |                                               |              |                                             |                 |                 |                                 |                |
| <b>III. Total</b>                                    | <b>253,839,162,009</b> | <b>100.00%</b> | <b>-</b>                                      | <b>-</b>     | <b>-</b>                                    | <b>-</b>        | <b>-</b>        | <b>253,839,162,009</b>          | <b>100.00%</b> |

Notes:

- As at 31 December 2007, the Bank had issued a total of 253,839,162,009 shares, including 177,818,910,740 A Shares and 76,020,251,269 H Shares.
- State-owned shares include the A Shares held by Central SAFE Investments Limited and the H Shares held by National Council for Social Security Fund PRC. Shares held by foreign investors include the H Shares held by the strategic investors The Royal Bank of Scotland Group plc, Temasek Holdings (Private) Limited, UBS AG and Asian Development Bank and other investors who participated in the global offering of the H Shares of the Bank.
- For the purpose of this table, the changes during the period are mainly due to expiry of the lock-up period for A Shares and H Shares which were subject to selling restriction.
- 1,285,712,000 A Shares with a lock-up period of 18 months which were placed to strategic investors during the A Share IPO were unfrozen on 5 January 2008 and became tradable on the Shanghai Stock Exchange on 7 January 2008 (5th and 6th January 2008 were non-trading days). Thereafter, 171,325,404,740 A Shares of the Bank are subject to selling restriction and 6,493,506,000 A Shares of the Bank are not subject to selling restriction.
- Shares Subject to Selling Restriction refers to shares held by shareholders who are subject to restriction on selling in accordance with laws, regulations and rules or commitment.



## Changes in A Shares Subject to Selling Restriction

| No. | Name of shareholders                                                                                      | Number of shares                                                      |                                                        |                                                                 | Expiring Date of Selling Restriction | Reason for restriction |
|-----|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------|--------------------------------------|------------------------|
|     |                                                                                                           | Number of shares subject to selling restriction at the year beginning | Number of shares released from restriction within 2007 | Number of shares subject to selling restriction at the year end |                                      |                        |
| 1   | Central SAFE Investments Limited                                                                          | 171,325,404,740                                                       | –                                                      | 171,325,404,740                                                 | 5 July 2009                          | Company Commitment     |
| 2   | China Life Insurance Company Limited – traditional – ordinary insurance products – 005L-CT001Shanghai     | 123,376,000                                                           | –                                                      | 123,376,000                                                     | 5 January 2008                       | Lock-up Period         |
| 3   | China Life Insurance (Group) Company – traditional – ordinary insurance products                          | 144,559,043                                                           | (47,157,043)                                           | 97,402,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | Chinese People Property Insurance Company – traditional – ordinary insurance products- 008C-CT001Shanghai | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | State Development and Investment Corporation                                                              | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | Baosteel Group Co., Ltd.                                                                                  | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | China Southern Power Grid Co., Ltd.                                                                       | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | China Huaneng Group Co., Ltd.                                                                             | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | China Reinsurance (Group) Company – Group level – fund owned by the Group – 007G-ZY001Shanghai            | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | China National Offshore Oil Corporation                                                                   | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | Ping An Insurance (Group) Company Of China, Ltd. – traditional – ordinary insurance products              | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | Shenhua Group Corporation Limited                                                                         | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | China Aviation Industry Corporation                                                                       | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 4   | China Aluminum Corporation                                                                                | 90,909,000                                                            | –                                                      | 90,909,000                                                      | 5 January 2008                       | Lock-up Period         |
| 15  | China National Foreign Trade Transportation (Group) Corporation                                           | 64,935,000                                                            | –                                                      | 64,935,000                                                      | 5 January 2008                       | Lock-up Period         |

Notes:

- Huijin undertook that within three years of the Bank's A shares listing, it would not transfer the A shares of the Bank directly or indirectly held by itself or entrust other persons to manage the shares, nor would it allow the Bank to repurchase such shares, with the exception of those allowed to be converted into H shares following approval of the China Securities Regulatory Commission and other authorised securities approval authorities of the State Council. Any withdrawal of Huijin's shares that are deposited with the China Securities Depository and Clearing Corporation Limited and the re-registration of such shares as H shares would not affect any pre-existing restriction on the sale or transfer applicable to Huijin's shares.

2. Apart from Central SAFE Investments Limited, the other 14 shareholders in the above table are strategic investors that were placed with A shares initially offered and with a lock-up period of 18 months after the public offering.
3. On 5 January 2007, 876,623,469 A shares with a lock-up period of 6 months, which had been placed to the off-line investors were unfrozen and allowed to be tradable on the stock exchange. Please refer to Announcement No. 2006-005 of the Bank published on 28 December 2006 for details.

## **Issue and Listing of Shares**

The Bank successfully listed H Shares on the Hong Kong Stock Exchange on 1 June 2006, including 25,568,590,000 shares issued in the IPO and 3,835,288,000 shares issued pursuant to the exercise of the over-allotment option on 9 June 2006. The number of H Shares issued, at an offer price of HKD2.95 per share, accounted for 11.89% of the Bank's total equity after the offering. The Bank raised approximately HKD86.7 billion in the offering. Thereafter, the Bank successfully offered A Shares from 19 to 23 June 2006, at an issue price of RMB3.08 per share and was listed on the Shanghai Stock Exchange on 5 July 2006. 6,493,506,000 A Shares were issued in the IPO, accounting for approximately 2.56% of the enlarged equity. Approximately RMB20 billion was raised in the offering.

The IPOs of H Shares and A Shares accounted for 14.14% of the total enlarged share capital of the Bank. After the IPOs, the issued share capital of the Bank increased to RMB253,839,162,009 in 253,839,162,009 shares.

## **Issue of Subordinated Bonds**

Please refer to Note V.32 to the Financial Statements for details of the issue of subordinated bonds by the Bank.

## **Issue of RMB Bonds**

The Bank issued RMB3 billion Renminbi-denominated bonds in Hong Kong in September 2007, the first ever issue by a Mainland commercial bank. Please refer to Note V.32 to the Financial Statements for details.



## Number of Shareholders and Shareholdings

Total number of shareholders: 1,569,568 (including 1,290,501 A-share holders and 279,067 H-share holders)

### Top Ten Shareholders

| No. | Name of shareholders                                                                                                                                                           | Shares held at<br>year beginning | Changes<br>in 2007 | Shares held<br>at year end | Number of shares                  |                                       | Proportion in<br>total share<br>capital | Type of<br>shareholder      |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------|----------------------------|-----------------------------------|---------------------------------------|-----------------------------------------|-----------------------------|
|     |                                                                                                                                                                                |                                  |                    |                            | subject to<br>selling restriction | not subject to<br>selling restriction |                                         |                             |
| 1   | Central SAFE Investments Limited                                                                                                                                               | 171,325,404,740                  | –                  | 171,325,404,740            | 171,325,404,740                   | –                                     | 67.49%                                  | State                       |
| 2   | HKSCC Nominees Limited                                                                                                                                                         | 30,262,318,674                   | 581,122,300        | 30,843,440,974             | –                                 | 30,843,440,974                        | 12.15%                                  | Foreign legal<br>person     |
| 3   | RBS China Investments S.à.r.l. (The Royal Bank of Scotland Group plc holds H Shares of the Bank through its subsidiary, RBS China Investments S.à.r.l.)                        | 20,942,736,236                   | –                  | 20,942,736,236             | 20,942,736,236                    | –                                     | 8.25%                                   | Foreign legal<br>person     |
| 4   | Fullerton Financial Holdings Pte Ltd (Temasek Holdings (Private) Limited holds H Shares of the Bank through its wholly-owned subsidiary, Fullerton Financial Holdings Pte Ltd) | 10,471,368,118                   | –                  | 10,471,368,118             | 10,471,368,118                    | –                                     | 4.13%                                   | Foreign legal<br>person     |
| 5   | National Council for Social Security Fund, PRC                                                                                                                                 | 8,377,341,329                    | –                  | 8,377,341,329              | 8,377,341,329                     | –                                     | 3.30%                                   | State                       |
| 6   | UBS AG                                                                                                                                                                         | 3,377,860,684                    | –                  | 3,377,860,684              | 3,377,860,684                     | –                                     | 1.33%                                   | Foreign legal<br>person     |
| 7   | Asian Development Bank                                                                                                                                                         | 506,679,102                      | –                  | 506,679,102                | 506,679,102                       | –                                     | 0.20%                                   | Foreign legal<br>person     |
| 8   | The Bank of Tokyo-Mitsubishi UFJ Ltd                                                                                                                                           | 473,052,000                      | –                  | 473,052,000                | –                                 | 473,052,000                           | 0.19%                                   | Foreign legal<br>person     |
| 9   | Wingreat International Limited                                                                                                                                                 | 420,490,000                      | –                  | 420,490,000                | –                                 | 420,490,000                           | 0.17%                                   | Foreign legal<br>person     |
| 10  | China Life Insurance Company Limited – traditional – ordinary insurance products – 005L-CT001Shanghai                                                                          | 150,434,100                      | (16,140,000)       | 134,294,100                | 123,376,000                       | 10,918,100                            | 0.05%                                   | State-owned<br>legal person |

The number of shares held by H-share holders was recorded in the Register of Members as kept by the H-Share Registrar of the Bank as at 31 December 2007.

The Bank is not aware of whether the shares held by the aforesaid shareholders have been pledged or frozen, nor is the Bank aware of the existence of connected relations among the aforesaid shareholders.

Among the aforesaid shareholders, H shares of the Bank held by RBS China Investments S.à.r.l., Fullerton Financial Holdings Pte Ltd, National Council for Social Security Fund PRC, UBS AG and Asian Development Bank are subject to a three-year lock-up period since their respective investment.

**Top Ten Shareholders of Shares (A and H) not Subject to Selling Restriction as at 31 December 2007**

Unit: Share

| No. | Name of shareholder                                                                  | Number of shares<br>not subject to selling<br>restriction | Type of<br>shares |
|-----|--------------------------------------------------------------------------------------|-----------------------------------------------------------|-------------------|
| 1   | HKSCC Nominees Limited                                                               | 30,843,440,974                                            | H                 |
| 2   | The Bank of Tokyo-Mitsubishi UFJ Ltd                                                 | 473,052,000                                               | H                 |
| 3   | Wingreat International Limited                                                       | 420,490,000                                               | H                 |
| 4   | Dacheng Innovative Growth Stock Investment Fund                                      | 79,770,246                                                | A                 |
| 5   | Jingshun Great Wall Domestic Demand Growth No. 2 Stock<br>Securities Investment Fund | 56,099,745                                                | A                 |
| 6   | Jingshun Great Wall Domestic Demand Growth Open-ended Fund                           | 54,499,713                                                | A                 |
| 7   | E Funds 50 Index Securities Investment Fund                                          | 50,099,848                                                | A                 |
| 8   | Everbright Prumerica Quantitative Core Securities Investment                         | 47,500,000                                                | A                 |
| 9   | SSE 50 Trading Open-end Index Securities Investment Fund                             | 34,057,439                                                | A                 |
| 10  | Everbright Prumerica Advantages Stock Securities Investment Fund                     | 32,780,847                                                | A                 |

Some of the above shareholders are managed by the same legal entity. Save for that, the Bank is not aware of any connected relations and concerted action among the aforesaid shareholders.

## Shareholdings under H-Share Regulation

### Substantial Interest in Share Capital

The register maintained by the Bank pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong, (SFO) recorded that, as at 31 December 2007, the following corporations had the following interests (as defined in the SFO) in the Bank:

| Name of shareholder                               | Number of<br>shares held       | Type of<br>shares | Percentage<br>of total<br>issued<br>A Shares | Percentage<br>of total<br>issued<br>H Shares | Percentage<br>of total<br>issued<br>share capital <sup>4</sup> | Capacity                                                                                      |
|---------------------------------------------------|--------------------------------|-------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Central SAFE Investments Limited                  | 171,325,404,740                | A                 | 96.35%                                       | –                                            | 67.49%                                                         | Beneficial owner                                                                              |
| The Royal Bank of Scotland Group plc <sup>1</sup> | 20,944,789,236                 | H                 | –                                            | 27.55%                                       | 8.25%                                                          | Attributable interest                                                                         |
| Temasek Holdings (Private) Limited <sup>2</sup>   | 10,481,591,118                 | H                 | –                                            | 13.79%                                       | 4.13%                                                          | Attributable interest                                                                         |
| National Council for Social<br>Security Fund, PRC | 11,317,729,129                 | H                 | –                                            | 14.89%                                       | 4.46%                                                          | Beneficial owner                                                                              |
| UBS AG                                            | 6,216,450,113                  | H                 | –                                            | 8.18%                                        | 2.45%                                                          | Attributable interest, beneficial<br>owner and person having a<br>security interest in shares |
|                                                   | 1,382,542,891 (S) <sup>3</sup> |                   |                                              | 1.82%                                        | 0.54%                                                          |                                                                                               |



Notes:

1. The Royal Bank of Scotland Group plc (RBS Group) holds the entire issued share capital of RBS CI Limited (RBS CI), which in turn holds 51.61% of RBS China Investments S.à.r.l. (RBS China). Accordingly, RBS Group and RBS CI are deemed to have the same interests in the Bank as RBS China for the purpose of the SFO. RBS China held 20,942,736,236 H Shares of the Bank. Meanwhile, RBS Group also had an interest in a total of 2,053,000 H Shares of the Bank through other subsidiaries. According to the H-Share Register of Members maintained by the H-Share Registrar of the Bank as at 31 December 2007, 20,942,736,236 H Shares were registered in the name of RBS China.
2. Temasek Holdings (Private) Limited (Temasek) holds the entire issued share capital of Fullerton Management Pte Ltd (Fullerton Management), which in turn holds the entire issued share capital of Fullerton Financial Holdings Pte Ltd (Fullerton Financial). Accordingly, Temasek and Fullerton Management are deemed to have the same interests in the Bank as Fullerton Financial for the purpose of the SFO. Fullerton Financial held 10,471,575,118 H Shares of the Bank. Meanwhile, Temasek also had an interest in a total of 10,016,000 H Shares of the Bank through other subsidiaries. According to the H-Share Register of Members maintained by the H-Share Registrar of the Bank as at 31 December 2007, 10,471,368,118 H Shares were registered in the name of Fullerton Financial.
3. 'S' denotes short positions.
4. These percentages were for shareholders' information only.

All the interests stated above represented long positions except where stated otherwise. Save as disclosed above, as at 31 December 2007, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

## The Controlling Shareholders of the Bank

### *China SAFE Investments Limited (Huijin)*

Huijin is a wholly state-owned company with limited liability. Established on 16 December 2003, the Company has a registered capital of RMB372.465 billion and paid-in capital of RMB552.1166 billion. Its legal representative is Hu Xiaolian. On behalf of the State, Huijin exercises the rights and fulfills the obligations as an investor of the Bank in accordance with the policies and arrangements relating to equity investment and reform of state-owned financial institutions approved by the State Council. Huijin does not engage in other business activities.

Please refer to the *Announcement on Matters related to the Incorporation of China Investment Corporation* published on 9 October 2007 by the Bank for details of the China Investment Corporation.

# Directors, Supervisors and Senior Management

## Basic Information

| Name                          | Age | Gender | Position                                        | Term of office                                                       |
|-------------------------------|-----|--------|-------------------------------------------------|----------------------------------------------------------------------|
| XIAO Gang                     | 49  | Male   | Chairman                                        | From August 2004 to the date of the Annual General Meeting in 2010   |
| LI Lihui                      | 55  | Male   | Vice Chairman and President                     | From August 2004 to the date of the Annual General Meeting in 2010   |
| LI Zaohang                    | 52  | Male   | Executive Director and Executive Vice President | From August 2004 to the date of the Annual General Meeting in 2010   |
| ZHOU Zaiqun                   | 55  | Male   | Executive Director and Executive Vice President | From February 2008 to the date of the Annual General Meeting in 2010 |
| ZHANG Jinghua                 | 51  | Male   | Non-Executive Director                          | From August 2004 to the date of the Annual General Meeting in 2010   |
| HONG Zhihua                   | 55  | Female | Non-Executive Director                          | From August 2004 to the date of the Annual General Meeting in 2010   |
| HUANG Haibo                   | 55  | Female | Non-Executive Director                          | From August 2004 to the date of the Annual General Meeting in 2010   |
| CAI Haoyi                     | 53  | Male   | Non-Executive Director                          | From August 2007 to the date of the Annual General Meeting in 2010   |
| WANG Gang                     | 54  | Male   | Non-Executive Director                          | From August 2007 to the date of the Annual General Meeting in 2010   |
| LIN Yongze                    | 56  | Male   | Non-Executive Director                          | From January 2008 to the date of the Annual General Meeting in 2010  |
| Frederick Anderson<br>GOODWIN | 49  | Male   | Non-Executive Director                          | From January 2006 to January 2009                                    |
| SEAH Lim Huat Peter           | 61  | Male   | Non-Executive Director                          | From June 2006 to June 2009                                          |
| Anthony Francis NEOH          | 61  | Male   | Independent Non-Executive Director              | From August 2004 to the date of the Annual General Meeting in 2010   |
| Alberto TOGNI                 | 69  | Male   | Independent Non-Executive Director              | From June 2006 to June 2009                                          |
| HUANG Shizhong                | 45  | Male   | Independent Non-Executive Director              | From August 2007 to the date of the Annual General Meeting in 2010   |
| HUANG Danhan                  | 58  | Female | Independent Non-Executive Director              | From November 2007 to the date of the Annual General Meeting in 2010 |
| LIU Ziqiang                   | 59  | Male   | Chairman of Board of Supervisors                | From August 2004 to the date of the Annual General Meeting in 2010   |
| WANG Xueqiang                 | 50  | Male   | Supervisor                                      | From August 2004 to the date of the Annual General Meeting in 2010   |
| LIU Wanming                   | 49  | Male   | Supervisor                                      | From August 2004 to the date of the Annual General Meeting in 2010   |
| LI Chunyu                     | 48  | Male   | Employee Supervisor                             | From December 2004 to December 2007                                  |
| LIU Dun                       | 44  | Male   | Employee Supervisor                             | From December 2004 to December 2007                                  |
| ZHANG Yanling                 | 56  | Female | Executive Vice President                        | From August 2004                                                     |
| ZHANG Lin                     | 51  | Female | Secretary of Party Discipline Committee         | From August 2004                                                     |
| ZHU Min                       | 55  | Male   | Executive Vice President                        | From August 2006                                                     |
| WANG Yongli                   | 43  | Male   | Executive Vice President                        | From August 2006                                                     |
| CHIM Wai Kin                  | 47  | Male   | Chief Credit Officer                            | From March 2007 to March 2011                                        |
| NG Peng Khian                 | 52  | Male   | Chief Audit Officer                             | From April 2007 to April 2011                                        |
| YEUNG Jason Chi Wai           | 53  | Male   | Secretary to the Board of Directors             | From November 2005 to November 2008                                  |

Notes:

1. Directors are elected by the Annual General Meeting with a tenure of three years. The term of office starts as of the date approved by CBRC.
2. XIAO Gang, LI Lihui, LI Zaohang, ZHANG Jinghua, HONG Zhihua, HUANG Haibo and Anthony Francis NEOH were re-elected at the 2006 Annual General Meeting.
3. During the reporting period, no director, supervisor or senior management held any shares of the Bank.



## Compensation for Directors, Supervisors and Senior Management in 2007

Unit: RMB thousand

| Name                       | Fees | Basic salaries and allowances | Including: Basic salaries | Discretionary bonuses | Contribution by the employer to compulsory insurances, housing allowances, annuities, and additional medical insurances | Total (before tax) | Whether also compensated by a controlling shareholder company or other associated companies |
|----------------------------|------|-------------------------------|---------------------------|-----------------------|-------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------------------------|
| XIAO Gang                  | –    | 520                           | 495                       | 960                   | 195                                                                                                                     | 1,675              | Yes                                                                                         |
| LI Lihui                   | 66   | 516                           | 491                       | 949                   | 185                                                                                                                     | 1,716              | Yes                                                                                         |
| HUA Qingshan               | 26   | 245                           | 232                       | 461                   | 90                                                                                                                      | 822                | Yes                                                                                         |
| LI Zaohang                 | 56   | 489                           | 464                       | 944                   | 168                                                                                                                     | 1,657              | Yes                                                                                         |
| ZHANG Jinghua              | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | Yes                                                                                         |
| YU Erniu                   | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | Yes                                                                                         |
| ZHU Yan                    | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | Yes                                                                                         |
| ZHANG Xinze                | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | Yes                                                                                         |
| HONG Zhihua                | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | Yes                                                                                         |
| HUANG Haibo                | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | Yes                                                                                         |
| CAI Haoyi                  | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | Yes                                                                                         |
| WANG Gang                  | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | Yes                                                                                         |
| Frederick Anderson GOODWIN | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | No                                                                                          |
| SEAH Lim Huat Peter        | –    | –                             | –                         | –                     | –                                                                                                                       | –                  | No                                                                                          |
| Anthony Francis NEOH       | 550  | –                             | –                         | –                     | –                                                                                                                       | 550                | No                                                                                          |
| William Peter COOKE        | 643  | –                             | –                         | –                     | –                                                                                                                       | 643                | Yes                                                                                         |
| Patrick de SAINT-AIGNAN    | 493  | –                             | –                         | –                     | –                                                                                                                       | 493                | No                                                                                          |
| Alberto TOGNI              | 362  | –                             | –                         | –                     | –                                                                                                                       | 362                | No                                                                                          |
| HUANG Shizhong             | 132  | –                             | –                         | –                     | –                                                                                                                       | 132                | No                                                                                          |
| HUANG Danhan               | 43   | –                             | –                         | –                     | –                                                                                                                       | 43                 | No                                                                                          |
| LIU Ziqiang                | –    | 489                           | 464                       | 944                   | 157                                                                                                                     | 1,590              | No                                                                                          |
| WANG Xueqiang              | –    | 345                           | 316                       | 494                   | 132                                                                                                                     | 971                | No                                                                                          |
| LIU Wanming                | –    | 343                           | 314                       | 515                   | 131                                                                                                                     | 989                | No                                                                                          |
| LI Chunyu                  | –    | 265                           | 236                       | 132                   | 83                                                                                                                      | 480                | No                                                                                          |
| LIU Dun                    | –    | 230                           | 223                       | 289                   | 75                                                                                                                      | 594                | No                                                                                          |
| ZHOU Zaiqun                | 56   | 466                           | 441                       | 898                   | 169                                                                                                                     | 1,589              | Yes                                                                                         |
| ZHANG Yanling              | 61   | 466                           | 441                       | 899                   | 175                                                                                                                     | 1,601              | Yes                                                                                         |
| ZHANG Lin                  | –    | 466                           | 441                       | 836                   | 165                                                                                                                     | 1,467              | No                                                                                          |
| ZHU Min                    | –    | 466                           | 441                       | 889                   | 163                                                                                                                     | 1,518              | No                                                                                          |
| WANG Yongli                | –    | 466                           | 441                       | 797                   | 171                                                                                                                     | 1,434              | No                                                                                          |
| CHIM Wai Kin               | –    | 6,305                         | 5,759                     | 3,552                 | 9                                                                                                                       | 9,866              | No                                                                                          |
| NG Peng Khian              | –    | 1,511                         | 1,268                     | 1,522                 | 9                                                                                                                       | 3,042              | No                                                                                          |
| YEUNG Jason Chi Wai        | –    | 2,865                         | 2,576                     | 730                   | 218                                                                                                                     | 3,813              | Yes                                                                                         |

Notes:

1. The Chairman of the Board signed an agreement to waive emoluments paid to him as a director of BOCHK in 2007.
2. Independent Non-Executive Directors receive compensation in accordance with the Resolution of the Extraordinary Shareholders' Meeting held on 30 December 2004 and the Resolution of the 2006 Annual General Meeting. Supervisors receive compensation in accordance with the Resolution of the 2005 Second Extraordinary Shareholders' Meeting. Independent Non-Executive Directors and Supervisors' compensation is proposed by the Personnel and Compensation Committee under the Board, reviewed by the Board of Directors and approved by the Shareholders' Meeting. Senior Management members receive compensation in accordance with Measures on Senior Management's Remuneration of Bank of China. Employee Supervisors receive compensation as staff in accordance with the Staff Compensation Scheme of Bank of China. Non-executive Directors employed by corporate shareholder of the Bank do not receive compensation from the Bank and are compensated by their respective employer.
3. Discretionary bonuses to be paid to the Directors and Supervisors listed above shall be decided in the Annual General Meeting scheduled on 19 June 2008.
4. Compensations for 2007 for the Directors, Supervisors and Senior Management listed in the above table have been reviewed by the Personnel and Compensation Committee and the Board of Directors of the Bank, which shall not exceed the sum disclosed in this Report.
5. Compensations for HUA Qingshan, William Peter COOKE, HUANG Shizhong, HUANG Danhan, CHIM Wai Kin and NG Peng Khian are calculated on the basis of their respective actual months working with the Bank. Please refer to 'Changes in Directors, Supervisors and Senior Management' of this Section for details of changes in the directors, supervisors and senior management.

The Bank compensates Executive Directors, Supervisors and Senior Management members who are employed by the Bank with salaries, bonuses, benefits in kind, pensions, employer's contribution to their compulsory insurances and housing allowances. Independent Non-executive Directors receive directors' fees and allowances. Non-executive Directors are not compensated with salary or director's fees by the Bank.

In 2007, the Bank paid RMB37,047,000 in aggregate to its Directors, Supervisors and Senior Management members, in which RMB2,295,000 were for compulsory insurances, additional insurances and housing allowances.

Unit: RMB thousand

|                                                                |        |
|----------------------------------------------------------------|--------|
| Total fees and compensation                                    | 37,047 |
| Independent Non-Executive Directors' fees and other emoluments | 2,223  |

| Compensation range                                 | Number of persons |
|----------------------------------------------------|-------------------|
| RMB9,000 thousand to RMB9,999 thousand (inclusive) | 1                 |
| RMB4,000 thousand to RMB8,999 thousand (inclusive) | 0                 |
| RMB3,000 thousand to RMB3,999 thousand (inclusive) | 2                 |
| RMB2,000 thousand to RMB2,999 thousand (inclusive) | 0                 |
| RMB1,000 thousand to RMB1,999 thousand (inclusive) | 9                 |
| RMB100 thousand to RMB999 thousand (inclusive)     | 10                |
| Below RMB99 thousand                               | 1                 |

## Holding of Positions in Shareholding Companies by Directors, Supervisors and Senior Management

During the reporting period and save as disclosed, none of the Bank's directors, supervisors or senior management held any position in the shareholding companies of the Bank.



## Working Experience and Other Positions held by Directors, Supervisors and Senior Management

### *Directors*



**CHEN Muhua,  
Honorary Chairperson**

has been the Honorary Chairperson of the Board of Directors since August 2004. Madam Chen is the former Vice Chairperson of the Standing Committee of the National People's Congress of China.



**XIAO Gang,  
Chairman**

has served as Chairman of the Board of Directors since March 2003. He also served as President of the Bank from March 2003 to August 2004. From October 1996 to March 2003, Mr. Xiao served as Deputy Governor and Assistant Governor of the People's Bank of China (PBOC). During this period, he was also Director General of the Fund Planning Department and the Monetary Policy Department of PBOC, Governor of the Guangdong Branch of PBOC and Governor of the Guangdong Branch of the State Administration of Foreign Exchange. From May 1989 to October 1996, Mr. Xiao held various positions at PBOC, including Deputy Director General, Director General of the Policy Research Office, General Manager of the China Foreign Exchange Trading Center and Director General of the Fund Planning Department. Mr. Xiao graduated from the Finance Department of Hunan Institute of Finance and Economics in 1981 majoring in Finance and was awarded a Master's degree in International Economic Law by Renmin University of China in 1996. Mr. Xiao has been serving as Chairman of the Board of Directors of BOCHK Holdings since May 2003.



**LI Lihui,  
Vice Chairman and  
President**

has served as Vice Chairman of the Board of Directors and President of the Bank since August 2004. From September 2002 to August 2004, Mr. Li served as Deputy Governor of Hainan Province, and from July 1994 to September 2002, Mr. Li was an Executive Vice President of Industrial and Commercial Bank of China (ICBC). From January 1989 to July 1994, he served in a number of positions at ICBC, including Deputy General Manager of the Fujian Branch, Chief Representative of the Singapore Representative Office and General Manager of the International Business Department. Since June 2005, Mr. Li has been serving as Chairman of Board of Directors in BOCI. Mr. Li has also served as Chairman of Bohai Industry Investment Management Ltd. since December 2006. Mr. Li graduated from the Economics Department of Xiamen University, and also holds an Economics Doctorate degree from the Guanghua School of Management at Peking University.



**LI Zaohang,  
Executive Director and  
Executive Vice President**

has served as Executive Director of the Bank since August 2004. He joined the Bank in November 2000 and has served as Executive Vice President since then. From November 1980 to November 2000, Mr. Li served in various capacities at China Construction Bank, including Branch General Manager, General Manager of various departments of the Head Office and Executive Vice President. Mr. Li graduated from Nanjing University of Information Science and Technology in 1978. Since June 2002, Mr. Li has been serving as a Non-Executive Director of BOCHK Holdings.



**ZHOU Zaiqun,  
Executive Director and  
Executive Vice President**

has served as Executive Director of the Bank since February 2008. He has been the Executive Vice President of the Bank since November 2000. Mr. Zhou also served as Executive Vice President and Director of Master Card International, Asia-Pacific since March 2004. Prior to joining the Bank, Mr. Zhou was the General Manager of the Beijing Branch of ICBC from December 1999 to November 2000 and the General Manager of the Accounting Department and Financial Planning Department of ICBC from January 1997 to December 1999. Mr. Zhou received a Master's degree from the China Northeast University of Finance and Economics in 1997. Since June 2002, Mr. Zhou has been serving as Non-Executive Director of BOCHK Holdings.



**ZHANG Jinghua,**  
**Non-Executive Director**

has served as Non-Executive Director of the Bank since August 2004. Mr. Zhang worked with the China Securities Regulatory Commission from January 1993 to August 2004 in various capacities, including Director General of Listed Companies Department, Director General of Market Supervision Department, Director General of Fund Supervision Department, Director General of International Cooperation Department and a member of the Planning and Development Commission. Mr. Zhang graduated from China Northeast Forestry Institute in 1982 and obtained an MBA from the State University of New York in 1988.



**HONG Zhihua,**  
**Non-Executive Director**

has served as Non-Executive Director of the Bank since August 2004. Ms. Hong previously worked for the State Administration of Foreign Exchange from January 1982 to August 2004 in various capacities, including Deputy Director General of the Policy and Regulation Department, Deputy Director General of the International Balance Department and Inspector of the General Affairs Department. Ms. Hong is a senior economist and graduated from Yunnan University with a Bachelor's degree in Chinese Literature in 1982.



**HUANG Haibo,**  
**Non-Executive Director**

has served as Non-Executive Director of the Bank since August 2004. Ms. Huang worked with PBOC from August 1977 to August 2004 in various capacities, including Deputy Director General of the Treasury Bureau. Ms. Huang graduated from the Accounting Department, Shanxi Finance University. She is a senior accountant and Certified Public Accountant of the Chinese Institute of Certified Public Accountants.



**CAI Haoyi,**  
**Non-Executive Director**

has served as Non-Executive Director of the Bank since August 2007. Mr. Cai worked in several positions in PBOC from 1986 to 2007, including Deputy Director of the Graduate School of PBOC, Deputy Director General of Financial Research Institute of PBOC, Deputy Director General of the Research Bureau, Secretary General of the Monetary Policy Committee and Deputy Director General of the Monetary Policy Department. Mr. Cai holds the profession title of research fellow, and currently serves as the tutor for postgraduate students of Financial Research Institute of PBOC, the tutor for doctoral students of the China University of International Business and Economics, and a member of China Society for Finance and Banking. He graduated from Economics Department of Peking University in 1983 with the bachelor's degree in economics. In 1986, he graduated from the Graduate School of PBOC with the master's degree in economics. In 1995, he continued the doctoral programme of economics in the Graduate School of PBOC and obtained his Ph.D. in 2001.



**WANG Gang,**  
**Non-Executive Director**

has served as Non-Executive Director of the Bank since August 2007. Mr. Wang worked in several positions in the Ministry of Finance from 1989 to 2007, including official at Income Tax Division and Tax Policy Division and Deputy Director of International Tax Division, Director of Turnover Tax Division of Tax Policy Department, and Deputy Inspector of Tax Policy Department. Mr. Wang graduated from Finance Department of Central University of Finance and Economics in 1983, majoring in Public Finance. He received a master's degree in economics from the Tax Department of Central University of Finance and Economics in 1988 and a master's degree in taxation from the School of Business and Public Administration of George Washington University in 1998.



**LIN Yongze,**  
**Non-Executive Director**

has served as Non-Executive Director of the Bank since January 2008. Mr. Lin worked in several positions in the Ministry of Finance from 1986 to July 2007, including Deputy Director and Director of the Agricultural Finance Department, Agricultural Taxation Department and Tax Policy Department, researcher of Tax System and Rule Department and Tax Policy Department, member of the Rural Tax and Fee Reform Working Group Office of the State Council, Deputy Director General of Tax Policy Department, Deputy Director General of Xinjiang Finance Department, and Deputy Inspector of Tariff Policy Department. Mr. Lin graduated from Sun Yat-Sen University in 1976 with a bachelor's degree.



**Sir Frederick Anderson  
GOODWIN,  
Non-Executive Director**

has served as Non-Executive Director of the Bank since January 2006. Sir Frederick Goodwin is the Group Chief Executive of the RBS Group (the holding company of one of the world's largest banking and financial services groups with its primary listing on the London Stock Exchange). Prior to joining RBS Group in 1998, he served as Chief Executive of Clydesdale Bank Plc from 1995 to 1998 and was a partner of Touche Ross from 1988 to 1995. Sir Frederick Goodwin is currently the Chairman of the Prince's Trust. Sir Frederick Goodwin graduated from University of Glasgow with a Bachelor's degree in Law in 1979. RBS China, one of the Bank's strategic investors, is a subsidiary of RBS Group. Since August 1998, Sir Frederick Goodwin has served as Director of the RBS Group.



**SEAH Lim Huat Peter,  
Non-Executive Director**

has served as Non-Executive Director of the Bank since June 2006. Mr. Seah is currently a member of the Temasek Advisory Panel of Temasek Holdings Pte. Ltd. Mr. Seah served as president and chief executive officer of Singapore Technologies Pte. Ltd. from 2001 to 2004. Prior to that, Mr. Seah built up his career in the banking industry over a 32-year period. Mr. Seah held various key positions at Singapore's Overseas Union Bank Limited, including chief executive officer from 1991 to 2001. He was executive director and chief executive of International Bank of Singapore Ltd. from 1985 to 1991. Mr. Seah graduated from the University of Singapore in 1968 with a Bachelor's degree (Honours) in business administration. Mr. Seah is also a director of Capitaland Limited since 2001, Chartered Semiconductor Manufacturing Ltd. since 2002, SembCorp Industries Ltd since 1998, Siam Commercial Bank Public Company Limited since 1999, Star Hub Ltd. since 2002, Global Crossing Limited since 2003, Singapore Computer Systems Limited since 2005, Stats ChipPAC Ltd. since 2002, and PT Indosat Tbk since 2004, all of which are companies listed on the securities exchanges of Singapore, Thailand, Indonesia and/or the United States.



**Anthony Francis NEOH,  
Independent Non-  
Executive Director**

has served as Independent Non-Executive Director of the Bank since August 2004. Mr. Neoh currently serves as a member of the International Consultation Committee of CSRC and a member of the Basic Law Committee of the Hong Kong Special Administrative Region under the Standing Committee of the National People's Congress of China. Mr. Neoh previously served as Chief Advisor to CSRC, Chairman of the Hong Kong Securities and Futures Commission, a member of the Hong Kong Stock Exchange Council and its Listing Committee, Deputy Judge of the Hong Kong High Court, and Administrative Officer of the Hong Kong Government. From 1996 to 1998, Mr. Neoh was Chairman of the Technical Committee of the International Organisation of Securities Commissions. Mr. Neoh was appointed as Queen's Counsel (currently retitled as Senior Counsel) in Hong Kong in 1990. Mr. Neoh graduated from the University of London with an honours degree in Law in 1976. Mr. Neoh is a barrister of England and Wales and admitted to the State Bar of California. Mr. Neoh was a Non-Executive Director of Global Digital Creations Holdings Limited from November 2002 to December 2005, and an Independent Non-Executive Director of the Link Management Limited, manager of the Link Real Estate Investment Trust, from September 2004 to March 2006. Since November 2004, Mr. Neoh has been serving as Independent Non-Executive Director of China Shenhua Energy Co., Limited. Global Digital Creations Holdings Limited are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange, China Shenhua Energy Company Limited and the units of the Link Real Estate Investment Trust, respectively, are listed on the Main Board of the Hong Kong Stock Exchange.



**Alberto TOGNI,  
Independent Non-  
Executive Director**

has served as Independent Non-Executive Director of the Bank since June 2006. Mr. Togni joined Swiss Bank Corporation, the predecessor of UBS AG in 1959 and after the establishment of UBS AG through merging Swiss Bank Corporation and Union Bank of Switzerland in 1998, continued in UBS AG's employment until his retirement in April 2005. During his 46-year career with Swiss Bank Corporation and (after 1998) UBS AG, Mr. Togni served in various capacities. From 1998 to 2005, he was Executive Vice Chairman of UBS AG overseeing the risk profile of the group. From 1994 to 1997, he was group Chief Credit Officer and group chief risk officer at Swiss Bank Corporation. Prior to 1994, he held various positions at Swiss Bank Corporation in charge of the bank's worldwide credit portfolio. Mr. Togni held a banking certificate from the Swiss Business School. He graduated in 1965 from the New York Institute of Finance with a degree in investment analysis.



**HUANG Shizhong,  
Independent Non-  
Executive Director**

has served as Independent Non-Executive Director since August 2007. Mr. Huang currently serves as Vice President of Xiamen National Accounting Institute and professor of Accounting Department of Xiamen University. Mr. Huang graduated in 1986 from Dalhousie University in Canada with an MBA, and received his Ph.D of Economics (with accounting focus) in 1993 from Xiamen University. He has served as managing partner of Pan-China Xiamen CPA firm, deputy dean of the Management School of Xiamen University. Currently, Mr. Huang also serves as a member of the Education Steering Committee of the National Master Programme of Professional Accounting, adviser to the Accounting Standards Committee of the Ministry of Finance, member of Standing Committee of the Chinese Accounting Association, member of the Auditing Standards Committee of the Chinese Institute of Certified Public Accountants. He serves as Independent Non-Executive Director in Xiamen International Airport Group Co., Ltd., Xiamen International Port Co., Ltd. (listed on The Stock Exchange of Hong Kong Limited), Xiamen Tungsten Co., Ltd and Penghua Fund Management Co., Ltd.



**HUANG Danhan,  
Independent Non-  
Executive Director**

has served as Independent Non-Executive Director since November 2007. Mdm. Huang currently serves as Senior Advisor of EU-China Trade Project in trade in services, and is a Partner of Sinobridge PRC Lawyers. Mdm. Huang graduated from the Law School of Robert Schuman University of Strasbourg, France with a State Doctor's degree in Law in 1987, being the first PRC scholar receiving such degree in France in a social science discipline. Since returning to China, Mdm. Huang has successively worked in Ministry of Foreign Trade and Economic Cooperation (now Ministry of Commerce), university, lawyer firm and state-owned trading companies and financial institutions, including General Manager of Legal Department, China Construction Bank (August 1999 – March 2001), and General Counsel, China Galaxy Securities Company Limited (April 2001 – September 2004). Mdm. Huang also served as a member of the First Session of the Public Offering Examination and Approval Commission under CSRC (1993 – 1995). Mdm. Huang has been serving as PRC Director of West African Development Bank since September 2007 and her term of office will expire in August 2009.



## Supervisors



**LIU Ziqiang,  
Chairman of Board of  
Supervisors**

has served as Chairman of the Board of Supervisors of the Bank since August 2004. Mr. Liu was also the Chairman of the Board of Supervisors before the corporate restructuring of the Bank from July 2003 to August 2004. He was Chairman of the Board of Supervisors of the Agricultural Development Bank of China from June 2000 to July 2003, and Vice President of the China Construction Bank from April 1997 to June 2000 and General Manager of the Planning Department of China Construction Bank from February 1995 to April 1997. From November 1986 to May 1994, Mr. Liu held various positions in financial institutions in Shenzhen, including Chief of the Shenzhen Development Bank Preparation Team, Deputy General Manager of Shenzhen Agricultural Bank, and Acting President, Board Chairman and General Manager of Shenzhen Development Bank. Mr. Liu received a Master's degree in Economics from the Graduate School of PBOC in 1984.



**WANG Xueqiang,  
Supervisor**

has been a Director-General Supervisor of the Bank since August 2004. Mr. Wang served as Deputy Director-General Supervisor and Director-General Supervisor of the Bank before its corporate restructuring from July 2003 to August 2004. From October 2001 to July 2003, Mr. Wang served as Deputy Director-General Supervisor designated by the State Council at the Agricultural Development Bank of China. Mr. Wang worked for MOF and the Central Financial Working Commission from April 1985 to October 2001. Mr. Wang obtained two Bachelor's degrees from China Central University of Finance and Economics in 1996 and from Renmin University of China in 1998. Mr. Wang is a Certified Public Accountant qualified by the Chinese Institute of Certified Public Accountants.



**LIU Wanming,  
Supervisor**

has been a Deputy Director-General Supervisor of the Bank since August 2004. From November 2001 to August 2004, designated by the State Council, he served as a Director Supervisor and a Deputy Director-General Supervisor at Bank of Communications. From August 1984 to November 2001, Mr. Liu worked with the National Audit Office, the Agricultural Development Bank of China and the Central Financial Working Commission. Mr. Liu received a Bachelor's degree in Economics from Jiangxi University of Finance in 1984.



**LI Chunyu,  
Employee Supervisor**

has served as Employee Supervisor of the Bank since December 2004. Since August 2000, Mr. Li has served as Chairman of the Labour Union of the Bank's Head Office. From 1992 to July 2000, he worked in the Human Resources Department of the Bank. Mr. Li holds a secondary college diploma.



**LIU Dun,  
Employee Supervisor**

has served as Employee Supervisor of the Bank since December 2004. Since 1991, Mr. Liu has worked in Shandong Branch and Fujian Branch of the Bank. He is currently the Chief Audit Officer of the Bank's Fujian Branch. Mr. Liu received a Master's degree in Economics from the University of Science and Technology of China in 1991.



## ***Senior Management***



**LI Lihui,  
Vice Chairman and  
President**

Please refer to the 'Directors'



**LI Zaohang,  
Executive Director and  
Executive Vice President**

Please refer to the 'Directors'



**ZHOU Zaiqun,  
Executive Director and  
Executive Vice President**

Please refer to the 'Directors'



**ZHANG Yanling,  
Executive Vice President**

has served as Executive Vice President of the Bank since March 2002. Ms Zhang joined the Bank in 1977. From October 2000 to March 2002, she was an Executive Assistant President of the Bank. From April 1997 to August 2002, Ms Zhang successively served as General Manager of the Banking Department, General Manager of the Milan Branch and General Manager of the Legal Affairs Department. Ms Zhang has also served as Vice Chairperson of the International Chamber of Commerce Banking Commission since July 2003. Ms Zhang graduated from Liaoning University in 1977 and received a Master's degree from Wuhan University in 1999. Since June 2002, Ms Zhang has been serving as Non-Executive Director of BOCHK Holdings. Since September 2003, Ms Zhang has been in succession serving as Chairperson and Vice Chairperson of the Board of Directors in BOCI.



**ZHANG Lin,**  
**Secretary of Party**  
**Discipline Committee**

has served as Secretary of Party Discipline Committee of the Bank since August 2004. Prior to joining the Bank, Ms Zhang held various positions in the Export and Import Bank of China, including Assistant President from June 2002 to August 2004 and Deputy Director General and Director General of its Personnel Education Department from August 1998 to July 2002. Majoring in Economics and Political Sciences, Ms Zhang graduated from the Party School of the Inner Mongolia Autonomous Region's Communist Party Committee in 1983.



**ZHU Min,**  
**Executive Vice President**

has served as Executive Vice President of the Bank since August 2006. Mr. Zhu joined the Bank in 1996 and served as Executive Assistant President of the Bank from November 2003 to August 2006. Mr. Zhu sequentially served as General Manager of the Institution of International Finance of the Bank, Chief of the BOCHK Restructuring and Listing Office for BOCHK IPO, and then General Manager of BOC Restructuring and Listing Office for BOC IPO. He also served as General Manager of the Board Secretariat of BOCHK. Mr. Zhu graduated from Fudan University with a Bachelor's degree in 1982. He also obtained a Master's Degree from Princeton University and a Ph.D. degree from Johns Hopkins University.



**WANG Yongli,**  
**Executive Vice President**

has served as Executive Vice President of the Bank since August 2006. Mr. Wang joined the Bank in 1989 and served as Executive Assistant President of the Bank since November 2003 to August 2006. From April 1999 to January 2004, Mr. Wang held various positions in the Bank, including General Manager of the Asset-Liability Management Department, Acting Deputy General Manager and General Manager of the Fujian Branch, General Manager of the Hebei Branch. Mr. Wang graduated from Renmin University of China with a Master's degree in 1987. He also obtained a Doctor's degree from Xiamen University in 2005.



**CHIM Wai Kin,  
Chief Credit Officer**

has served as Chief Credit Officer of the Bank since March 2007. Prior to joining the Bank, Mr. Chim held various positions in Standard Chartered Bank, Bankers Trust Company and Deutsche Bank. During working with Deutsche Bank, Mr. Chim served as Managing Director and Chief Credit Officer (Non-Japan Asia). Mr. Chim graduated from Chinese University of Hong Kong with a Bachelor of Science in 1983, and obtained an MBA from Indiana State University, United States in 1985.



**NG Peng Khian,  
Chief Audit Officer**

has served as Chief Audit Officer since April 2007. Prior to joining the Bank, Mr. Ng worked in Singapore DBS Bank as Managing Director and Chief Internal Auditor, and served as Senior Vice President and Head of Internal Audit in CISCO Security Pte Ltd. Mr. Ng graduated from Nanyang University, Singapore, with a Bachelor of Science in 1980. Mr. Ng has the qualifications of Certified Internal Auditor and Certified Information Systems Auditor.



**YEUNG Jason Chi Wai,  
Secretary to the Board  
of Directors**

was appointed as Board and Company Secretary of the Bank in November 2005. Mr. Yeung is also the Board and Company Secretary of BOCHK Holdings and BOCHK. Prior to joining BOCHK, Mr. Yeung was the General Counsel and a Director of China Everbright Limited and, before that, a partner of Woo, Kwan, Lee & Lo. He has also served at the Securities and Futures Commission of Hong Kong as Corporate Finance Manager. Mr. Yeung graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1978. He also graduated from the College of Law, UK in 1985 and further obtained a Bachelor's degree in Law from the University of Western Ontario, Canada in 1991 and an MBA from the Richard Ivey Business School, University of Western Ontario, Canada in 2001.



## Changes in Directors, Supervisors and Senior Management

The Board of the Bank held an election on Directors during the reporting period. New directors were elected to the Board:

1. Mr. CAI Haoyi started to serve as Non-Executive Director as of 23 August 2007.
2. Mr. WANG Gang started to serve as Non-Executive Director as of 23 August 2007.
3. Mr. HUANG Shizhong started to serve as Independent Non-Executive Director as of 23 August 2007.
4. Ms HUANG Danhan started to serve as Independent Non-Executive Director as of 16 November 2007.
5. Mr. LIN Yongze started to serve as Non-Executive Director as of 22 January 2008.
6. Mr. ZHOU Zaiqun started to serve as Executive Director as of 3 February 2008.

The following directors ceased to be Directors of the Bank:

1. Mr. HUA Qingshan ceased to be Executive Director as of 15 June 2007.
2. Mr. YU Erniu ceased to be Non-Executive Director as of 23 August 2007.
3. Ms ZHU Yan ceased to be Non-Executive Director as of 23 August 2007.
4. Mr. ZHANG Xinze ceased to be Non-Executive Director as of 23 August 2007.
5. Mr. William Peter COOKE ceased to be Independent Non-Executive Director as of 16 November 2007.
6. Mr. Patrick de SAINT-AIGNAN ceased to be Independent Non-Executive Director as of 14 January 2008.

There was no change in the Bank's Supervisors during the reporting period.

During the reporting period, changes in the Bank's Senior Management were as follows:

1. The Bank appointed Mr. CHIM Wai Kin as Chief Credit Officer in March 2007 and Mr. NG Peng Khian as Chief Audit Officer in April 2007 through global recruitment.
2. Executive Vice President HUA Qingshan resigned on 15 June 2007 for new job appointment.



We pursue **Innovation**



# Corporate Governance



In 2007, in compliance with the PRC Company Law, PRC Commercial Banking Law and regulatory requirements promulgated by regulatory authorities, and based on its actual experience, the Bank promoted sound corporate governance and the improvement of its corporate governance framework as a modern joint-stock company, which is composed of the Shareholders' Meeting, the Board of Directors, the Board of Supervisors and Senior Management. This was effected by continuously updating regulatory documents concerning corporate governance and optimising the structure of the Board of Directors throughout the year. By following the responsibilities set forth in the Articles, all parties functioned independently in compliance with the relevant laws and exercised their rights and obligations respectively.

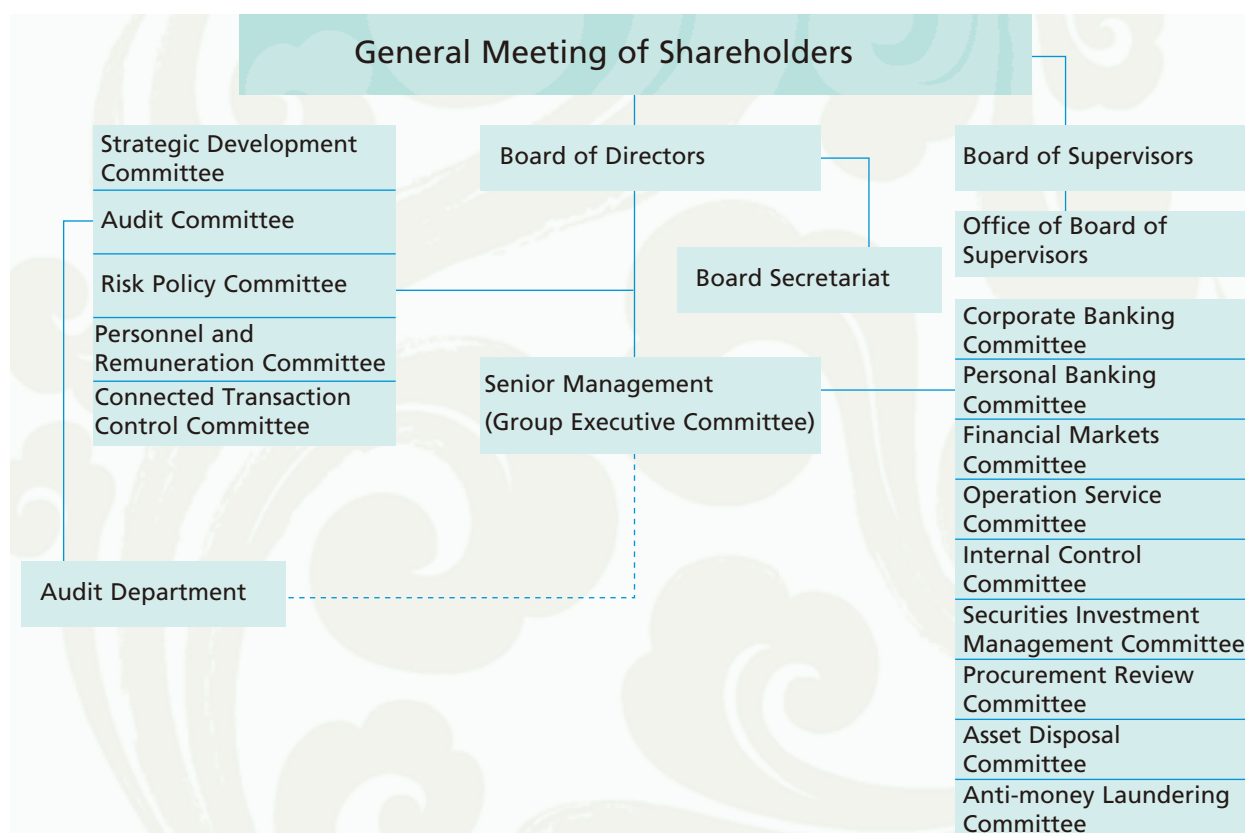
During the reporting period, the Bank amended the Articles of Association, the Procedural Rules for Shareholders' Meeting, the Procedural Rules for Board of Directors and the Procedural Rules for Board of Supervisors, held the 2006 Annual General Meeting of Shareholders and 2007 First Extraordinary Shareholders' Meeting, and completed the re-election of directors and adjustment of the members of special committees under the Board of Directors. In order to receive the supervision of investors and the general public on the Bank's corporate governance and foster healthy interaction with them, the Bank applied for and successfully joined the 'SSE Corporate Governance Sector' during the reporting period.

The Bank has adopted measures to enable it to observe the Code on Corporate Governance Practices (the Code) as set out in Appendix 14 of the Hong Kong Listing Rules which were effective as of 1 January 2005. The Bank has complied with the Code provisions and most of the recommended best practices set out in the Code. The Bank also observes the laws and regulations of the places as well as the various provisions and guidelines of the local regulatory authorities where it has business operations.



## Corporate Governance Framework

The Bank's corporate governance framework is shown below:



## Shareholders and Shareholders' Meeting

The Shareholders' Meeting is the highest authority within the Bank. The Bank establishes an effective channel for communicating with shareholders to ensure that all shareholders are treated equally, are properly informed and are able to participate in and exercise their voting and other rights on major issues of the Bank. The Bank has independence and complete autonomy in its business operations, and operates independently and separately from its controlling shareholder – China SAFE Investments Limited in business, personnel, asset, institutional and financial matters.

During the reporting period, the Bank held the first Annual General Meeting of Shareholders after its IPO on 14 June 2007. The Annual General Meeting was convened and held in strict compliance with the listing rules of Shanghai and Hong Kong. The voting shares held by the A-Share and H-Share holders, as well as their authorised proxies who attended the Annual General Meeting, accounted for 86% of the total shares of the Bank. All the directors and supervisors together with certain senior management members attended the meeting and responded to the enquiries of shareholders. The meeting considered and approved such proposals as the 2006 annual report, the profit distribution plan for the year 2006, the re-appointment of the accounting firms and the election and re-election of directors and supervisors, among other matters. Two proposals were also passed during the

meeting, i.e. the amendment to the Articles of Association of the Bank and the issue of Renminbi-denominated bonds in Hong Kong for an amount not exceeding RMB3 billion by means of special resolutions.

The Bank held its 2007 First Extraordinary Shareholders' Meeting on 24 December 2007, during which it considered and adopted the proposal for election of Mr. Zhou Zaiqun as Executive Director of the Bank. The voting shares held by the A-Share and H-Share holders and their authorised proxies present at the meeting accounted for 87% of the total shares of the Bank.

In 2007, the Bank published the resolutions and the legal opinions of the Annual General Meeting of Shareholders and the Extraordinary Shareholders' Meeting in the newspapers designated by the Bank for information disclosure and on its website on 15 June and 25 December respectively.

## Implementation of the Resolutions of the Shareholders' Meeting by the Board of Directors

The Board of Directors earnestly and fully implemented the resolutions passed at the Annual General Meeting of Shareholders and the Extraordinary Shareholders' Meeting during the reporting period.

## Directors and the Board of Directors

Being responsible for the Shareholders' Meeting, the Board of Directors is the Bank's decision-making body. In 2007, the Bank re-elected members of the Board of Directors, which currently comprises 16 members. Other than the Chairman, there are three Executive Directors, eight Non-Executive Directors and four Independent Non-Executive Directors. For a detailed background on the changes in the Board members, please refer to the

section 'Directors, Supervisors and Senior Management' in this annual report.

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee, and Connected Transactions Control Committee, which assist the Board in performing its functions. The positions of the Chairman and the President are assumed by two persons with a view to avoiding undue concentration of authority.

Mr. Xiao Gang, Chairman of the Bank, also serves as Chairman of BOCHK Holdings, and Executive Directors Messrs Li Zaohang and Zhou Zaiqun also serve as Non-Executive Directors of BOCHK Holdings.

The Bank renewed the Directors and Officers liability insurance in 2007 for members of the Board to provide protection against claims arising from the lawful discharge of duties on the part of the Directors.

In 2007, the Board of Directors held seven meetings (including one extraordinary meeting) respectively on 9 February, 22 March, 27 April, 14 June, 23 August, 30 October and 13 December, and passed seven written resolutions. The resolutions relate mainly to the Bank's financial budget, regular reports, profit distribution plan, amendment to the Articles of Association, amendment to the Procedural Rules for Shareholders' Meeting and the Procedural Rules for Board of Directors, Corporate Governance Self-Inspection Report and Rectification Plan, the Audit Charter, appointment of external auditors, remuneration management measures and performance targets for senior management, performance evaluation and distribution of bonuses for senior management, appointment of directors, revision of the Information Disclosure Policy of the Bank, market risk limits and the issue of RMB-denominated bonds in Hong Kong for an amount not exceeding RMB3 billion. The Board also reviewed the self-evaluation of internal control, the management report rendered by the external auditors and the response of the Management, improvement of the securities investment decision-making mechanism and the progress report on the implementation of the IT blueprint.



The average attendance rate of the board meetings reached 97% for the year 2007. The attendance rate of each director is shown below:

| Director                                | Number of Board Meetings Attended <sup>1</sup> | Attendance Rate |
|-----------------------------------------|------------------------------------------------|-----------------|
| XIAO Gang                               | Attended 7 out of a total of 7 meetings        | 100%            |
| LI Lihui                                | Attended 7 out of a total of 7 meetings        | 100%            |
| HUA Qingshan <sup>2</sup>               | Attended 4 out of a total of 4 meetings        | 100%            |
| LI Zaohang                              | Attended 7 out of a total of 7 meetings        | 100%            |
| ZHANG Jinghua                           | Attended 7 out of a total of 7 meetings        | 100%            |
| YU Erniu <sup>2</sup>                   | Attended 4 out of a total of 4 meetings        | 100%            |
| ZHU Yan <sup>2</sup>                    | Attended 4 out of a total of 4 meetings        | 100%            |
| ZHANG Xinze <sup>2</sup>                | Attended 4 out of a total of 4 meetings        | 100%            |
| HONG Zhihua                             | Attended 7 out of a total of 7 meetings        | 100%            |
| HUANG Haibo                             | Attended 7 out of a total of 7 meetings        | 100%            |
| CAI Haoyi <sup>2</sup>                  | Attended 3 out of a total of 3 meetings        | 100%            |
| WANG Gang <sup>2</sup>                  | Attended 3 out of a total of 3 meetings        | 100%            |
| Frederick Anderson GOODWIN <sup>3</sup> | Attended 4 out of a total of 7 meetings        | 57%             |
| SEAH Lim Huat Peter                     | Attended 7 out of a total of 7 meetings        | 100%            |
| Anthony Francis NEOH <sup>4</sup>       | Attended 6 out of a total of 7 meetings        | 86%             |
| William Peter COOKE <sup>2</sup>        | Attended 6 out of a total of 6 meetings        | 100%            |
| Patrick de SAINT-AIGNAN <sup>2</sup>    | Attended 7 out of a total of 7 meetings        | 100%            |
| Alberto TOGNI                           | Attended 7 out of a total of 7 meetings        | 100%            |
| HUANG Shizhong <sup>2</sup>             | Attended 3 out of a total of 3 meetings        | 100%            |
| HUANG Danhan <sup>2</sup>               | Attended 1 out of a total of 1 meeting         | 100%            |

Notes:

1. 'Number of board meetings attended' refers to the number of meetings that a director actually attended out of the number a director was required to attend during the reporting period.
2. For the commencement and termination of the directors' terms of office, please refer to the section 'Changes in Directors, Supervisors and Senior Management'.
3. Non-Executive Director Sir Frederick Anderson Goodwin was unable to personally attend the board meetings held on 27 April, 30 October and 13 December. He entrusted another director to attend and exercise the voting right on his behalf at these meetings.
4. Independent Non-Executive Director Anthony Francis Neoh was unable to personally attend the board meeting held on 27 April. He entrusted another director to attend and exercise the voting right on his behalf at the meeting.

## The Strategic Development Committee

The Strategic Development Committee comprises 11 members, including the Chairman of the Board, one executive director, eight non-executive directors and one independent non-executive director. Mr. Xiao Gang serves as Chairman of the Committee. Committee members include Li Lihui, Zhang Jinghua, Hong Zhihua, Huang Haibo, Cai Haoyi, Wang Gang, Lin Yongze<sup>1</sup>, Frederick Anderson Goodwin, Seah Lim Huat Peter and Alberto Togni. The committee is mainly responsible for:

- Reviewing the strategic development plan submitted by the management;
- Assessing external factors relevant to the Bank's strategy and its implementation;
- Reviewing the annual budget, strategic capital allocation (capital structure, capital adequacy ratio and risk-return balance policy) and asset and liability management objective;
- Coordinating the overall development strategy for various financial business lines;
- Coordinating the development strategies of domestic and overseas branches and subsidiaries, and making decisions on incorporation, dissolution and capital increase/decrease of domestic and overseas branches and subsidiaries within its authorisation;
- Reviewing the Bank's major investment and financing plans;
- Reviewing the Bank's merger and acquisition plans;
- Reviewing the Bank's major institutional restructuring and adjustment plans; and
- Reviewing the Bank's IT development plan and other special strategic development plans.

The Strategic Development Committee held six meetings (including two extraordinary meetings) in 2007. At these meetings, the Committee reviewed proposals covering the Bank's profit distribution for 2006 and related matters; Strategic Risk Management Policy of the Bank of China; the report on the capital increase to BOCG Insurance Co., Ltd; the business plan and financial budget for 2008; and the Procedural Rules of the Strategic Development Committee of the Board of Directors (revised).



The average attendance rate of the meetings of the Strategic Development Committee reached 92%, and the attendance rates of the relevant directors are shown as below:

| Director                   | Number of Committee Meetings Attended <sup>2</sup> | Attendance Rate |
|----------------------------|----------------------------------------------------|-----------------|
| XIAO Gang                  | Attended 6 out of a total of 6 meetings            | 100%            |
| LI Lihui                   | Attended 6 out of a total of 6 meetings            | 100%            |
| ZHANG Jinghua              | Attended 6 out of a total of 6 meetings            | 100%            |
| YU Erniu                   | Attended 5 out of a total of 5 meetings            | 100%            |
| ZHU Yan                    | Attended 4 out of a total of 5 meetings            | 80%             |
| ZHANG Xinze                | Attended 5 out of a total of 5 meetings            | 100%            |
| HONG Zhihua                | Attended 6 out of a total of 6 meetings            | 100%            |
| HUANG Haibo                | Attended 6 out of a total of 6 meetings            | 100%            |
| CAI Haoyi                  | Attended 1 out of a total of 1 meeting             | 100%            |
| WANG Gang                  | Attended 1 out of a total of 1 meeting             | 100%            |
| Frederick Anderson GOODWIN | Attended 4 out of a total of 6 meetings            | 67%             |
| SEAH Lim Huat Peter        | Attended 4 out of a total of 6 meetings            | 67%             |
| Alberto TOGNI              | Attended 5 out of a total of 6 meetings            | 83%             |

Notes:

1. Mr. Lin Yongze started to serve as Non-Executive Director of the Bank and member of the Strategic Development Committee on 22 January 2008.
2. 'Number of committee meetings attended' refers to the number of meetings that a committee member actually attended out of the number a committee member was required to attend during the reporting period.

## The Audit Committee

The Audit Committee comprises seven members, including three non-executive directors and four independent non-executive directors. Mr. Huang Shizhong began to serve as Chairman of the Committee as of 13 December 2007 in succession to Patrick de Saint-Aignan. Committee members include Huang Haibo, Wang Gang, Seah Lim Huat Peter, Anthony Francis Neoh, Alberto Togni and Huang Danhan. The committee is mainly responsible for:

- Recommending the replacement/appointment of and the fees paid to the external auditors and assessing their performance and independence;
- Reviewing the external auditors' audit report, internal control report and audit plan;
- Reviewing the financial reports, other financial disclosure, and significant accounting and auditing policies and regulations;
- Approving the Internal Audit Charter, overseeing and providing guidance to the internal audit organisational restructuring, promoting vertical management to ensure the independence of the audit, approving the plan and the budget of the internal audit and evaluating its performance;
- Appraising the performance of the Chief Audit Officer;
- Overseeing the Bank's internal controls and consistently tracking the progress in the rectification of issues raised by the external auditors, reviewing major internal audit findings, management's feedback and rectification plans, and discussing the adequacy of internal control with the Chief Audit Officer and the external auditors; and
- Promoting self-evaluation of internal control and compliance with relevant disclosure requirements of the stock exchanges.

The Audit Committee held six meetings in 2007, mainly to review financial reports and the dividends and profits distribution plan, the adoption of new accounting policies and estimates by the Bank in accordance with the requirements of Chinese Accounting Standards (2006), disclosure of auditing discoveries issued by the National Audit Office, the Audit Charter, Procedural Rules of the Audit Committee of the Board of Directors (revised), policy and procedures for selection, rotation and dismissal of external auditors, the implementation plan for internal control evaluation in 2007, suggestions put forward by the external auditors and the management's response, implementation of the case rectification plan, audit scope, plan and proposed audit fee of external auditors in 2008, the summary of audit work and budget implementation in 2007, and the focuses and budget of audit in 2008.



The average attendance rate of the meetings of the Audit Committee was 95%. The attendance rates of the relevant directors are shown below:

| Director                | Number of Committee Meetings Attended <sup>1</sup> | Attendance Rate |
|-------------------------|----------------------------------------------------|-----------------|
| Patrick de SAINT-AIGNAN | Attended 6 out of a total of 6 meetings            | 100%            |
| HUANG Shizhong          | Attended 2 out of a total of 2 meetings            | 100%            |
| ZHU Yan                 | Attended 3 out of a total of 4 meetings            | 75%             |
| HUANG Haibo             | Attended 6 out of a total of 6 meetings            | 100%            |
| WANG Gang               | Attended 2 out of a total of 2 meetings            | 100%            |
| SEAH Lim Huat Peter     | Attended 6 out of a total of 5 meetings            | 83%             |
| Anthony Francis NEOH    | Attended 6 out of a total of 6 meetings            | 100%            |
| William Peter COOKE     | Attended 5 out of a total of 5 meetings            | 100%            |
| Alberto TOGNI           | Attended 6 out of a total of 6 meetings            | 100%            |
| HUANG Danhan            | Attended 1 out of a total of 1 meeting             | 100%            |

Note:

1. 'Number of committee meetings attended' refers to the number of meetings that a committee member actually attended out of the number a committee member was required to attend during the reporting period.

The Audit Committee established the working rules in accordance with the Notice for Listed Companies on Preparing 2007 Annual Reports and Relevant Issues published by CSRC. In line with the working rules, the Audit Committee reviewed the un-audited financial statements, and exchanged note with the Management and external auditor on two occasions in January and February 2008 on accounting policies, accounting estimates and adjustments to key financial figures. It reviewed again the financial statements of the Bank after the external auditor issued its preliminary opinions, and made separate communication with the Management and the external auditor before issuing the opinion in writing. It approved the financial statements at its first meeting of 2008 by voting and submitted the resolution to the Board for approval.

During reviewing the financial statements of 2007, the Audit Committee understood in details the risk areas of the Bank, such as the sub-prime investment and loan impairment with a focus on the provisioning for impaired assets and corresponding disclosures.

The Audit Committee has reviewed the 2007 Annual Report of the Bank. The Bank's external auditor, PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company has audited the financial statements of the Bank prepared in accordance with CAS and PricewaterhouseCoopers Hong Kong has audited the financial statements of the Bank prepared in accordance with IFRS. Both firms have issued unqualified audit opinions. The Audit Committee held discussions on matters relating to the accounting standards and practices adopted in the financial statements, internal control and the financial reporting.

The Audit Committee has established policies of selection, rotation and dismissal of external auditors with a view to ensuring independency of the external auditors. After appraising the external auditors' performances and independency in 2007, the Audit Committee has proposed to the Board to re-appoint PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as the domestic auditor and PricewaterhouseCoopers Hong Kong as the international auditor for 2008.

The Group has established an internal control assessment mechanism and launched internal control self-assessments in 2006 and 2007. The self-assessment covered all the identified key areas and some less significant areas of internal control in the Bank's operation and management, including financial control, operation control, compliance control and risk management capabilities. The management has reported the results of the internal control assessment to the Audit Committee and the Board.

## The Risk Policy Committee

The Risk Policy Committee comprises six members, including one executive director, two non-executive directors and three independent non-executive directors. Mr. Anthony Francis Neoh acts as Chairman of the Committee. Committee members include Zhou Zaiqun<sup>1</sup>, Zhang Jinghua, Lin Yongze<sup>2</sup>, Alberto Togni and Huang Shizhong. The committee is mainly responsible for:

- Reviewing risk management strategy, major risk management policies, procedures and systems, and providing suggestions to the Board of Directors;
- Reviewing the Bank's major risk activities, and exercising its veto power in a reasonable manner over any transaction that will or may cause debts to the Bank and/or expose the Bank to market risk in excess of the single transaction risk limit or the accumulated transaction risk limit approved by the Risk Policy Committee or the Board of Directors;
- Monitoring the implementation of the Bank's risk management strategies, policies and procedures, and providing suggestions to the Board of Directors; and

- Reviewing the Bank's risk management, regularly assessing the performance of duties of risk management and internal control by the Management, departments and institutions of the Bank, regularly hearing their reports and requesting improvement.

The Risk Policy Committee held six meetings (including one extraordinary meeting) in 2007. At these meetings, the committee reviewed proposals including the Market Risk Management Policy of Bank of China Limited (revised), the Overall Planning of Basel II Implementation of Bank of China Limited, the market risk limit of Bank of China Limited for 2007, adjustment to the President's credit approval authority delegated by the Board of Directors, establishment of an *ad hoc* approval team under the Risk Policy Committee and credit proposals for amounts beyond approval authority of the Management, Bank of China Limited Securities Investment Policy and Administrative Measures on Provisioning for Liabilities in respect of Off-Balance-Sheet Credit Operations of Bank of China Limited. In addition, Bank of China Limited Valuation and Price Verification of Financial Instruments (Treasury Products) Policy (Interim, 2007) was also reviewed. Meanwhile, in accordance with the need for business development and market change, the securities investment mechanism of the Bank was hereby reviewed and analysed, and a series of policies and management rules were formulated, including the Securities Investment Policy. According to that policy, there is a Securities Investment Management Committee under the Executive Committee to accommodate the features of securities market so as to improve the decision-making efficiency of securities investment. The Securities Investment Management Committee is an institution under the Executive Committee responsible for review and decision of securities investment business, communication between the senior management and departments about securities



investment business of domestic and foreign currencies, regular review of operations of securities investment portfolio and liquidity portfolio, review of investment in new products and the significant and breaking events affecting securities investment activities of the Bank, and providing advice to the senior management. Moreover, in view of the impact of the sub-prime mortgage crisis in the US, the Board of Directors and Risk Policy Committee

held two joint conferences of special topics to review and discuss the Bank's investment portfolio in sub-prime mortgage bonds and collateralised debt obligations (CDOs). During the meetings, directors brought forward important and valuable comments and suggestions on improvement of the Bank's securities investment mechanism and effective control of securities investment risk.

The average attendance rate of the meetings of the Risk Policy Committee was 93%. The attendance rates of the relevant directors are shown below:

| Director                | Number of Committee Meetings Attended <sup>3</sup> | Attendance Rate |
|-------------------------|----------------------------------------------------|-----------------|
| Anthony Francis NEOH    | Attended 6 out of a total of 6 meetings            | 100%            |
| HUA Qingshan            | Attended 3 out of a total of 3 meetings            | 100%            |
| ZHANG Jinghua           | Attended 6 out of a total of 6 meetings            | 100%            |
| ZHANG Xinze             | Attended 4 out of a total of 4 meetings            | 100%            |
| Patrick de SAINT-AIGNAN | Attended 4 out of a total of 6 meetings            | 67%             |
| Alberto TOGNI           | Attended 5 out of a total of 6 meetings            | 83%             |
| HUANG Shizhong          | Attended 2 out of a total of 2 meetings            | 100%            |

Notes:

1. Mr. Zhou Zaiqun started to serve as Executive Director of the Bank and member of the Risk Policy Committee on 3 February 2008.
2. Mr. Lin Yongze started to serve as Non-Executive Director of the Bank and member of the Risk Policy Committee on 22 January 2008.
3. 'Number of committee meetings attended' refers to the number of meetings that a committee member actually attended out of the number a committee member was required to attend during the reporting period.

## The Personnel and Remuneration Committee

The Personnel and Remuneration Committee comprises five members, including two non-executive directors and three independent non-executive directors. Mr. Cai Haoyi began to serve as Chairman of the Committee as of 23 August 2007 in succession to Mr. Yu Erniu. Committee members include Hong Zhihua, Anthony Francis Neoh, Huang Shizhong<sup>1</sup> and Huang Danhan. The committee is mainly responsible for:

- Assisting the Board of Directors in reviewing the Bank's human resource and remuneration strategies and overseeing the implementation;
- Studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Bank's board committees and senior management, and performing the duties of nomination, review and supervision;

- Reviewing and monitoring the remuneration and incentive policies of the Bank; and
- Setting the performance appraisal standards for the senior management of the Bank and evaluating the performance of the directors, supervisors and members of the senior management.

The Personnel and Remuneration Committee held six meetings in 2007 and passed one written resolution by voting. At these meetings, the committee reviewed proposals including nomination and appointment of directors of the Bank, the remuneration plan for the Chairman of the Board of Directors, Chairman of the Board of Supervisors and independent non-executive directors, the remuneration measures for the senior management and implementation plan, performance objectives for the senior management for 2007, performance appraisal measures for the Chairman of the Board and the performance objectives for the Chairman of the Board for 2007, Procedural Rules of the Personnel and Remuneration Committee (revised), use of remaining cash welfare allocations in domestic operations from previous years in 2006 and adjustment to the membership of board committees, etc.

The average attendance rate of the meetings of the Personnel and Remuneration Committee was 98%. The attendance rates of relevant directors are shown below:

| Director                | Number of Committee Meetings Attended <sup>2</sup> | Attendance Rate |
|-------------------------|----------------------------------------------------|-----------------|
| CAI Haoyi               | Attended 3 out of a total of 3 meetings            | 100%            |
| YU Erniu                | Attended 3 out of a total of 3 meetings            | 100%            |
| HONG Zhihua             | Attended 6 out of a total of 6 meetings            | 100%            |
| Anthony Francis NEOH    | Attended 5 out of a total of 6 meetings            | 83%             |
| William Peter COOKE     | Attended 5 out of a total of 5 meetings            | 100%            |
| Patrick de SAINT-AIGNAN | Attended 6 out of a total of 6 meetings            | 100%            |
| HUANG Danhan            | Attended 1 out of a total of 1 meeting             | 100%            |

Notes:

1. Mr. Huang Shizhong started to serve as member of the Personnel and Remuneration Committee on 31 January 2008.
2. 'Number of committee meetings attended' refers to the number of meetings that a committee member actually attended out of the number a committee member was required to attend during the reporting period.



## The Connected Transactions Control Committee

The Connected Transactions Control Committee comprises six members, including two executive directors and four independent non-executive directors. Alberto Togni began to serve as Chairman of the Committee as of 16 November 2007 in succession to William Peter Cooke. Committee members include Li Zaohang, Zhou Zaiqun<sup>1</sup>, Anthony Francis Neoh, Huang Shizhong and Huang Danhan. The committee is mainly responsible for:

- Formulating policies and procedures with regard to connected transactions, identifying connected parties of the Bank and reporting to the Board of Directors and the Board of Supervisors;
- Identifying connected transactions pursuant to relevant laws and regulations; and

- Reviewing major connected transactions of the Bank in accordance with relevant laws and regulations.

The Connected Transactions Control Committee held five meetings in 2007. At these meetings, the Committee reviewed proposals including the progress report on the cooperation between BOC and RBS, the report on the ordinary connected transactions between BOC and RBS, Procedural Rules of the Connected Transactions Control Committee of the Board of Directors (revised), Connected Transactions Management Measures of Bank of China Limited (revised), establishment of BOC Services Co., Ltd, Implementation Measure 4 of Connected Transactions Management Measures of Bank of China Limited – Major Connected Parties Identification Process, the continuing connected transactions between BOC and BOCHK from 2008 to 2010, work report on connected transactions for 2007 and work plan for 2008.

The attendance rate of the meetings of the Connected Transactions Control Committee was 100%. The attendance rates of relevant directors are shown below:

| Director             | Number of Committee Meetings Attended <sup>2</sup> | Attendance Rate |
|----------------------|----------------------------------------------------|-----------------|
| William Peter COOKE  | Attended 4 out of a total of 4 meetings            | 100%            |
| Alberto TOGNI        | Attended 1 out of a total of 1 meeting             | 100%            |
| HUA Qingshan         | Attended 2 out of a total of 2 meetings            | 100%            |
| LI Zaohang           | Attended 5 out of a total of 5 meetings            | 100%            |
| Anthony Francis NEOH | Attended 5 out of a total of 5 meetings            | 100%            |
| HUANG Shizhong       | Attended 2 out of a total of 2 meetings            | 100%            |
| HUANG Danhan         | Attended 1 out of a total of 1 meeting             | 100%            |

Notes:

1. Mr. Zhou Zaiqun started to serve as Executive Director of the Bank and member of the Connected Transactions Control Committee on 3 February 2008.
2. 'Number of committee meetings attended' refers to the number of meetings that a committee member actually attended out of the number a committee member was required to attend during the reporting period.

## Special Corporate Governance Campaign

As required by CSRC, CSRC Beijing Bureau and the Shanghai Stock Exchange, the Bank held a special corporate governance campaign during the reporting period. According to relevant provisions on corporate governance and the self-inspection items set out by the regulatory authorities for the campaign, the Bank fully reviewed its corporate governance, and produced a self-inspection report and rectification plan on corporate governance that has been reviewed and approved by the Board of Directors. The Bank implemented rectification measures based on the corporate governance rectification plan earnestly and completed the corporate governance rectification report with the review and approval of the Board of Directors, covering the implementation and fulfillment status of three rectification tasks, i.e. election and appointment of new independent non-executive directors, formulation of work rules for independent directors, and improvement of the internal control management system. The afore-mentioned corporate governance self-inspection report and rectification plan as well as the corporate governance rectification report have been published on the website designated by CSRC, the Bank's website and media designated by the Bank for information disclosure.

## Appointment of Directors

In compliance with Rules A.4.1 and A.4.2 of Appendix 14 of the Hong Kong Listing Rules and the Articles of Association of the Bank, the Bank's directors are elected at the Shareholders' Meeting with a term of office of three years starting from the date when the Bank receives the approval of CBRC. A director, at the expiry of the term of office, may serve consecutive terms by re-election and re-appointment.

## Independent Non-Executive Directors

Members of the Board of Directors include four independent non-executive directors, in compliance with the requirement of quorum specified in the Articles of Association of the Bank. These independent non-executive directors serve as members of five special committees under the Board of Directors and chairmen of the Audit Committee, Risk Policy Committee and Connected Transactions Control Committee. As stipulated in Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each independent director with regard to his/her independence. Based on these confirmations and relevant information in its possession, the Bank confirms their independent status.

Information on the attendance of independent non-executive directors at board meetings in 2007 is detailed in the section 'Directors and the Board of Directors'.

## Different Opinions Raised by Independent Non-Executive Directors on Relevant Matters of the Bank

No independent non-executive director raised different opinions on the resolutions of the Board of the Directors and the special committees under the Board of Directors of the Bank in 2007.



## Specific Explanation and Independent Opinions of Independent Non-Executive Directors on the Guarantee Business of the Bank

Pursuant to the provisions and requirements set forth in the circular (ZJF [2003] No.56) issued by CSRC and the principle of equity, fairness and objectiveness, the Independent Non-Executive Directors of the Bank, Anthony Francis Neoh, Alberto Togni, Huang Shizhong and Huang Danhan have provided the following information regarding the Bank's guarantee business:

The guarantee business is one of the Bank's ordinary business activities and has been approved by PBOC and CBRC, which does not fall within the scope of guarantee as defined in the Circular on Regulating Guarantee Businesses of Listed Companies. The Bank has formulated specific management measures, operational processes and approval procedures in line with the risks of guarantee business, and carried out the business accordingly. The Bank's guarantee business comprises principally of Letters of Guarantee. As at 31 December 2007, the outstanding amount of letters of guarantee issued by the Bank was RMB423.771 billion.

## Supervisors and the Board of Supervisors

The Board of Supervisors is the Bank's supervisory organ and responsible to the Shareholders' Meeting. As stipulated in the PRC Company Law and the Articles of Association of the Bank, the Board of Supervisors is responsible for overseeing the Bank's financial activities and the legality and compliance of the Board of Directors and Senior Management in performing their responsibilities.

The Board of Supervisors comprises five supervisors, including three supervisors assumed by representatives of shareholders and two supervisors assumed by staff representatives. According to the Bank's Articles of Association, a supervisor has a term of office of three years, and may serve consecutive terms by re-election and re-appointment. Shareholder representative supervisors are elected or replaced by the Shareholders' Meeting.

The Board of Supervisors held six meetings in 2007, and adopted related resolutions. For the performance and supervision opinions of the Board of Supervisors within the reporting period, please refer to the 'Report of the Board of Supervisors' in this annual report.

## Senior Management

The Senior Management is the Bank's executive body and reports to the Board of Directors. Headed by the President, the Senior Management comprises executive vice presidents and other senior management personnel, who assist the President in managing the Bank's business. Principle responsibilities of the President include: presiding over the Bank's administrative, business and financial management, implementing resolutions of the Board of Directors, drafting the Bank's business and investment plans, drafting the Bank's basic management rules and specific regulations, nominating other senior management personnel, and determining the Bank's overall remuneration, benefit, reward and punishment measures.

In 2007, the Senior Management carried out the Bank's day to day business, achieved operating targets and further promoted the rapid development of each business line within the scope of authorities established by the Articles of Association and the Board of Directors of the Bank.

## Securities Transactions by Directors and Supervisors

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules (the 'Model Code') to govern securities transactions by directors and supervisors. Pursuant to overseas and local securities regulators' requirements, the Bank has drafted the Management Rules on Securities Transactions by Directors, Supervisors and Senior Management of Bank of China Limited (the 'Management Rules'), which was adopted by the Board at the meeting held on 30 October 2007. The terms of the Management Rules are more stringent than those of the Model Code. The Bank has made specific enquiry of all directors and supervisors, and the directors and supervisors have confirmed that they have complied with the required standards set out in the Model Code throughout the reporting period and the Management Rules since its effective date.

## Responsibility Statement of Directors on Financial Reports

The following statement, which set out the responsibilities of the Directors regarding financial statements, should be read in conjunction with, but distinguished from, the auditor's statement of their responsibilities as set out in the auditor's report contained in this annual report:

The directors acknowledge that they are responsible for preparing financial statements of the Bank that truly represent the operating results of the Bank for each financial year. To the best knowledge of the directors, there was no material event or condition that might have a material adverse effect on the continuing operation of the Bank.

## Appointment or Termination of External Auditors

At the 2006 Annual General Meeting of the Bank, shareholders of the Bank approved the resolution in respect of the appointments of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as its domestic auditor and PricewaterhouseCoopers Hong Kong as its international auditor for 2007. The directors were authorised to negotiate and determine the fees of such auditors in accordance with market practice.

Fees paid to PricewaterhouseCoopers and its member firms for the audit of the financial statements of the Group, including those of the Bank's overseas subsidiaries and branches, for the year ended 31 December 2007 were RMB216 million.

PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank. The Bank incurred RMB11 million for non-auditing services by PricewaterhouseCoopers for the year ended 31 December 2007.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong have provided audit services to the Bank for five years. Mr. Zhu Yu and Mr. Wang Wei are the certified public accountants who sign the auditor's report on the Group's financial statements prepared in accordance with the Chinese Accounting Standards 2006 for the year ended 31 December 2007.

The Board will table a resolution at the 2007 Annual General Meeting, proposing to re-appoint PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong as the auditors of the Bank.



## Investor Relations and Information Disclosure

The Bank discloses information in compliance with securities regulations promulgated in the places where its shares are listed, and publishes periodic reports and interim announcements to the public in accordance with the law to enable investors' timely, accurate and full acquisition of the financial position, operational management, corporate governance and various other shares-related information of the Bank. In 2006, the Bank developed the information disclosure policy to regulate the information disclosure of the Group; in 2007, additions and revisions were made to the policy to incorporate new regulatory requirements. The revised information disclosure policy was discussed and approved by the Board of Directors in October 2007 and then published on the website of the Bank in accordance with requirements of the Shanghai Stock Exchange.

During year 2007, to improve the understanding of information disclosure among the staff of all levels and strengthen their awareness of responsibility in information disclosure, the Bank invited experienced experts from securities regulatory authorities and legal advisors of the Bank to provide trainings to directors, supervisors and the senior management of the Bank as well as officers of senior manager level and above of the Head office, with respect to listing rules and requirements on information disclosure of the Hong Kong Stock Exchange and Shanghai Stock Exchange.

The Board of Directors and the Management of the Bank attach great importance to investor relations and endeavor to ensure the timeliness, fairness, accurateness, truthfulness and completeness of information disclosure; enhance the understanding of investors to the investment value of the Bank through adequate exchange and communication with investors; keep a close watch on market highlights and listen to valuable suggestions of investors at large. The elaborately-designed 2006 annual report of the Bank was well received by investors and furthermore, obtained the Annual Report Award from LACP and other recognised organisations. Meanwhile, the Bank has organised annual performance release, interim performance release and global teleconference of Q3 2007 performance release, following which road shows of the Management were performed. The Bank has successively visited countries and regions including Hong Kong, Europe, US and Japan and conducted tours to more than 10 domestic cities to introduce business development to investors in forms of person-to-person or group meetings. The Bank seeks to enhance communication with the investors by means of participating in seminars of investors and receiving investors. In 2007, the senior management members of the Bank held 233 meetings with domestic and overseas investors and analysts and made remarkable achievements. In addition, diversified ways and channels are under continuous construction such as investor relations section on the website of the Bank, live video webcast, e-mails and hotlines to enhance daily information exchange and communication with the investors.





We promote Harmony





# Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited consolidated financial statements of the Bank and its subsidiaries (the 'Group') for the year ended 31 December 2007.

## Principal Activities

The Bank is engaged in the provision of a range of banking and related financial services, including commercial banking, investment banking and insurance business.

## Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the interest income and other operating income of the Group.

## Results and Appropriations

The results of the Group for the year are set out in the financial statements and notes thereof. The Board has recommended a final dividend of RMB0.1 per share (before tax), amounting to approximately RMB25.384 billion, subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on Thursday, 19 June 2008. If approved, the 2007 final dividend of the Bank will be denominated and declared in Renminbi. The dividends for A-Share Holders will be paid in Renminbi and the dividends for H-Share Holders will be paid in Hong Kong dollars. Renminbi will be converted into Hong Kong dollars based on the average exchange rate prevailing one week before 19 June 2008 (such day inclusive), being the date of holding the Bank's

Annual General Meeting, as announced by PBOC for such conversion.

At the Annual General Meeting held on 14 June 2007, it was approved that a final dividend of RMB0.04 per share (before tax), amounting to RMB10.154 billion in total, would be paid in respect of 2006 profits. Such distribution plan was implemented in July 2007. No interim dividend was paid for the period ended 30 June 2007 by the Bank. The Bank did not propose any capitalisation of capital reserve to share capital during the year.

## Closure of Register of H-Share Holders

The H-Share Register of Members of the Bank will be closed for the purpose of determining H-Share Holders' entitlement to attend the Annual General Meeting, from Tuesday, 20 May 2008 to Thursday, 19 June 2008 (both days inclusive). During the aforesaid period, no transfer of H Shares will be registered. In order to attend the Annual General Meeting, H-Share Holders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 19 May 2008.

There is no book closure period for the A-Share Register of Members. A notice of the Annual General Meeting setting out the record date for the meeting and related issues will be published in due course.



## Donations

Charitable and other donations made by the Group during the year amounted to approximately RMB117.8616 million.

## Share Capital

As at the latest practicable date prior to the issue of this Annual Report and based on publicly available information, the Bank has sufficient public float, in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange at the time of the Bank's listing.

## Distributable Reserves

Please refer to Note V.39 to the Financial Statements for details of distributable reserves of the Bank.

## Fixed Assets

Please refer to Note V.23 to the Financial Statements for details of the fixed assets of the Bank.

## Financial Summary

The Bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively in 2006. A summary of the annual results, assets and liabilities of the Bank for the last five years is set out in the section headed 'Financial Highlights'.

## Connected transactions

Under Chapter 14A of the Hong Kong Listing Rules, transactions between the Bank and its connected

persons (as defined under the Hong Kong Listing Rules) will constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with Chapter 14A of the Hong Kong Listing Rules. The details of such connected transactions of the Bank are as follows:

### *Exempt Continuing Connected Transactions*

#### **Commercial banking services and products provided by the Bank in the ordinary and usual course of business**

The Bank provides commercial banking services and products to customers in the ordinary and usual course of business. Such commercial banking services and products include the taking of deposits. Customers who place deposits with the Bank include the Bank's substantial shareholders, directors, supervisors and chief executive officers, ex-directors who were the directors within 12 months preceding the date of transactions and their respective associates, each of whom is a connected person under Chapter 14A of the Hong Kong Listing Rules. Pursuant to Chapter 14A of the Listing Rules, connected persons placing deposits with the Bank will constitute continuing connected transactions to the Bank.

Furthermore, BOCHK has preferential interest rates for deposits placed by employees of BOCHK. The deposits placed by connected persons who are not the Bank's employees are at market rates and on normal commercial terms. To the extent staff rates are available for employees, the interest paid by the Bank on deposits placed by its connected persons who are the Bank's employees are at staff rates, but such deposits are nevertheless on normal commercial terms as such terms are no more favorable than the staff rates applicable to other employees who are not connected persons of the Bank.

The provision of commercial banking services and products to connected persons in the ordinary and usual course of business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties (including other comparable employees of the Bank who are not connected persons) constitute exempt continuing connected transactions under Rule 14A.65(4) of the Listing Rules, namely, financial assistance provided by a connected person in the form of deposits placed with a listed issuer for the benefit of a listed issuer on normal commercial terms (or better to the listed issuer) where no security over the assets of the listed issuer is granted in respect of the financial assistance, and thus exempt from the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

#### **Loan and credit facilities granted by the Bank to connected persons**

The Bank extends loans and credit facilities (including provision of long-term loans, short-term loans, consumer loans, credit card facilities, mortgages, guarantees, security for third party loans, comfort letters and billing discounting facilities) to customers in the ordinary and usual course of business on normal commercial terms with reference to prevailing market rates. Customers who utilise loans and credit facilities include the Bank's substantial shareholders, directors, supervisors and chief executive officers, ex-directors who were the directors within 12 months preceding the date of transactions and their respective associates, each of whom is a connected person under Chapter 14A of the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, loans and credit facilities granted by the Bank to its connected persons constitute continuing connected transactions to the Bank.

The Bank has preferential staff rates for employees who utilise Great Wall Renminbi credit cards and BOC credit cards. Such preferential rates include waiver of annual fees and reduced handling fees. Furthermore, BOCHK has preferential staff rates for employees who utilise its credit cards.

Departments of the Bank in the PRC have preferential staff rates for residential loans and mortgages taken out by the Bank's employees, and have preferential staff rates for consumer loans taken out by the Bank's employees. These preferential staff rates are all within the range set by PBOC. Furthermore, BOCHK has preferential staff rates for residential loans and mortgages taken out by its employees.

The loans and credit facilities the Bank provides to connected persons of the Bank who are not employees of the Bank are on normal commercial terms with reference to prevailing market rates. To the extent staff rates are available for certain loans and credit facilities, the loans and credit facilities the Bank provides to connected persons who are the Bank's employees are provided at staff rates and are on normal commercial terms no more favourable than the staff rates applicable to other employees who are not connected persons.

The provision of loans and credit facilities to connected persons in the ordinary and usual course of business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties (which include other comparable employees who are not connected persons) constitute exempt continuing connected transactions under Rule 14A.65(1) of the Listing Rules, namely, financial assistance provided by a listed issuer in its ordinary and usual course of business for the benefit of a connected person on normal commercial terms, and thus exempt from all reporting,



announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

### **Continuing connected transactions with BOCHK Group**

In late November 2007, BOC Services Co., Ltd (of which 55% equity interest is indirectly held by the Company, and 45% equity interest is indirectly held by BOCHK Holdings) was incorporated. Pursuant to the Hong Kong Listing Rules, BOCHK Holdings becomes a connected person of the Bank.

From the late November 2007 to the end of the reporting period, pursuant to the Services and Relationship Agreement entered into in late 2004, the Group (the Company and its subsidiaries (other than the BOCHK Group)) engaged in a number of transactions with the BOCHK Group in the usual course of business, such as information technology services, property transactions, cash payment, provision of insurance cover, credit card services, securities transactions, fund distribution transactions, insurance, agency foreign exchange transactions, trading of financial assets and inter-bank capital markets. These transactions are on normal commercial terms and percentage ratios of each transaction (the profits ratio, however, not applicable) set out in Chapter 14A of the Listing Rules are less than 0.1%. According to Rule 14A.33 of the Hong Kong Listing Rules ('De Minimis Transactions'), these transactions are exempted from the reporting, announcement and independent shareholders' approval requirements.

At the end of 2007, the Bank and BOC Hong Kong (Holdings) Limited renewed the Services and Relationship Agreement. The Bank had made an announcement in accordance with Chapter 14A of the Hong Kong Listing Rules on 2 January 2008.

### **Continuing connected transactions between Prudential Corporation Holdings Limited and Its Subsidiaries and the Bank**

Prudential Corporation Holdings Limited respectively owns 36% of BOCI-Prudential Asset Management Limited ('BOCI-Prudential') and 36% of BOCI-Prudential Trustee Limited ('BPTL'), both of which are indirect subsidiaries of the Bank. Accordingly, Prudential Corporation Holdings Limited and its associates are connected persons to the Bank for the purposes of the Hong Kong Listing Rules. In particular, BOCI-Prudential and BPTL, being associates of Prudential Corporation Holdings Limited, are also connected persons to the Bank.

In 2007, the Bank engaged on a regular basis in a number of transactions with Prudential Corporation Holdings Limited and its associates in ordinary and usual course of business, such as fund distribution services, fund management services, fund investment advisory services, client referral services, IT services, office rental and consumption services, deposit placing, insurance services and corporate management services. These transactions are on normal commercial terms and each percentage ratio (the profits ratio not applicable) set out in Chapter 14A of the Listing Rules is less than 0.1% based on the transaction categories. According to Rule 14A.33 ('De Minimis Transactions'), these transactions are exempted from the reporting, announcement and independent shareholders' approval requirements.

## **Corporate Governance**

The Bank endeavors to observe high level corporate governance principles and practices. Details of the Bank's compliance with the Code on Corporate Governance Practices contained in Appendix 14 of the Hong Kong Listing Rules are set out in the section headed 'Corporate Governance'.

## Directors and Supervisors

Particulars in relation to the Directors and Supervisors of the Bank as at 31 December 2007 are set out in the section headed 'Directors, Supervisors and Senior Management'.

## Directors' Interests in Competing Businesses

Since August 1998, Sir Frederick Anderson Goodwin, a Non-Executive Director of the Bank, has been serving as Director of the RBS Group. RBS Group is the holding company of one of the world's largest banking and financial services groups, business of which may compete directly or indirectly with the Group's business.

Save as disclosed above, none of the other directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## Emoluments of Directors, Supervisors and Senior Management

Details of the emoluments of Directors, Supervisors and Senior Management are set out in the section headed 'Directors, Supervisors and Senior Management'.

## Directors' and Supervisors' Service Contracts

None of the Directors or Supervisors of the Bank has a service contract with the Bank or any of its subsidiaries which is not determinable within one year without payment of compensation other than normal statutory compensation.

## Directors' and Supervisors' Interests in Contract of Significance

No contract of significance, in relation to the Bank's business to which the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or a Supervisor had a material interest, whether directly or indirectly, subsisted during the year.

## Directors' and Supervisors' Rights to Acquire Shares

On 5 July 2002, the following Director was granted options by BOCHK (BVI), the immediate holding company of BOCHK Holdings, pursuant to the Pre-Listing Share Option Scheme to purchase from BOCHK (BVI) existing issued ordinary shares of BOCHK Holdings at a price of HK\$8.50 per share. BOCHK Holdings is a subsidiary of the Bank which is also listed on the Hong Kong Stock Exchange. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years. Twenty-five percent of the shares subject to such options will vest at the end of each year.



Particulars of the outstanding options granted to the Directors of the Bank under the Pre-Listing Share Option Scheme as at 31 December 2007 are set out below:

|                  |               |                  |                             | Number of share options |                |                 |                 |                 |                  |
|------------------|---------------|------------------|-----------------------------|-------------------------|----------------|-----------------|-----------------|-----------------|------------------|
| Name of Director | Date of grant | Exercise price   | Exercisable period          | Granted on 5 July 2002  | Balance as at  | Exercised       | Surrendered     | Lapsed          | Balance as at    |
|                  |               | per share (HK\$) |                             |                         | 1 January 2007 | during the year | during the year | during the year | 31 December 2007 |
| Li Zaohang       | 5 July 2002   | 8.50             | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000      | –               | –               | –               | 1,446,000        |

Note: On 15 June 2007, Mr. Hua Qingshan resigned from the post of Executive Director of the Bank. According to the terms of the Pre-Listing Share Option Scheme, the options of 1,446,000 granted to Mr. Hua Qingshan on 5 July 2002 could be exercised within three months after his resignation.

Save as disclosed above, during the year, none of the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party to any arrangements to enable the Directors, Supervisors of the Bank, and their respective spouses or children below the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

## Directors' and Supervisors' Interests in Shares, Underlying Shares and Debentures

Save as disclosed above, as at 31 December 2007, none of the Directors or Supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules and the Management Measures on Securities Transactions by Directors, Supervisors and Senior Management of Bank of China Limited.

## Substantial Interests in Share Capital

Details of the Bank's substantial interests in share capital are set out in the section headed 'Changes in Share Capital and Shareholdings of Substantial Shareholders'.

## Management Contracts

No contract concerning the management or administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

## Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.35 to the Financial Statements for details of the share appreciation rights plan and share option schemes of the Group.

Please refer to 'Directors' and Supervisors' Rights to Acquire Shares' in the section for details of the options granted by BOCHK (BVI) over shares of BOCHK Holdings pursuant to the Pre-Listing Share Option Scheme.

## Purchase, Sale or Redemption of the Bank's Shares

As at 31 December 2007, approximately 11 million shares of the Bank were held as treasury shares. Please refer to Note V.38 to the Financial Statements for details of purchase, sale or redemption of the Bank's shares by the Bank and its subsidiaries.

## Pre-emptive Rights

There are no provisions for pre-emptive rights requiring the Bank to offer new shares to existing shareholders in proportion to their existing shareholdings under the Articles of Association of the Bank. The Articles of Association provides that the Bank may increase its capital by public offering, private placing, issuing rights of new shares to existing shareholders or allotting new shares to existing shareholders, transferring capital reserve fund, issuing convertible bonds, or through other means as permitted by laws, administrative regulations or relevant regulatory authorities. There are no compulsory provisions for shareholders to exercise their pre-emptive rights under the Articles of Association.

## Use of Raised Funds

All capital raised from the Bank's IPO in 2006 have been used to strengthen the capital base of the Bank.

The Bank issued RMB60 billion RMB-denominated subordinated bonds in 2004 and 2005. Please refer to Note V.32 to the Financial Statements for details. The issue of the subordinated bonds aims to mitigate liquidity risk and optimise the maturity structure of assets and liabilities. The Bank plans to utilise the long-term funds raised by the issuance to grant long and medium-term loans, especially those relating to high-quality infrastructure construction projects.

## Tax Relief

A-Share Holders: In accordance with the Notice on Taxation Policy of Personal Stock Dividends Income

(Caishui No.102 (2005)) and the Supplementary Notice on Taxation Policy of Personal Stock Dividends Income (Caishui No.107 (2005)) issued by the Ministry of Finance, PRC and the State Administration of Taxation, PRC, dividends obtained from listed companies by individual investors shall be taxed as personal income in accordance with the currently applicable taxation rules, and a reduction of 50% is calculated as taxable amount on a provisional basis; while dividends obtained by mutual funds from listed companies shall be taxed with a reduction of 50% calculated as taxable amount when paying personal income tax on behalf of the obligatory persons pursuant to (Caishui No.102(2005)).

H-Share Holders: In accordance with the Notice on Taxation of Dividends and Stock (Options) Transfer Income obtained by Foreign-invested Companies, Foreign Companies and Citizens (Guoshuifa No.045 (1993)) issued by the State Administration of Taxation, foreign corporations and individuals holding H shares are exempted from paying corporate and personal income tax for dividends obtained from the PRC companies issuing such H shares.

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Bank.

Shareholders enjoy tax relief in accordance with the aforementioned regulations.

## Auditors

Details of the Bank's external auditors are set out in the section headed 'Corporate Governance'. A resolution for the appointment of external auditors will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board  
**XIAO Gang**  
Chairman

25 March 2008

# Report of the Board of Supervisors



## I. Meetings of the Board of Supervisors

The Board of Supervisors held six meetings in 2007:

1. The first meeting (on 9 March) examined and approved the 2006 performance evaluation results of supervisors who were representatives of shareholders for submission to the General Meeting of Shareholders for review; examined and approved the *Procedural Rules for Meetings of the Board of Supervisors of Bank of China Limited* for submission to the General Meeting of Shareholders for review.
2. The second meeting (on 22 March) examined and approved the *2006 Annual Report of Bank of China Limited*; examined and approved the *2006 Profit Distribution Plan of Bank of China Limited*; examined and approved the *Report Delivered by the Board of Supervisors of Bank of China Limited at the 2007 General Meeting of Shareholders* for submission to the General Meeting of Shareholders for review.
3. The third meeting (on 27 April) examined and approved the *2007 First Quarter Report of Bank of China Limited*.
4. The fourth meeting (on 14 June) examined and approved the appointment of Mr. Liu Ziqiang as Chairman of the second session of the Board of Supervisors of Bank of China.

5. The fifth meeting (on 23 August) examined and approved the *2007 Interim Report of Bank of China Limited*.
6. The sixth meeting (on 30 October) examined and approved the *2007 Third Quarter Report of Bank of China Limited*.

## II. Supervision and Inspection Work of the Board of Supervisors

Save for supervision by way of the normal and routine review of financial statements and the attendance at the relevant meetings, the inspection works mainly conducted by the Board of Supervisors were as follows:

1. Inspection of the provision for diminution in value of the Bank's loans was the main focus of the Board of Supervisors for the year. The Board of Supervisors listened to the reports of the relevant departments of the Head Office and conducted on-site investigations and research, as well as inspection of four provincial branches. The Board of Supervisors diligently studied the provisions and requirements of China and the International Financial Reporting Standards with regard to provisions for diminution in value of loans, and found out the practice and approach adopted by international and domestic commercial banks in this regard. On this basis, the Board of Supervisors also provided some views on the identification of diminution in value of the Bank's loans and the method of calculation for provision of diminution in value, as well as exchanged opinions in respect of them with the relevant management departments of the Head Office.

2. The Board of Supervisors also checked the administration of consumer credits of five domestic tier-1 branches on a random basis, and conducted on-site inspection of three of them; and inspected the 'Structural Transactions' in non-performing assets, the relevant situation of the Bank's investment in debentures which involved in US subprime mortgage crisis, and the completeness of the Bank's information disclosure system.

### **III. Independent Opinions of the Board of Supervisors on Relevant Issues of the Bank within the Reporting Period**

#### **1. Operations according to the law**

It was found that, during the reporting period, the Bank's Board of Directors and Senior Management did not violate the law, regulation or the Bank's Articles of Association nor did they infringe upon the Bank's interests in discharging their duties. During the reporting period, the Bank further strengthened and improved its internal control work.

#### **2. Financial position**

The Board of Supervisors noted the change of the Bank's accounting policies and estimates, the measures taken by the Bank's Board of Directors

and Management in respect of the change of accounting policies and estimates are reasonable. The financial statements contained in the 2007 Annual Report of the Bank truly and fairly reflect the Bank's financial position and business performance in the reporting period.

#### **3. Use of the capital raised**

During the reporting period, the Bank did not raise any funds.

#### **4. Purchase and sale of assets**

It was found that there was no purchase or sale of assets of the Bank that might infringe upon the interests of shareholders or cause asset dissipation during the reporting period.

#### **5. Connected transactions**

It was found that there was no unfair connected transactions that might infringe upon the Bank's interests occurred during the reporting period.

# Significant Events



## Material Litigation and Arbitration

The Bank was involved in certain litigation and arbitration cases in the course of its regular business. After consulting professional law firms, the Management holds that none of the litigation and arbitration cases will have significant adverse impact on the operations of the Bank.

## Brief on Acquisition, Disposal of Asset and Merger and Acquisition

During the reporting period, no material acquisition, disposal of assets or mergers and acquisitions occurred at the Bank.

## Implementation of Stock Incentive Plan during the Reporting Period

The Bank approved a long-term incentive policy, including the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan, at the board meeting and the extraordinary shareholders' meeting held in November 2005. To date, the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan have not been implemented.

## Substantial Related Party Transactions

Please refer to the Financial Statements for related party transactions as at end of the reporting period.

## Major Contracts and the Enforcement thereof

### Major custody, contract and lease events

During the reporting period, and save as disclosed, the Bank did not take custody of or contract the operation or lease any material business assets from third parties or allowed its material business assets being subject to such arrangements.

### Significant guarantee business

Guarantee business is one of the Bank's off-balance sheet items in the ordinary course of business. The Bank operates guarantee business in a prudent manner and has formulated specific management measures, operational processes, and review and approval procedures in line with the risks of the guarantee business for conducting relevant business.

### Significant cash management entrusted to third parties

During the reporting period, there was no significant cash assets entrusted to third parties for management.

## Undertakings

During the reporting period, to the Bank's best knowledge, there was no breach of material undertakings by the Bank or shareholders holding 5% or more of the shares of the Bank.

## Disciplinary Actions Imposed on Directors, Supervisors and Senior Management Members of the Bank

During the reporting period, no directors, supervisors or senior management members was subject to investigation or administrative punishment by CSRC, nor were they publicly reprimanded by any stock exchange.

## Other Significant Events

### Investment Securities

| No.                                                                      | Securities type | Stock code | Company name                           | Initial investment cost<br>(unit: RMB) | Stock held<br>(unit: share) | Carrying value<br>at period end<br>(unit: RMB) | Proportion<br>of the total<br>investment securities (%) | Gains/(losses)<br>during the<br>reporting period<br>(unit: RMB) |
|--------------------------------------------------------------------------|-----------------|------------|----------------------------------------|----------------------------------------|-----------------------------|------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------|
| 1                                                                        | Stock           | 000527 CH  | GD Midea Electric Appliances           | 325,513,940                            | 13,463,286                  | 499,601,652                                    | 5.25                                                    | (8,739,881)                                                     |
| 2                                                                        | Stock           | 000002 CH  | China Vanke Co. Ltd                    | 140,614,300                            | 12,082,857                  | 348,455,025                                    | 3.66                                                    | (8,555,774)                                                     |
| 3                                                                        | Stock           | 5 HK       | HSBC Holdings                          | 207,292,761                            | 1,684,180                   | 207,699,612                                    | 2.18                                                    | 266,737                                                         |
| 4                                                                        | Stock           | 000568 CH  | Luzhou Laojiao Co., Ltd.               | 64,766,332                             | 2,556,000                   | 187,858,144                                    | 1.97                                                    | (3,805,838)                                                     |
| 5                                                                        | Stock           | 600823 CH  | Shanghai ShiMao Co., Ltd.              | 222,856,434                            | 8,347,209                   | 171,110,629                                    | 1.80                                                    | (8,003,691)                                                     |
| 6                                                                        | Stock           | 386 HK     | CHINA PETROLEUM & CHEMICAL CORP        | 157,494,710                            | 15,474,374                  | 170,694,592                                    | 1.79                                                    | 39,237,803                                                      |
| 7                                                                        | Stock           | 700 HK     | Tencent                                | 157,923,130                            | 2,995,600                   | 165,600,753                                    | 1.74                                                    | 13,317,746                                                      |
| 8                                                                        | Stock           | 600663 CH  | Shanghai Lujiazui Fin & Trade Zone Dev | 161,598,598                            | 6,515,114                   | 159,743,915                                    | 1.68                                                    | (6,306,376)                                                     |
| 9                                                                        | Stock           | 600009 CH  | Shanghai Int'l Airport Co., Ltd.       | 69,685,728                             | 3,876,076                   | 145,424,290                                    | 1.53                                                    | (2,800,765)                                                     |
| 10                                                                       | Stock           | 600048 CH  | Poly Real Estate Group                 | 91,673,602                             | 2,172,000                   | 140,783,153                                    | 1.48                                                    | (2,752,324)                                                     |
| Other investment securities held at period end                           |                 |            |                                        | 6,224,285,124                          | –                           | 7,319,480,080                                  | 76.92                                                   | 1,504,581,644                                                   |
| Gains/(losses) of investment securities sold during the reporting period |                 |            |                                        | –                                      | –                           | –                                              | –                                                       | 326,316,916                                                     |
| Total                                                                    |                 |            |                                        | 7,823,704,659                          | –                           | 9,516,451,845                                  | 100.00                                                  | 1,842,756,197                                                   |

Notes:

1. The table lists the ten largest stocks held by the Group in descending order at their carrying value at the period end.
2. Investment securities listed in this table include stocks, warrants, convertible bonds, etc. Stock investments included herein are classified under financial assets at fair value through profit or loss by the Group.
3. Other investment securities refers to investment securities other than the ten largest stocks listed above.



## Stocks of Other Listed Companies held by the Group

| Stock code | Company name                                | Initial investment cost<br>(unit: RMB) | Proportion of the total share | Carrying value at period end<br>(unit: RMB) | Gains/(losses) during the reporting period<br>(unit: RMB) | Increase/(decrease) of the equity during the reporting period | Accounting classification          | Sources of the share |
|------------|---------------------------------------------|----------------------------------------|-------------------------------|---------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------|------------------------------------|----------------------|
| 189 HK     | Dongyue Group Ltd.                          | 220,647,486                            | 5.19%                         | 234,624,384                                 | –                                                         | 13,976,898                                                    | Available for sale equity security | IPO                  |
| 8002 HK    | Phoenix Satellite Television Holding's Ltd. | 364,963,337                            | 8.32%                         | 640,422,688                                 | –                                                         | 275,459,351                                                   | Available for sale equity security | Joint-stock reform   |
| 549 HK     | Jilin Qifeng Chemical Fiber Co., Ltd.       | 64,732,818                             | 10.95%                        | 47,158,000                                  | –                                                         | (17,574,819)                                                  | Available for sale equity security | Joint-stock reform   |
| 600591 CH  | Shanghai Airlines Co., Ltd.                 | 93,224,288                             | 13.30%                        | 2,513,327,433                               | –                                                         | 2,420,103,144                                                 | Available for sale equity security | Joint-stock reform   |
| Total      |                                             | 743,567,929                            | –                             | 3,435,532,505                               | –                                                         | 2,691,964,574                                                 | –                                  | –                    |

Notes:

1. The table lists stocks of listed companies that the Group had shareholding of 5% or above which are classified as long term equity investments or available for sale equity securities.
2. Gains or losses during the reporting period refers to the relevant investment's contribution to the Group's consolidated profit for the period.

## Equity Investments in Unlisted Financial Companies held by the Group

| Company name                                    | Initial investment cost<br>(unit: RMB) | Stock held<br>(unit: share) | Proportion of the total shares | Carrying value at period end<br>(unit: RMB) | Gains/(losses) during the reporting period<br>(unit: RMB) | Increase/(decrease) of the equity during the reporting period | Accounting classification   | Sources of the share           |
|-------------------------------------------------|----------------------------------------|-----------------------------|--------------------------------|---------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------|-----------------------------|--------------------------------|
| Hunan Hualing Financial Co., Ltd.               | 27,220,796                             | –                           | 10%                            | 28,985,909                                  | 2,026,527                                                 | –                                                             | Long term equity investment | Investment                     |
| JCC Financial Co., Ltd.                         | 54,614,959                             | –                           | 20%                            | 61,997,924                                  | 7,382,965                                                 | –                                                             | Long term equity investment | Investment                     |
| CJM Insurance Brokers Limited                   | 702,300                                | 2,000,000                   | 22%                            | 3,951,440                                   | 303,975                                                   | (311,707)                                                     | Long term equity investment | Investment                     |
| The Debt Management Company Limited             | 15,544                                 | 1,660                       | 11%                            | 15,544                                      | –                                                         | –                                                             | Available for sale security | Investment                     |
| China UnionPay Co., Ltd.                        | 90,000,000                             | 90,000,000                  | 5.45%                          | 225,000,000                                 | –                                                         | –                                                             | Available for sale security | Joint-stock reform/ investment |
| Dongfeng Peugeot Citroen Auto Finance Co., Ltd. | 224,955,557                            | –                           | 50%                            | 253,504,932                                 | 1,980,925                                                 | –                                                             | Long term equity investment | Investment                     |
| Total                                           | 397,509,156                            | –                           | –                              | 573,455,749                                 | 11,694,392                                                | (311,707)                                                     | –                           | –                              |

Notes:

- Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, etc.
- Carrying value at the period end is after impairment allowance.
- Gains or losses during the reporting period refers to the relevant investment's contribution to the Group's consolidated profit for the period.

## Trading of Stocks of Other Listed Companies During the Reporting Period

|                                       | Shares held at the period beginning<br>(unit: Share) | Shares purchased during the reporting period<br>(unit: Share) | Shares sold during the reporting period<br>(unit: Share) | Shares held at the period end<br>(unit: Share) | Amount of the funds used<br>(unit: RMB) | Gains/(losses) during the reporting period<br>(unit: RMB) |
|---------------------------------------|------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------|-----------------------------------------|-----------------------------------------------------------|
| Trading of stocks of listed companies | 925,128,378                                          | 358,196,211                                                   | 678,871,887                                              | 604,452,702                                    | 10,979,953,035                          | 3,985,271,177                                             |

# Independent Auditor's Report



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To the Shareholders of Bank of China Limited  
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

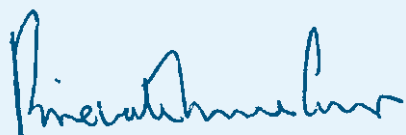
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2007, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Other matters**

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 25 March 2008

# Consolidated Income Statement

For the year ended 31 December 2007 (Amount in millions of Renminbi, unless otherwise stated)

|                                                                                                                                    | Note | 2007           | 2006     |
|------------------------------------------------------------------------------------------------------------------------------------|------|----------------|----------|
| Interest income                                                                                                                    | V.2  | 261,871        | 215,334  |
| Interest expense                                                                                                                   | V.2  | (109,126)      | (93,963) |
| <b>Net interest income</b>                                                                                                         |      | <b>152,745</b> | 121,371  |
| Fee and commission income                                                                                                          | V.3  | 31,554         | 17,139   |
| Fee and commission expense                                                                                                         | V.3  | (4,066)        | (2,816)  |
| <b>Net fee and commission income</b>                                                                                               |      | <b>27,488</b>  | 14,323   |
| Net trading losses                                                                                                                 | V.4  | (662)          | (1,544)  |
| Net (losses)/gains on investment securities                                                                                        | V.5  | (15,526)       | 1,132    |
| Other operating income                                                                                                             | V.6  | 18,667         | 13,096   |
| <b>Operating income</b>                                                                                                            |      | <b>182,712</b> | 148,378  |
| Operating expenses                                                                                                                 | V.7  | (85,026)       | (68,731) |
| Impairment losses on loans and advances                                                                                            | V.10 | (8,252)        | (12,342) |
| <b>Operating profit</b>                                                                                                            |      | <b>89,434</b>  | 67,305   |
| Share of results of associates and joint ventures                                                                                  | V.22 | 1,263          | 632      |
| <b>Profit before income tax</b>                                                                                                    |      | <b>90,697</b>  | 67,937   |
| Income tax expense                                                                                                                 | V.11 | (28,661)       | (19,673) |
| <b>Profit for the year</b>                                                                                                         |      | <b>62,036</b>  | 48,264   |
| Attribute to:                                                                                                                      |      |                |          |
| Equity holders of the Bank                                                                                                         |      | 56,248         | 42,830   |
| Minority interest                                                                                                                  |      | 5,788          | 5,434    |
|                                                                                                                                    |      | <b>62,036</b>  | 48,264   |
| Earnings per share for profit attributable to the equity holders of the Bank during the year (Expressed in RMB per ordinary share) |      |                |          |
| – Basic and diluted                                                                                                                | V.12 | 0.22           | 0.18     |
| <b>Dividends</b>                                                                                                                   | V.39 |                |          |
| Interim dividends declared during the year                                                                                         |      | –              | –        |
| Final dividends proposed after the balance sheet date                                                                              |      | 25,384         | 10,154   |

The accompanying notes form an integral part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2007 (Amount in millions of Renminbi, unless otherwise stated)

|                                                               | Note | As at 31 December |                  |
|---------------------------------------------------------------|------|-------------------|------------------|
|                                                               |      | 2007              | 2006             |
| <b>ASSETS</b>                                                 |      |                   |                  |
| Cash and due from banks                                       | V.13 | 71,221            | 39,812           |
| Balances with central banks                                   | V.14 | 751,344           | 379,631          |
| Placements with banks and other financial institutions        | V.15 | 386,648           | 399,138          |
| Government certificates of indebtedness for bank notes issued | V.28 | 32,478            | 36,626           |
| Precious metals                                               |      | 44,412            | 42,083           |
| Financial assets at fair value through profit or loss         | V.16 | 124,665           | 115,828          |
| Derivative financial instruments                              | V.17 | 45,839            | 24,837           |
| Loans and advances to customers, net                          | V.18 | 2,754,493         | 2,337,726        |
| Investment securities                                         | V.19 |                   |                  |
| – available for sale                                          |      | 682,995           | 815,178          |
| – held to maturity                                            |      | 446,647           | 461,140          |
| – loans and receivables                                       |      | 458,620           | 500,336          |
| Investment in associates and joint ventures                   | V.22 | 6,779             | 5,931            |
| Property and equipment                                        | V.23 | 83,805            | 86,200           |
| Investment property                                           | V.24 | 9,986             | 8,221            |
| Deferred income tax assets                                    | V.36 | 17,647            | 21,396           |
| Other assets                                                  | V.25 | 73,638            | 53,570           |
| <b>Total assets</b>                                           |      | <b>5,991,217</b>  | <b>5,327,653</b> |

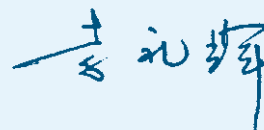
The accompanying notes form an integral part of these financial statements.

|                                                                                    |      | As at 31 December |                  |
|------------------------------------------------------------------------------------|------|-------------------|------------------|
|                                                                                    | Note | 2007              | 2006             |
| <b>LIABILITIES</b>                                                                 |      |                   |                  |
| Due to banks and other financial institutions                                      | V.26 | 324,848           | 178,777          |
| Due to central banks                                                               | V.27 | 90,485            | 42,374           |
| Bank notes in circulation                                                          | V.28 | 32,605            | 36,823           |
| Certificates of deposit and placements from banks and other financial institutions | V.29 | 248,482           | 146,908          |
| Financial liabilities at fair value through profit or loss                         | V.30 | 86,655            | 98,725           |
| Derivative financial instruments                                                   | V.17 | 27,262            | 14,323           |
| Due to customers                                                                   | V.31 | 4,400,111         | 4,091,118        |
| Bonds issued                                                                       | V.32 | 64,391            | 60,173           |
| Other borrowings                                                                   | V.33 | 51,708            | 63,398           |
| Current tax liabilities                                                            |      | 21,045            | 18,149           |
| Retirement benefit obligations                                                     | V.34 | 7,231             | 7,444            |
| Deferred income tax liabilities                                                    | V.36 | 2,894             | 3,029            |
| Other liabilities                                                                  | V.37 | 182,843           | 153,456          |
| <b>Total liabilities</b>                                                           |      | <b>5,540,560</b>  | <b>4,914,697</b> |
| <b>EQUITY</b>                                                                      |      |                   |                  |
| <b>Capital and reserves attributable to equity holders of the Bank</b>             |      |                   |                  |
| Share capital                                                                      | V.38 | 253,839           | 253,839          |
| Capital reserve                                                                    | V.38 | 66,592            | 66,617           |
| Statutory reserves                                                                 | V.39 | 15,448            | 10,380           |
| General and regulatory reserves                                                    | V.39 | 24,911            | 13,934           |
| Undistributed profits                                                              | V.39 | 68,480            | 38,425           |
| Reserve for fair value changes of available for sale securities                    | V.40 | (1,506)           | 2,009            |
| Currency translation differences                                                   |      | (7,289)           | (2,071)          |
| Treasury shares                                                                    | V.38 | (45)              | (216)            |
|                                                                                    |      | <b>420,430</b>    | <b>382,917</b>   |
| <b>Minority interest</b>                                                           |      | <b>30,227</b>     | <b>30,039</b>    |
| <b>Total equity</b>                                                                |      | <b>450,657</b>    | <b>412,956</b>   |
| <b>Total equity and liabilities</b>                                                |      | <b>5,991,217</b>  | <b>5,327,653</b> |

Approved and authorised for issue by the Board of Directors on 25 March 2008.



**XIAO Gang**  
Director



**LI Lihui**  
Director

The accompanying notes form an integral part of these financial statements.

# Balance Sheet

As at 31 December 2007 (Amount in millions of Renminbi, unless otherwise stated)

|                                                               |      | As at 31 December |           |
|---------------------------------------------------------------|------|-------------------|-----------|
|                                                               | Note | 2007              | 2006      |
| ASSETS                                                        |      |                   |           |
| Cash and due from banks                                       | V.13 | 66,348            | 37,842    |
| Balances with central banks                                   | V.14 | 721,433           | 354,881   |
| Placements with banks and other financial institutions        | V.15 | 285,357           | 303,002   |
| Government certificates of indebtedness for bank notes issued | V.28 | 1,792             | 1,713     |
| Precious metals                                               |      | 42,782            | 40,542    |
| Financial assets at fair value through profit or loss         | V.16 | 82,682            | 76,581    |
| Derivative financial instruments                              | V.17 | 30,971            | 16,363    |
| Loans and advances to customers, net                          | V.18 | 2,336,067         | 1,971,865 |
| Investment securities                                         | V.19 |                   |           |
| – available for sale                                          |      | 568,887           | 706,739   |
| – held to maturity                                            |      | 285,067           | 287,398   |
| – loans and receivables                                       |      | 424,289           | 458,606   |
| Investment in subsidiaries                                    | V.21 | 49,014            | 45,451    |
| Investment in associates and joint ventures                   | V.22 | 19                | 21        |
| Property and equipment                                        | V.23 | 50,453            | 49,473    |
| Investment property                                           | V.24 | 1,362             | 620       |
| Deferred income tax assets                                    | V.36 | 18,080            | 21,843    |
| Other assets                                                  | V.25 | 41,312            | 30,272    |
| Total assets                                                  |      | 5,005,915         | 4,403,212 |

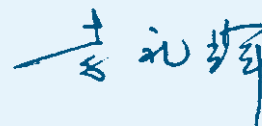
The accompanying notes form an integral part of these financial statements.

|                                                                                       |      | As at 31 December |                  |
|---------------------------------------------------------------------------------------|------|-------------------|------------------|
|                                                                                       | Note | 2007              | 2006             |
| <b>LIABILITIES</b>                                                                    |      |                   |                  |
| Due to banks and other financial institutions                                         | V.26 | 311,831           | 164,376          |
| Due to central banks                                                                  | V.27 | 90,454            | 42,349           |
| Bank notes in circulation                                                             | V.28 | 1,919             | 1,909            |
| Certificates of deposit and placements from<br>banks and other financial institutions | V.29 | 251,890           | 146,596          |
| Financial liabilities at fair value through profit or loss                            | V.30 | 72,755            | 81,441           |
| Derivative financial instruments                                                      | V.17 | 16,001            | 9,643            |
| Due to customers                                                                      | V.31 | 3,617,889         | 3,358,565        |
| Bonds issued                                                                          | V.32 | 63,162            | 60,173           |
| Other borrowings                                                                      | V.33 | 38,121            | 46,006           |
| Current tax liabilities                                                               |      | 19,454            | 16,757           |
| Retirement benefit obligations                                                        | V.34 | 7,231             | 7,444            |
| Deferred income tax liabilities                                                       | V.36 | 44                | 32               |
| Other liabilities                                                                     | V.37 | 128,684           | 112,527          |
| <b>Total liabilities</b>                                                              |      | <b>4,619,435</b>  | <b>4,047,818</b> |
| <b>EQUITY</b>                                                                         |      |                   |                  |
| <b>Capital and reserves attributable to equity<br/>holders of the Bank</b>            |      |                   |                  |
| Share capital                                                                         | V.38 | 253,839           | 253,839          |
| Capital reserve                                                                       | V.38 | 66,162            | 66,166           |
| Statutory reserves                                                                    | V.39 | 14,348            | 9,714            |
| General and regulatory reserves                                                       | V.39 | 22,025            | 11,393           |
| Undistributed profits                                                                 | V.39 | 35,234            | 14,385           |
| Reserve for fair value changes of<br>available for sale securities                    | V.40 | (5,704)           | (1,038)          |
| Currency translation differences                                                      |      | 576               | 935              |
| <b>Total equity</b>                                                                   |      | <b>386,480</b>    | <b>355,394</b>   |
| <b>Total equity and liabilities</b>                                                   |      | <b>5,005,915</b>  | <b>4,403,212</b> |

Approved and authorised for issue by the Board of Directors on 25 March 2008.



**XIAO Gang**  
Director



**LI Lihui**  
Director

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007 (Amount in millions of Renminbi, unless otherwise stated)

| Note                                                                       | Attributable to equity holders of the Bank |                 |                    |                                 |                       |                                                                 |                                  |                 |                   |          |
|----------------------------------------------------------------------------|--------------------------------------------|-----------------|--------------------|---------------------------------|-----------------------|-----------------------------------------------------------------|----------------------------------|-----------------|-------------------|----------|
|                                                                            | Share capital                              | Capital reserve | Statutory reserves | General and regulatory reserves | Undistributed profits | Reserve for fair value changes of available for sale securities | Currency translation differences | Treasury shares | Minority interest | Total    |
| As at 1 January 2007                                                       | 253,839                                    | 66,617          | 10,380             | 13,934                          | 38,425                | 2,009                                                           | (2,071)                          | (216)           | 30,039            | 412,956  |
| Net profit                                                                 | -                                          | -               | -                  | -                               | 56,248                | -                                                               | -                                | -               | 5,788             | 62,036   |
| Appropriation to statutory reserves V.39                                   | -                                          | -               | 5,068              | -                               | (5,068)               | -                                                               | -                                | -               | -                 | -        |
| Appropriation to general reserve and regulatory reserve V.39               | -                                          | -               | -                  | 10,977                          | (10,977)              | -                                                               | -                                | -               | -                 | -        |
| Net change in fair value of available for sale securities, net of tax V.40 | -                                          | -               | -                  | -                               | -                     | (3,515)                                                         | -                                | -               | (111)             | (3,626)  |
| Exercise of subsidiary share options                                       | -                                          | -               | -                  | -                               | -                     | -                                                               | -                                | -               | 30                | 30       |
| Net change in treasury shares V.38                                         | -                                          | -               | -                  | -                               | -                     | -                                                               | -                                | 171             | -                 | 171      |
| Dividends V.39                                                             | -                                          | -               | -                  | -                               | (10,154)              | -                                                               | -                                | -               | (3,584)           | (13,738) |
| Currency translation differences                                           | -                                          | -               | -                  | -                               | -                     | -                                                               | (5,218)                          | -               | (1,984)           | (7,202)  |
| Others                                                                     | -                                          | (25)            | -                  | -                               | 6                     | -                                                               | -                                | -               | 49                | 30       |
| As at 31 December 2007                                                     | 253,839                                    | 66,592          | 15,448             | 24,911                          | 68,480                | (1,506)                                                         | (7,289)                          | (45)            | 30,227            | 450,657  |

| Note                                                                       | Attributable to equity holders of the Bank |                 |                    |                                 |                       |                                                                 |                                  |                 |                   |         |
|----------------------------------------------------------------------------|--------------------------------------------|-----------------|--------------------|---------------------------------|-----------------------|-----------------------------------------------------------------|----------------------------------|-----------------|-------------------|---------|
|                                                                            | Share capital                              | Capital reserve | Statutory reserves | General and regulatory reserves | Undistributed profits | Reserve for fair value changes of available for sale securities | Currency translation differences | Treasury shares | Minority interest | Total   |
| As at 1 January 2006                                                       | 209,427                                    | (5,954)         | 5,987              | 5,109                           | 10,188                | 1,899                                                           | (237)                            | -               | 29,100            | 255,519 |
| Issue of ordinary shares V.38                                              | 44,412                                     | 72,567          | -                  | -                               | -                     | -                                                               | -                                | -               | -                 | 116,979 |
| Net profit                                                                 | -                                          | -               | -                  | -                               | 42,830                | -                                                               | -                                | -               | 5,434             | 48,264  |
| Appropriation to statutory reserves V.39                                   | -                                          | -               | 4,393              | -                               | (4,393)               | -                                                               | -                                | -               | -                 | -       |
| Appropriation to general reserve and regulatory reserve V.39               | -                                          | -               | -                  | 8,828                           | (8,828)               | -                                                               | -                                | -               | -                 | -       |
| Net change in fair value of available for sale securities, net of tax V.40 | -                                          | -               | -                  | -                               | -                     | 110                                                             | -                                | -               | 33                | 143     |
| Exercise of subsidiary share options                                       | -                                          | -               | -                  | -                               | -                     | -                                                               | -                                | -               | 33                | 33      |
| Net change in treasury shares V.38                                         | -                                          | -               | -                  | -                               | -                     | -                                                               | -                                | (216)           | -                 | (216)   |
| Dividends V.39                                                             | -                                          | -               | -                  | -                               | (1,375)               | -                                                               | -                                | -               | (3,391)           | (4,766) |
| Currency translation differences                                           | -                                          | -               | -                  | -                               | -                     | -                                                               | (1,834)                          | -               | (1,087)           | (2,921) |
| Others                                                                     | -                                          | 4               | -                  | (3)                             | 3                     | -                                                               | -                                | -               | (83)              | (79)    |
| As at 31 December 2006                                                     | 253,839                                    | 66,617          | 10,380             | 13,934                          | 38,425                | 2,009                                                           | (2,071)                          | (216)           | 30,039            | 412,956 |

The accompanying notes form an integral part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2007 (Amount in millions of Renminbi, unless otherwise stated)

|                                                                                                               | Note | 2007             | 2006      |
|---------------------------------------------------------------------------------------------------------------|------|------------------|-----------|
| <b>Cash flows from operating activities</b>                                                                   |      |                  |           |
| Profit before income tax                                                                                      |      | <b>90,697</b>    | 67,937    |
| Adjustments:                                                                                                  |      |                  |           |
| Impairment losses on loans and advances                                                                       |      | <b>8,252</b>     | 12,342    |
| Impairment losses on investment securities                                                                    |      | <b>12,263</b>    | 46        |
| Depreciation of property and equipment                                                                        |      | <b>5,981</b>     | 5,209     |
| Amortisation of intangible assets and other assets                                                            |      | <b>1,113</b>     | 817       |
| Net gains on disposal of property and equipment and other long-term assets                                    |      | <b>(626)</b>     | (569)     |
| Net gains on disposal of investment in subsidiaries, associates and joint ventures                            |      | <b>(222)</b>     | (789)     |
| Share of results of associates and joint ventures                                                             |      | <b>(1,263)</b>   | (632)     |
| Interest expense arising from bonds issued                                                                    |      | <b>2,933</b>     | 2,840     |
| Net changes in operating assets and liabilities:                                                              |      |                  |           |
| Net increase in balances with central banks                                                                   |      | <b>(316,782)</b> | (69,063)  |
| Net (increase)/decrease in due from banks and placements with banks and other financial institutions          |      | <b>(10,256)</b>  | 5,266     |
| Net increase in loans and advances to customers                                                               |      | <b>(425,019)</b> | (197,956) |
| Net decrease in other borrowings                                                                              |      | <b>(11,690)</b>  | (6,158)   |
| Net decrease/(increase) in investment securities                                                              |      | <b>98,439</b>    | (151,786) |
| Net increase in precious metals                                                                               |      | <b>(2,329)</b>   | (15,109)  |
| Net (increase)/decrease in other assets                                                                       |      | <b>(1,312)</b>   | 1,060     |
| Net increase in due to banks and other financial institutions                                                 |      | <b>146,071</b>   | 44,560    |
| Net increase in due to central banks                                                                          |      | <b>48,111</b>    | 12,319    |
| Net increase/(decrease) in certificates of deposit and placements from banks and other financial institutions |      | <b>101,574</b>   | (65,718)  |
| Net increase in due to customers                                                                              |      | <b>308,993</b>   | 391,654   |
| Net increase in other liabilities                                                                             |      | <b>18,851</b>    | 20,672    |
| Net cash from operating activities                                                                            |      | <b>73,779</b>    | 56,942    |
| Income tax paid                                                                                               |      | <b>(22,396)</b>  | (25,536)  |
| Net cash inflows from operating activities                                                                    |      | <b>51,383</b>    | 31,406    |

The accompanying notes form an integral part of these financial statements.

# Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2007 (Amount in millions of Renminbi, unless otherwise stated)

|                                                                                                 | Note | 2007     | 2006    |
|-------------------------------------------------------------------------------------------------|------|----------|---------|
| <b>Cash flows from investing activities</b>                                                     |      |          |         |
| Proceeds from disposal of property and equipment, intangible assets and other long-term assets  |      | 4,179    | 1,732   |
| Proceeds from disposal of investment in subsidiaries, associates and joint ventures             |      | 466      | 1,120   |
| Dividends received                                                                              |      | 523      | 320     |
| Purchase of property and equipment, intangible assets and other long-term assets                |      | (12,346) | (7,425) |
| Acquisition of a subsidiary, net of cash acquired                                               |      | –        | (5,373) |
| Payment for increase of investment in associates and joint ventures                             |      | (172)    | (185)   |
| Net cash outflows from investing activities                                                     |      | (7,350)  | (9,811) |
| <b>Cash flows from financing activities</b>                                                     |      |          |         |
| Proceeds from issuance of ordinary shares                                                       |      | –        | 117,423 |
| Cash received from issuance of bonds                                                            |      | 4,229    | –       |
| Proceeds from minority equity holders of a subsidiary upon exercise of subsidiary share options |      | 30       | 33      |
| Proceeds from minority equity holders of subsidiaries                                           |      | 16       | 55      |
| Net sale/(purchase) of treasury shares                                                          |      | 171      | (216)   |
| Cash payments for interest on bonds issued                                                      |      | (2,963)  | (2,774) |
| Dividend payments to equity holders of the Bank                                                 |      | (10,154) | (1,375) |
| Dividend payments to minority equity holders                                                    |      | (3,584)  | (3,391) |
| Payment of bonds/share issuance costs                                                           |      | (20)     | (413)   |
| Net cash (outflows)/inflows from financing activities                                           |      | (12,275) | 109,342 |
| Effect of exchange rate changes on cash and cash equivalents                                    |      | (22,765) | (8,105) |
| <b>Net increase in cash and cash equivalents</b>                                                |      | 8,993    | 122,832 |
| Cash and cash equivalents at beginning of year                                                  |      | 519,944  | 397,112 |
| Cash and cash equivalents at end of year                                                        | V.42 | 528,937  | 519,944 |

The accompanying notes form an integral part of these financial statements.

# Notes to the Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

## I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited (“the Bank”), formally known as Bank of China, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People’s Republic of China (the “PRC”) in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved into a state-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange respectively.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the “CBRC”) [No. B0003H111000001] and is registered as a business enterprise with the State Administration of Industry and Commerce of the PRC [No. 1000001000134].

The Bank and its subsidiaries (together “the Group”) provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other related financial services to its customers in the PRC, Hong Kong Special Administrative Region of the PRC (“Hong Kong”), Macau Special Administrative Region of the PRC (“Macau”), and other major international financial centres.

The Head Office of the Bank and its branches operating in the PRC are referred to as Domestic Operations. Branches and subsidiaries domiciled outside the PRC, including those located in Hong Kong, are referred to as Overseas Operations.

The Bank’s principal regulator is the CBRC. The Overseas Operations of the Group are subject to the supervision of local regulators.

The parent company is Central SAFE Investments Limited (“Huijin”) which owns 67.49% of the ordinary shares of the Bank at 31 December 2007.

These financial statements have been approved by the Board of Directors on 25 March 2008.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### 1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (IFRSs is a collective term which includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IAS”) and Interpretations ) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by available for sale investments, financial assets and financial liabilities (including derivative instruments) at fair value and investment properties.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note IV.

#### **(1) *Standards, amendments and interpretations to existing standards effective in 2007 or early adopted***

- IFRS 7, Financial Instruments: Disclosures and IAS 1 (Amendment), Presentation of Financial Statements – Capital Disclosures, are effective for annual accounting periods beginning on or after 1 January 2007. IFRS 7 introduces certain new disclosures relating to financial instruments while incorporating many of the requirements in IAS 32. IFRS 7 supersedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements of IAS 32 Financial Instruments: Disclosure and Presentation. The Group has adopted IFRS 7 and the amendment to IAS 1 and the key impacts are more qualitative and quantitative disclosures primarily related to fair value measurement and risk management. Accordingly the adoption of this standard has no effect on the Group’s results of operations or financial position.
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group has applied IFRIC 9 from 1 January 2007, and it has no impact on the Group’s financial statements.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of presentation (Continued)

**(1) *Standards, amendments and interpretations to existing standards effective in 2007 or early adopted (Continued)***

- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investment in equity instruments and investment in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group has applied IFRIC 10 from 1 January 2007, and it has no impact on the Group's financial statements.

**(2) *Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group***

- IAS 1 (Revised), Presentation of Financial Statements is effective for accounting periods beginning on or after 1 January 2009. The revised standard is aimed at improving users' ability to analyse and compare the information given in financial statements. IAS 1 (Revised) affects the presentation of owner changes in equity and of comprehensive income. All owner changes in equity are required to be presented in a statement of changes in equity, and all non-owner changes in equity are required to be presented in a statement of comprehensive income (or in an income statement and a statement of comprehensive income). The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. This standard will have no impact on the Group's operating results or financial position.
- IAS 32 and IAS 1 (Amendment), Puttable Financial Instruments and Obligations Arising on Liquidation is effective from 1 January 2009. The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendment is not expected to have any impact on the Group's operating results or financial position.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of presentation (Continued)

#### (2) *Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group (Continued)*

- IAS 27 (Revised), Consolidated and Separate Financial Statements is effective for all transactions for which the transaction date is on or after the first accounting period beginning on or after 1 July 2009. The revised standard requires changes in a parent's ownership interest in a subsidiary that do not result in the loss of control to be accounted for within equity. The standard also specifies the accounting when control is lost after which any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. Non controlling interests must be presented separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non controlling interests even if this results in the non-controlling interests having a deficit balance. Transactions with minority interests that occurred prior to the adoption of IAS 27 (Revised) are not restated. This standard is not expected to have a material effect on the Group's operating results or financial position.
- IFRS 3 (Revised), Business Combinations is effective for business combinations for which the acquisition date is on or after the first accounting period beginning on or after 1 July 2009. IFRS 3 (Revised) supersedes IFRS 3 Business Combinations and is a further development of the acquisition method of accounting for business combinations. Business combinations by contract alone or involving only mutual entities are brought into the scope of the standard. Common control transactions and the formation of joint ventures remain outside the scope of the standard. The standard amends the definition of a business to one for which a particular integrated set of activities and assets is capable of being conducted and managed as a business by a market participant. Business combinations that occurred prior to the adoption of IFRS 3 (Revised) are not restated. This standard is not expected to have a material effect on the Group's operating results or financial position.
- IFRS 8, Operating Segments is effective for annual periods beginning on or after 1 January 2009. IFRS 8 supersedes IAS 14, Segment Reporting, under which segments were identified and reported on the basis of a risk and return analysis. Items were reported on the basis of the accounting policies used for external reporting. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on internal reporting. This standard is not expected to have a material effect on the Group's operating results or financial position.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of presentation (Continued)

#### (2) *Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group (Continued)*

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions is effective for annual periods beginning on or after 1 March 2007. This interpretation addresses how to apply IFRS 2, Share-based Payments, to share-based payment arrangements involving the parent company's own equity instruments or equity instruments of another entity in the same group. It clarifies the accounting by a subsidiary when its employees receive shares of its parent as equity-settled or cash-settled transactions. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. This interpretation is not expected to have a material effect on the Group's operating results or financial position.
- IFRIC 13 – Customer Loyalty Programmes is effective for annual periods beginning on or after 1 July 2008 and addresses accounting by entities that grant loyalty award credits (such as "points" or "travel miles") to customers as incentive to buy their goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ("awards") to customers who redeem award credits. This interpretation is not expected to have a material effect on the Group's operating results or financial position.

### 2 Consolidation

#### (1) *Subsidiaries*

Subsidiaries are all entities over which the Group has control, that is, having the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2 Consolidation (Continued)

#### (1) *Subsidiaries (Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets (including intangible assets) acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's balance sheets, investment in subsidiaries is accounted for using the cost method of accounting and is initially recognised at cost.

The Group assesses at each balance sheet date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

#### (2) *Associates and joint ventures*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2 Consolidation (Continued)

#### (2) *Associates and joint ventures (Continued)*

Investment in associates and joint ventures is accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each balance sheet date whether there is objective evidence that investment in associates and joint ventures are impaired. An impairment loss is recognised for the amount by which the investment in associates and joint ventures' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of investment in associates and joint ventures' fair value less costs to sell and value in use.

In the Bank's balance sheets, the investment in associates and joint ventures is accounted for using the cost method of accounting and is initially recognised at cost.

### 3 Foreign currency translation

#### (1) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in Renminbi ("RMB"), which is the Bank's functional and presentation currency.

#### (2) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3 Foreign currency translation (Continued)

#### (2) *Transactions and balances (Continued)*

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rates ruling at that date. Translation differences on monetary assets and liabilities, except monetary securities classified as available for sale, are recognised in the income statement. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in available for sale reserve in equity.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated into Renminbi using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are included in the available for sale reserve in equity. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as “Net trading gains/ (losses)” in the income statement.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

When a foreign entity is sold, these exchange differences are recognised in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within “Interest income” and “Interest expense” in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 5 Fee and commission income

Fees and commissions are recognised on an accrual basis when the related service has been provided.

Fees and commissions that are not integral part of the effective yield are recognised on an accrual basis rateably over the period when the related service has been provided, such as administration fee, asset management fee and custodian services fee. Loan syndication fees are recognised as revenue when the related syndication arrangement has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as that of other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are generally recognised on completion of the underlying transaction.

Portfolio management advisory and other service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Fund management fees and custodian service fees are recognised rateably over the period that the service is provided.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 6 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value through profit or loss. Fair values are obtained from quoted market prices in active markets, and through the use of valuation techniques. These include the use of recent arm's length transactions between knowledgeable, willing parties, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on the day of transaction.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid contract is not a financial asset or liability designated at fair value through profit or loss.

While certain derivative transactions are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, they are not designated as accounting hedges and therefore fair value changes are reported in "Net trading gains/(losses)" in the income statement.

Interest income and expense for derivatives is recognised in "Net trading gains/(losses)" in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 7 Financial assets

The Group classifies its financial assets into four categories: financial assets at fair value through profit or loss; loans and receivables; held to maturity investments and available for sale investments. Management determines the classification of its financial assets at initial recognition.

#### (1) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception.

A financial asset which has been acquired or received principally for the purpose of selling in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, is classified as held-for-trading.

A financial asset is classified as fair value through profit or loss at inception if it meets following criteria and is designated as such by management on initial recognition:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognizing the gains and losses on them on different bases;
- a group of financial assets or a group of financial assets and financial liabilities is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or
- financial assets contain one or more embedded derivatives which significantly modify the cash flows.

These financial assets are recognised initially at fair value, with transaction costs taken directly to the income statement on the trade date and are subsequently remeasured at fair value. Gains and losses from changes in the fair value of such financial assets (excluding interest accruals) are reported in "Net trading gains/(losses)" in the income statement. The accrual of interest is reported in "Interest income" in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 7 Financial assets (Continued)

#### (2) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including balances with central banks, due from banks, placements with banks and other financial institutions, investment securities classified as loans and receivables and loans and advances to customers, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held-for-trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Investment securities classified as loans and receivables are recognised on trade date. Other loans and receivables are recognised when cash is advanced to borrowers. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate.

The Group transfers (or “re-discounts”) certain trade bills to banks and other financial institutions. These trade bills are derecognised on transfer when all risks and rewards have been transferred. When the criteria for de-recognition have not been met, the related transactions are accounted for as secured borrowings and an obligation is recorded as placements from banks and other financial institutions.

#### (3) *Held to maturity*

Financial assets classified as held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has both the positive intention and the ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated at fair value through profit or loss or available for sale. If the Group were to sell or reclassify as available for sale investments more than an insignificant amount of held to maturity investments, the entire category would be tainted and reclassified as available for sale investments. They are initially recorded at fair value plus any directly attributable transaction costs on the trade date and are subsequently measured at amortised cost using the effective interest rate.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 7 Financial assets (Continued)

#### (4) *Available for sale*

Financial assets classified as available for sale are non-derivatives that are either designated as such or are not classified in any of the other categories.

Available for sale financial assets are initially recorded at fair value plus any directly attributable transaction costs on the trade date and subsequently re-measured at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. Interest calculated using the effective interest method is recognised in the income statement. Dividends on equity instruments classified as available for sale are recognised in the income statement when the Group's right to receive payment is established.

#### (5) *Derecognition of financial assets*

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

#### (6) *Determination of fair value*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active or the security is unlisted, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions between knowledgeable, willing parties, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 8 Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (vii) any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered;
- (viii) a significant or prolonged decline in the fair value of the equity instrument investment; or
- (ix) other objective evidences indicating impairment of the financial asset.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 8 Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

#### (1) *Assets carried at amortised cost*

Impairment loss for loans and receivables or held to maturity investment securities is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 8 Impairment of financial assets (Continued)

#### (1) *Assets carried at amortised cost (Continued)*

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related allowances for loan impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses on loans and advances in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

#### (2) *Assets classified as available for sale*

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss is removed from equity and recognised in the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. With respect to equity instruments, such reversals are made through the available for sale reserve within equity.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 9 Financial liabilities

The Group classifies its financial liabilities into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. Management determines the classification of its financial liabilities at initial recognition.

#### (1) *Financial liabilities at fair value through profit or loss*

This category has two sub-categories: financial liabilities held-for-trading, and those designated at fair value through profit or loss at inception.

A financial liability which is incurred principally for the purpose of repurchasing in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, is classified as held-for-trading.

A financial liability is classified as fair value through profit or loss at inception if it meets the following criteria and is designated as such by management on initial recognition:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;
- a group of financial liabilities, or a group of financial assets and financial liabilities is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or
- financial liabilities contain one or more embedded derivatives which significantly modify the cash flows.

These liabilities are recognised initially at fair value, with transaction costs taken directly to the income statement on the trade date and are subsequently remeasured at fair value. Gains and losses from changes in the fair value of such financial liabilities (excluding interest accruals) are reported in “Net trading gains/(losses)” in the income statement. The accrual of interest is reported in “Interest expenses” in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 9 Financial liabilities (Continued)

#### (2) *Other financial liabilities*

Other financial liabilities including due to customers, borrowings and bonds issued, are recognised initially at fair value, net of transaction costs incurred. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate.

If the Group purchases its own debt, it is removed from the consolidated balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in the consolidated income statement.

#### (3) *Derecognition of financial liabilities*

Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire.

### 10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 11 Insurance contracts

#### (1) *Insurance contracts classification, recognition and measurement*

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur. The Group issues general insurance contracts, which cover casualty and property insurance risk, and long-term insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration. The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 11 Insurance contracts (Continued)

#### (1) *Insurance contracts classification, recognition and measurement (Continued)*

Premiums on general insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are recognised before the deduction of commissions.

Claims and loss adjustment expenses are charged to the income statement as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group.

Premiums on long-term insurance contracts are recognised as revenue when they become payable by the contract holders. Premiums are recognised before the deduction of commissions. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

#### (2) *Deferred policy acquisition costs ("DAC")*

Commissions and other acquisition costs for general insurance contracts that vary with and are related to securing new contracts and renewing existing contracts are capitalised as DAC, recognised in "Other assets". All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the terms of the policies as premiums are earned.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 11 Insurance contracts (Continued)

#### (3) *Liability adequacy test*

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of general insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement, with a provision established for losses arising from the liability adequacy test.

### 12 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") are recorded as "Investment securities" or "Loans and advances to customers, net". The counterparty liability is included in "Placements from banks and other financial institutions" or "Due to central banks", as appropriate. Securities and bills purchased under agreements to resell ("Reverse repos") are recorded as "Placements with banks and other financial institutions" or "Balances with central banks" as appropriate. The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are retained in the financial statements and cash collateral received is recognised as a liability. Securities borrowed from counterparties by the Group are not recognised in the financial statements of the Group and cash collateral advanced is recognised in the financial statements.

### 13 Leases

#### (1) *Finance lease*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 13 Leases (Continued)

#### (1) *Finance lease (Continued)*

The corresponding liability to the lessor is included in “Other liabilities”. Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable in “Other assets”. The difference between the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs and their present value is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

#### (2) *Operating lease*

All leases other than finance leases are classified as operating leases.

When the Group is the lessee under an operating lease, rental expenses are charged to the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are still accounted for as the Group’s assets. Rental income is recognised on a straight-line basis over the lease term.

### 14 Precious metals, precious metals deposits and precious metals swaps

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group’s precious metals trading activities are carried at lower of cost and net realisable value. Precious metals that are related to the Group’s trading activities are initially recognised at fair value and re-measured at fair value less cost to sell with changes in fair value less cost to sell included in “Net trading gains/(losses)” in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 14 Precious metals, precious metals deposits and precious metals swaps (Continued)

The Group receives all risks and rewards of ownership related to bullion deposited with the Group as bullion deposits, including the right to freely pledge or transfer, and it records the gold bullion received as an asset. A liability to return the amount of gold bullion deposited is also recognised. This obligation is measured at cost unless the Group does not possess sufficient gold bullion to meet the obligation giving rise to the liability. To the extent the liability exceeds the related asset, the open position is marked to market.

Gold bullion and other precious metals sold subject to linked repurchase agreements are not derecognised and the related counter-party liability is recorded in "Placements from banks and other financial institutions" or "Due to central bank", as appropriate.

### 15 Property and equipment

#### (1) *Buildings, equipment and motor vehicles, etc.*

Buildings comprise primarily branches and office premises. All buildings, equipment and motor vehicles, etc. are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in an asset's carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

|                |             |
|----------------|-------------|
| Buildings      | 15-50 years |
| Equipment      | 3-15 years  |
| Motor vehicles | 4-6 years   |

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 15 Property and equipment (Continued)

#### (1) *Buildings, equipment and motor vehicles, etc. (Continued)*

Buildings, equipment and motor vehicles, etc. are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, relevant taxes and expenses. These are included in the income statement.

#### (2) *Aircraft*

Aircraft are stated at cost less accumulated depreciation and any impairment loss. Modifications, improvements and all other costs associated with maintaining the aircraft in a serviceable state are capitalised.

Aircraft are depreciated using the straight-line method over a period of 25 years, being the expected useful life, less the years of their service at the time of purchase to an estimated residual value.

Aircraft are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Gains and losses on disposal of the aircraft are determined by comparing proceeds with carrying amount, relevant taxes and expenses. These are included in the income statement.

#### (3) *Construction in progress*

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

Impairment losses are recognised for idle projects with respect to which management has determined that resumption in the foreseeable future is not probable.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 16 Investment properties

Investment property, principally consisting of office buildings, is held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment property is carried at fair value and changes in fair value are recorded in income statement, representing open market value determined periodically by independent appraisers.

### 17 Repossessed assets

Repossessed assets are initially recognised at fair value and subsequently measured at lower of carrying amount and fair value less costs to sell.

### 18 Intangible assets

Intangible assets principally comprise computer software and options and firm orders for aircraft.

Computer software is stated at cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

Options and firm orders for aircraft which arose from the acquisition of a subsidiary were initially recorded at fair value at the date of acquisition. The value of such options and firm orders are not amortised and will be added to the cost of aircraft when the related aircraft are purchased. The value of options and firm orders is reviewed for impairment at each reporting date.

Computer software is periodically reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which computer software's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of computer software's fair value less costs to sell and value in use.

### 19 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 20 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with an original maturity of less than three months, including: cash, non-restricted balances with central banks, due from banks, placements with banks and other financial institutions, and short-term bills and notes classified as financial assets at fair value through profit or loss and investment securities.

### 21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

### 22 Employee benefits

#### (1) *Defined contribution plans*

In accordance with the policies of relevant state and local governments, domestic employees participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Domestic Operations contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, domestic employees who retired after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in Overseas Operations participate in local defined contribution schemes. Overseas Operations contribute to these defined contribution plans based on certain percentages of the employees' basic salaries.

Contributions made by the Group to the retirement schemes described above are recorded as an expense in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 22 Employee benefits (Continued)

#### (2) *Retirement benefit obligations*

The Group has paid supplemental retirement benefits to domestic employees who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental benefit obligation and early retirement obligations existing at each year-end, is calculated by the independent actuaries using the projected unit credit method and is recorded as a liability under “Retirement benefit obligations” in the balance sheet. The present value of the liability is determined through estimated future cash outflows using interest rates of RMB treasury bills which have terms to maturity approximating the terms of the related liability. The gains or losses including those arising from the changes in actuarial assumptions and amendments to pension plans are charged or credited to the income statement immediately as they occur.

#### (3) *Housing funds*

Pursuant to local government regulations, all domestic employees participate in various local housing funds administered by local governments. Domestic Operations contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are expensed as incurred.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 22 Employee benefits (Continued)

#### (4) *Share-based compensation*

##### (a) *Equity-settled share-based compensation schemes*

A subsidiary of the Group operates a number of equity-settled share-based compensation schemes. The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at grant date, and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and capital reserve when the options are exercised.

##### (b) *Cash-settled share-based compensation scheme*

The Group also operates a cash-settled share appreciation rights plan. The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each reporting date with any changes in fair value recognised in profit or loss for the period and derecognised until the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to liability.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 22 Employee benefits (Continued)

#### (5) Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

### 23 Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and liabilities including derivative contracts, depreciation of property and equipment, provisions for pension and other employee benefit costs.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- (i) is not a business combination; and
- (ii) at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

However, for deductible temporary differences associated with investment in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that:

- (i) the temporary difference will reverse in the foreseeable future; and
- (ii) taxable profit will be available against which the temporary difference can be utilised.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 23 Deferred income taxes (Continued)

Deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- (i) the initial recognition of goodwill; or
- (ii) the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries and associates are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred income tax related to fair value re-measurement of available for sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain and loss.

### 24 Share capital

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Consideration received on the issuance of shares in excess of the share cost is reported in the capital reserve.

#### (1) *Share issue costs*

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 24 Share capital (Continued)

#### (2) *Dividends*

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's equity holders.

Dividends for the year that are declared after the balance sheet date are addressed in the subsequent event note to the financial statements.

#### (3) *Treasury shares*

Where the Bank or other members of the Group purchase the Bank's ordinary shares, treasury shares are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity holders' equity.

### 25 Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with reimbursement from the customers.

### 26 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other institutions. These assets are excluded from these financial statements, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purpose, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the balance sheet of the Group.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 27 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and its amount can be reliably measured, it will then be recognised as a provision.

### 28 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgment of management.

### 29 Segment reporting

A geographical segment is engaged in providing products and services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments.

### III FINANCIAL RISK MANAGEMENT

#### 1 Overview

The Group's primary risk management objectives are to maximize value for equity holders while maintaining risk within acceptable parameters and satisfying the requirements of the regulatory authorities, the Group's depositors and other interest groups for the Group's prudent and stable development.

The Group designs risk management policies and has set up risk controls to identify, analyse, monitor and reports risks by means of relevant and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risk to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate, currency risk, and other price risk.

#### 2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall management responsibility for managing all aspects of risk, including implementing risk management strategies and initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Group has also defined departments monitoring risk arising from financial instruments within the Group, including the Risk Management Department, the Credit Administration Department, the Treasurer and the Legal and Compliance Department.

Risks in branches are managed through a vertical management model and the risks in business departments through establishing specific risk management teams. The Group monitors and controls risk management in subsidiaries by appointing members of their boards of directors and risk management committees.

#### 3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most important risks for the Group's business.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, bill acceptance and letters of credit.

##### 3.1 Credit risk measurement

###### (i) Loans and advances and off-balance sheet commitments

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures is performed by the Risk Management Department, and reported to the senior management and Board of Directors regularly.

In measuring credit risk of loans and advances to corporate customers, the Group mainly reflects the 'probability of default' by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group measures credit risk through the use of standard approval procedures for personal loans and credit score-card models, which are based on historical default data for credit cards.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the "Guiding Principles on the Classification of Loan Risk Management" issued by the CBRC, which requires Chinese commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing. For overseas operations, where local regulations and requirements are more prudent than the Guiding Principles on the Classification of Loan Risk Management, credit assets are classified according to local regulations and requirements.

The five categories are defined as follows:

Pass: borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.1 Credit risk measurement (Continued)

(i) *Loans and advances and off-balance sheet commitments (Continued)*

Substandard: borrowers' ability to service loans is apparently in question, cannot depend on their normal business revenues to pay back the principal and interest of loans and certain losses might be incurred even when guarantees are executed.

Doubtful: borrowers cannot pay back principal and interest of loans in full and significant losses will incur even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

For placements with banks and other financial institutions, the Group manages the credit quality based on the external credit rating of the banks.

Credit commitments represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. Guarantees and standby letters of credit carry credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less risk than a direct loan. The Group monitors the term to maturity of credit commitments to identify longer-term commitments which are assessed to have a greater degree of credit risk than shorter-term commitments.

The Group identifies credit exposures by industry, geography and customer risk. This information is monitored regularly by management.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.1 Credit risk measurement (Continued)

###### (ii) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and payment rates, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security and the credit quality of underlying assets, including review of default rates and prepayment rates to identify exposure to credit risk.

The Group maintains strict control limits on net open derivative positions based on notional amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall lending limits set for customers. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

##### 3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

###### (i) Credit risk limits and controls

###### (a) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group have adopted credit approval policies and procedures that are reviewed and updated by the Risk Management Department at head office in conjunction with other relevant departments. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.2 Credit risk limit control and mitigation policies (Continued)

###### (i) Credit risk limits and controls (Continued)

###### (a) Loans and advances and off-balance sheet commitments (Continued)

Corporate loans in Chinese Mainland are originated by the Corporate Banking Departments at head office and branch level and submitted to the Risk Management Department for due diligence and approval. All credit applications for corporate lending must be approved by authorised credit application approvers at head office and domestic tier one branches, except for credit applications that are identified as low risk, such as loans sufficiently secured by PRC treasury bonds, bills or pledged funds or loans supported by the credit of financial institutions that are within pre-approved credit limits. The exposure to any one borrower, including banks, is restricted by credit limits covering on- and off-balance sheet exposures.

Personal loans in Chinese Mainland are originated by the Personal Banking Departments at domestic branch level and must be approved by authorised approvers at domestic tier one branches, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier one level. High risk personal loans such as personal loans for business purposes in excess of certain limits must be reviewed by the Risk Management Department, and approved by authorised approver at tier one branches. Other personal loans may be approved by authorised approvers in the personal loan centres at tier one branches.

The head office also oversees the risk management of the overseas branches. In particular, any credit application at the overseas branches exceeding the authorisation limits is required to be submitted to the head office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.2 Credit risk limit control and mitigation policies (Continued)

###### (i) Credit risk limits and controls (Continued)

###### (b) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on the credit ratings of customers and securities issuer and issues and utilisation is actively monitored.

###### (ii) Credit risk mitigation policies

###### (a) Collateral and guarantees

The Group employs a range of policies and practices to mitigate credit risk. The most typical of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Department and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Credit Administration Department. The principal collateral types for corporate loans and advances are:

| Collateral                      | Maximum loan-to-value ratio |
|---------------------------------|-----------------------------|
| Cash deposits with the Group    | 90%                         |
| PRC treasury bonds              | 90%                         |
| PRC financial institution bonds | 85%                         |
| Publicly traded stocks          | 50%                         |
| Property                        | 70%                         |
| Land use rights                 | 60%                         |
| Automobiles                     | 40%                         |

Mortgage loans to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.2 Credit risk limit control and mitigation policies (Continued)

###### (ii) Credit risk mitigation policies (Continued)

###### (a) Collateral and guarantees (Continued)

For loans guaranteed by a third party guarantor, the Group will assess the guarantor's credit rating, considering financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of re-purchase and reverse re-purchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.41(3).

###### (b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

## III FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.3 Impairment and provisioning policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

##### (i) Loans and advances

Management determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower’s financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group’s policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.3 Impairment and provisioning policies (Continued)

(i) *Loans and advances (Continued)*

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical experience, professional judgment and statistical techniques.

(ii) *Debt securities*

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39 based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or counterparties holding underlying assets;
- probable that the issuer or counterparty holding underlying assets will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis using available data, including default rates, prepayment rates and assessment of the quality of the underlying assets. The impairment allowances have taken into consideration information that became available after the balance sheet date which provided additional evidence of impairment as at 31 December 2007.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

###### Group

|                                                                                     | As at 31 December |           |
|-------------------------------------------------------------------------------------|-------------------|-----------|
|                                                                                     | 2007              | 2006      |
| Credit risk exposures relating to on-balance sheet financial assets are as follows: |                   |           |
| Due from banks                                                                      | 37,256            | 8,702     |
| Balance with central banks                                                          | 751,344           | 379,631   |
| Placements with banks and other financial institutions                              | 386,648           | 399,138   |
| Government certificates of indebtedness for bank notes issued                       | 32,478            | 36,626    |
| Financial assets at fair value through profit or loss                               | 117,073           | 110,634   |
| Derivative financial instruments                                                    | 45,839            | 24,837    |
| Loans and advances to customers, net                                                | 2,754,493         | 2,337,726 |
| Investment securities                                                               |                   |           |
| – available for sale                                                                | 667,744           | 807,308   |
| – held to maturity                                                                  | 446,647           | 461,140   |
| – loans and receivables                                                             | 458,620           | 500,336   |
| Other assets                                                                        | 61,826            | 44,337    |
|                                                                                     | 5,759,968         | 5,110,415 |
| Credit risk exposures relating to off-balance sheet items are as follows:           |                   |           |
| Letters of guarantee issued                                                         | 423,771           | 290,205   |
| Loan commitments and other credit related liabilities                               | 911,776           | 797,617   |
|                                                                                     |                   |           |
| Total                                                                               | 7,095,515         | 6,198,237 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.4 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

###### Bank

|                                                                                     | As at 31 December |           |
|-------------------------------------------------------------------------------------|-------------------|-----------|
|                                                                                     | 2007              | 2006      |
| Credit risk exposures relating to on-balance sheet financial assets are as follows: |                   |           |
| Due from banks                                                                      | 35,948            | 10,210    |
| Balance with central banks                                                          | 721,433           | 354,881   |
| Placements with banks and other financial institutions                              | 285,357           | 303,002   |
| Government certificates of indebtedness for bank notes issued                       | 1,792             | 1,713     |
| Financial assets at fair value through profit or loss                               | 82,682            | 76,581    |
| Derivative financial instruments                                                    | 30,971            | 16,363    |
| Loans and advances to customers, net                                                | 2,336,067         | 1,971,865 |
| Investment securities                                                               |                   |           |
| – available for sale                                                                | 567,607           | 706,026   |
| – held to maturity                                                                  | 285,067           | 287,398   |
| – loans and receivables                                                             | 424,289           | 458,606   |
| Other assets                                                                        | 34,871            | 25,744    |
|                                                                                     | 4,806,084         | 4,212,389 |
| Credit risk exposures relating to off-balance sheet items are as follows:           |                   |           |
| Letters of guarantee issued                                                         | 424,343           | 286,050   |
| Loan commitments and other credit related liabilities                               | 698,932           | 616,178   |
| Total                                                                               | 5,929,359         | 5,114,617 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.4 *Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)*

The above tables represents a worst case scenario of credit risk exposure to the Group and the Bank at 31 December 2007 and 2006, without taking account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group and the Bank could be required to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities or revocable in the event of a significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities.

As shown above, as at 31 December 2007, 38.82% of the Group's total maximum credit exposure is derived from loans and advances to customers (2006: 37.72%); 23.82% represents investments in debt securities (2006: 30.32%).

##### 3.5 *Loans and advances*

The total impairment allowance for loans and advances for the Group is RMB96,068 million (2006: RMB94,293 million), of which RMB51,837 million (2006: RMB53,846 million) represents the allowance on individually impaired loans and the remaining amount of RMB44,231 million (2006: RMB40,447 million) represents the collective impairment allowance. Further information of the impairment allowance for loans and advances to customers is provided in Note V.18.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

The gross loans and advances of the Group and the Bank are set out below:

|                                 | As at 31 December |           |                  |           |
|---------------------------------|-------------------|-----------|------------------|-----------|
|                                 | Group             |           | Bank             |           |
|                                 | 2007              | 2006      | 2007             | 2006      |
| Corporate loans                 |                   |           |                  |           |
| – neither past due nor impaired | <b>2,030,746</b>  | 1,746,051 | <b>1,754,593</b> | 1,516,041 |
| – past due but not impaired     | <b>6,776</b>      | 10,987    | <b>4,313</b>     | 8,671     |
| – impaired                      | <b>80,455</b>     | 92,237    | <b>79,963</b>    | 91,340    |
| Subtotal                        | <b>2,117,977</b>  | 1,849,275 | <b>1,838,869</b> | 1,616,052 |
| Personal loans                  |                   |           |                  |           |
| – neither past due nor impaired | <b>697,655</b>    | 542,232   | <b>560,498</b>   | 412,922   |
| – past due but not impaired     | <b>25,067</b>     | 29,517    | <b>21,514</b>    | 26,188    |
| – impaired                      | <b>9,862</b>      | 10,995    | <b>9,672</b>     | 9,665     |
| Subtotal                        | <b>732,584</b>    | 582,744   | <b>591,684</b>   | 448,775   |
| Total                           | <b>2,850,561</b>  | 2,432,019 | <b>2,430,553</b> | 2,064,827 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

###### (i) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the rating system adopted by the Group.

###### Group

|                 | As at 31 December 2007 |         |           | As at 31 December 2006 |         |           |
|-----------------|------------------------|---------|-----------|------------------------|---------|-----------|
|                 | Special                |         |           | Special                |         |           |
|                 | Pass                   | Mention | Total     | Pass                   | Mention | Total     |
| Corporate loans | 1,908,460              | 122,286 | 2,030,746 | 1,579,105              | 166,946 | 1,746,051 |
| Personal loans  | 695,911                | 1,744   | 697,655   | 539,413                | 2,819   | 542,232   |
| Total           | 2,604,371              | 124,030 | 2,728,401 | 2,118,518              | 169,765 | 2,288,283 |

###### Bank

|                 | As at 31 December 2007 |         |           | As at 31 December 2006 |         |           |
|-----------------|------------------------|---------|-----------|------------------------|---------|-----------|
|                 | Special                |         |           | Special                |         |           |
|                 | Pass                   | Mention | Total     | Pass                   | Mention | Total     |
| Corporate loans | 1,634,313              | 120,280 | 1,754,593 | 1,352,100              | 163,941 | 1,516,041 |
| Personal loans  | 559,173                | 1,325   | 560,498   | 410,385                | 2,537   | 412,922   |
| Total           | 2,193,486              | 121,605 | 2,315,091 | 1,762,485              | 166,478 | 1,928,963 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

(ii) Loans and advances past due but not impaired

The gross amount of loans and advances to customers that were past due but not impaired is as follows:

**Group**

|                 | As at 31 December 2007 |            |          |        |
|-----------------|------------------------|------------|----------|--------|
|                 | Within                 | More than  |          | Total  |
|                 | 1 month                | 1-3 months | 3 months |        |
| Corporate loans | 4,695                  | 1,563      | 518      | 6,776  |
| Personal loans  | 18,063                 | 6,818      | 186      | 25,067 |
| Total           | 22,758                 | 8,381      | 704      | 31,843 |

|                 | As at 31 December 2006 |            |          |        |
|-----------------|------------------------|------------|----------|--------|
|                 | Within                 | More than  |          | Total  |
|                 | 1 month                | 1-3 months | 3 months |        |
| Corporate loans | 6,478                  | 2,310      | 2,199    | 10,987 |
| Personal loans  | 19,721                 | 9,794      | 2        | 29,517 |
| Total           | 26,199                 | 12,104     | 2,201    | 40,504 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

###### (ii) Loans and advances past due but not impaired (Continued)

###### Bank

|                 | As at 31 December 2007 |            |          |        |
|-----------------|------------------------|------------|----------|--------|
|                 | Within                 | More than  |          | Total  |
|                 | 1 month                | 1-3 months | 3 months |        |
| Corporate loans | 2,754                  | 1,283      | 276      | 4,313  |
| Personal loans  | 15,078                 | 6,434      | 2        | 21,514 |
| Total           | 17,832                 | 7,717      | 278      | 25,827 |

|                 | As at 31 December 2006 |            |          |        |
|-----------------|------------------------|------------|----------|--------|
|                 | Within                 | More than  |          | Total  |
|                 | 1 month                | 1-3 months | 3 months |        |
| Corporate loans | 4,453                  | 2,019      | 2,199    | 8,671  |
| Personal loans  | 16,736                 | 9,450      | 2        | 26,188 |
| Total           | 21,189                 | 11,469     | 2,201    | 34,859 |

###### (iii) Loans and advances determined to be impaired

The breakdown of the gross amount of impaired corporate and personal loans and advances is as follows:

|                 | As at 31 December |         |        |         |
|-----------------|-------------------|---------|--------|---------|
|                 | Group             |         | Bank   |         |
|                 | 2007              | 2006    | 2007   | 2006    |
| Corporate loans | 80,455            | 92,237  | 79,963 | 91,340  |
| Personal loans  | 9,862             | 10,995  | 9,672  | 9,665   |
| Total           | 90,317            | 103,232 | 89,635 | 101,005 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

###### (iv) Loans and advances rescheduled

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms generally as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability. All rescheduled loans are classified as "substandard" or below. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans are subject to a surveillance period for six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. All rescheduled loans are determined to be impaired and therefore rescheduled loans that would otherwise be past due or impaired are nil at 31 December 2007 (2006: nil).

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

###### (iv) Loans and advances rescheduled (Continued)

Within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less are as follows:

###### Group

|                                                               | As at 31 December |                                            |       |                                            |
|---------------------------------------------------------------|-------------------|--------------------------------------------|-------|--------------------------------------------|
|                                                               | 2007              | % of total loans and advances to customers | 2006  | % of total loans and advances to customers |
| Loans and advances to customers (overdue for 90 days or less) | 1,843             | 0.06%                                      | 1,416 | 0.06%                                      |

###### Bank

|                                                               | As at 31 December |                                            |       |                                            |
|---------------------------------------------------------------|-------------------|--------------------------------------------|-------|--------------------------------------------|
|                                                               | 2007              | % of total loans and advances to customers | 2006  | % of total loans and advances to customers |
| Loans and advances to customers (overdue for 90 days or less) | 1,670             | 0.07%                                      | 1,196 | 0.06%                                      |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

(v) Concentrations of risk for loans and advances to customers

The economic sector concentration of risk for loans and advances to customers (gross) are as follows:

**Group**

|                                 | As at 31 December |    |           |    |
|---------------------------------|-------------------|----|-----------|----|
|                                 | 2007              | %  | 2006      | %  |
| <b><u>Chinese Mainland</u></b>  |                   |    |           |    |
| <b>Corporate loans</b>          |                   |    |           |    |
| Manufacturing                   | 629,327           | 22 | 556,032   | 23 |
| Commerce and services           | 280,465           | 10 | 257,853   | 11 |
| Energy, mineral and agriculture | 266,323           | 9  | 240,314   | 10 |
| Transportation and logistics    | 223,355           | 8  | 182,398   | 8  |
| Real estate                     | 143,613           | 5  | 113,589   | 5  |
| Public utilities                | 112,231           | 4  | 105,933   | 4  |
| Construction                    | 38,560            | 2  | 34,676    | 1  |
| Financial services              | 33,897            | 1  | 53,333    | 2  |
| Others                          | 2,401             | –  | 2,692     | –  |
| Subtotal                        | 1,730,172         | 61 | 1,546,820 | 64 |
| <b>Personal loans</b>           |                   |    |           |    |
| Mortgage loans                  | 454,984           | 16 | 337,834   | 14 |
| Credit card advances            | 5,307             | –  | 2,876     | –  |
| Others                          | 125,242           | 4  | 102,870   | 4  |
| Subtotal                        | 585,533           | 20 | 443,580   | 18 |
| Total for Chinese Mainland      | 2,315,705         | 81 | 1,990,400 | 82 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

(v) Concentrations of risk for loans and advances to customers (Continued)

##### Group

|                                                                            | As at 31 December |     |           |     |
|----------------------------------------------------------------------------|-------------------|-----|-----------|-----|
|                                                                            | 2007              | %   | 2006      | %   |
| <b><u>Hong Kong and Macau</u></b>                                          |                   |     |           |     |
| <b>Corporate loans</b>                                                     |                   |     |           |     |
| Real estate                                                                | 92,109            | 4   | 94,391    | 4   |
| Commerce and services                                                      | 63,188            | 2   | 33,443    | 1   |
| Transportation and logistics                                               | 34,069            | 1   | 24,481    | 1   |
| Manufacturing                                                              | 32,343            | 1   | 35,853    | 1   |
| Energy, mineral and agriculture                                            | 8,523             | –   | 12,256    | 1   |
| Financial services                                                         | 8,317             | –   | 12,107    | 1   |
| Construction                                                               | 6,466             | –   | 4,053     | –   |
| Others                                                                     | 41,353            | 2   | 25,328    | 1   |
| Subtotal                                                                   | 286,368           | 10  | 241,912   | 10  |
| <b>Personal loans</b>                                                      |                   |     |           |     |
| Mortgage loans                                                             | 121,187           | 4   | 117,972   | 5   |
| Credit card advances                                                       | 5,283             | –   | 5,516     | –   |
| Others                                                                     | 18,419            | 1   | 14,132    | 1   |
| Subtotal                                                                   | 144,889           | 5   | 137,620   | 6   |
| Total for Hong Kong and Macau                                              | 431,257           | 15  | 379,532   | 16  |
| <b><u>Other overseas operations</u></b>                                    |                   |     |           |     |
| Gross amounts of loans and advances before allowance for impairment losses | 2,850,561         | 100 | 2,432,019 | 100 |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

(v) Concentrations of risk for loans and advances to customers (Continued)

##### Bank

|                                                                            | As at 31 December |     |           |     |
|----------------------------------------------------------------------------|-------------------|-----|-----------|-----|
|                                                                            | 2007              | %   | 2006      | %   |
| <b>Corporate loans</b>                                                     |                   |     |           |     |
| Manufacturing                                                              | 655,529           | 27  | 568,398   | 27  |
| Commerce and services                                                      | 295,344           | 12  | 268,522   | 13  |
| Energy, mineral and agriculture                                            | 282,608           | 11  | 248,865   | 12  |
| Transportation and logistics                                               | 234,311           | 10  | 188,606   | 9   |
| Real estate                                                                | 159,411           | 6   | 127,287   | 6   |
| Public utilities                                                           | 113,167           | 5   | 106,141   | 5   |
| Financial services                                                         | 44,781            | 2   | 60,969    | 3   |
| Construction                                                               | 39,276            | 2   | 34,866    | 2   |
| Others                                                                     | 14,442            | 1   | 12,398    | 1   |
| Subtotal                                                                   | 1,838,869         | 76  | 1,616,052 | 78  |
| <b>Personal loans</b>                                                      |                   |     |           |     |
| Mortgage loans                                                             | 459,523           | 19  | 341,576   | 17  |
| Credit card advances                                                       | 5,389             | –   | 2,942     | –   |
| Others                                                                     | 126,772           | 5   | 104,257   | 5   |
| Subtotal                                                                   | 591,684           | 24  | 448,775   | 22  |
| Gross amounts of loans and advances before allowance for impairment losses | 2,430,553         | 100 | 2,064,827 | 100 |

Over 95% of the Bank's gross balances of loans and advances are attributable to the Chinese Mainland segment and therefore no geographical segment analysis is presented.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

###### (v) Concentrations of risk for loans and advances to customers (Continued)

Gross loans and advances to customers analysed by customer type:

###### Group

|                                                                            | As at 31 December |           |
|----------------------------------------------------------------------------|-------------------|-----------|
|                                                                            | 2007              | 2006      |
| Chinese Mainland                                                           |                   |           |
| Corporate entities                                                         | 1,528,157         | 1,331,824 |
| Individuals                                                                | 585,533           | 443,580   |
| Trade bills                                                                | 202,015           | 214,996   |
|                                                                            | 2,315,705         | 1,990,400 |
| Hong Kong, Macau and other overseas operations                             |                   |           |
| Corporate entities                                                         | 347,421           | 267,837   |
| Individuals                                                                | 147,051           | 139,164   |
| Trade bills                                                                | 40,384            | 34,618    |
|                                                                            | 534,856           | 441,619   |
| Gross amounts of loans and advances before allowance for impairment losses | 2,850,561         | 2,432,019 |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

(v) Concentrations of risk for loans and advances to customers (Continued)

##### Bank

|                                                                            | As at 31 December |           |
|----------------------------------------------------------------------------|-------------------|-----------|
|                                                                            | 2007              | 2006      |
| Chinese Mainland                                                           |                   |           |
| Corporate entities                                                         | 1,528,157         | 1,331,824 |
| Individuals                                                                | 585,533           | 443,580   |
| Trade bills                                                                | 202,015           | 214,996   |
|                                                                            | 2,315,705         | 1,990,400 |
| Hong Kong, Macau and other overseas operations                             |                   |           |
| Corporate entities                                                         | 73,884            | 54,351    |
| Individuals                                                                | 6,151             | 5,195     |
| Trade bills                                                                | 34,813            | 14,881    |
|                                                                            | 114,848           | 74,427    |
| Gross amounts of loans and advances before allowance for impairment losses | 2,430,553         | 2,064,827 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.6 Debt securities

The table below represents an analysis of the carrying value of debt securities by credit rating and credit risk characteristic.

#### Group

|                                                              | As at 31 December 2007 |         |        |              |                                      |                                           |         |           |
|--------------------------------------------------------------|------------------------|---------|--------|--------------|--------------------------------------|-------------------------------------------|---------|-----------|
|                                                              |                        |         |        |              | Unrated <sup>(2)</sup>               |                                           |         | Total     |
|                                                              |                        |         |        |              | PRC government and government bodies | Other governments and government agencies | Other   |           |
|                                                              | AAA                    | AA      | A      | Lower than A |                                      |                                           |         |           |
| <b>Investment debt securities</b>                            |                        |         |        |              |                                      |                                           |         |           |
| US subprime mortgage related debt securities <sup>(1)</sup>  |                        |         |        |              |                                      |                                           |         |           |
| – Asset-Backed Debt Securities                               | 25,968                 | 9,453   | 400    | 557          | –                                    | 76                                        | –       | 36,454    |
| – Collateralised Debt Obligations                            | –                      | –       | –      | –            | –                                    | –                                         | –       | –         |
|                                                              | 25,968                 | 9,453   | 400    | 557          | –                                    | 76                                        | –       | 36,454    |
| Other debt securities                                        | 275,513                | 121,654 | 59,446 | 6,399        | 895,592                              | 80,561                                    | 97,392  | 1,536,557 |
| Subtotal                                                     | 301,481                | 131,107 | 59,846 | 6,956        | 895,592                              | 80,637                                    | 97,392  | 1,573,011 |
| <b>Financial assets at fair value through profit or loss</b> |                        |         |        |              |                                      |                                           |         |           |
|                                                              | 8,067                  | 20,125  | 19,019 | 3,883        | 54,952                               | 4,909                                     | 6,118   | 117,073   |
| Total                                                        | 309,548                | 151,232 | 78,865 | 10,839       | 950,544                              | 85,546                                    | 103,510 | 1,690,084 |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.6 Debt securities (Continued)

#### Group

|                                                              | As at 31 December 2006 |         |        |              |                                      |                                           |         |           |
|--------------------------------------------------------------|------------------------|---------|--------|--------------|--------------------------------------|-------------------------------------------|---------|-----------|
|                                                              |                        |         |        |              | Unrated <sup>(2)</sup>               |                                           |         | Total     |
|                                                              | AAA                    | AA      | A      | Lower than A | PRC government and government bodies | Other governments and government agencies | Other   |           |
| <b>Investment debt securities</b>                            |                        |         |        |              |                                      |                                           |         |           |
| US subprime mortgage related debt securities <sup>(1)</sup>  |                        |         |        |              |                                      |                                           |         |           |
| – Asset-Backed Debt Securities                               | 64,048                 | 14,817  | 1,041  | –            | –                                    | 127                                       | 296     | 80,329    |
| – Collateralised Debt Obligations                            | 2,087                  | 615     | –      | –            | –                                    | –                                         | –       | 2,702     |
|                                                              | 66,135                 | 15,432  | 1,041  | –            | –                                    | 127                                       | 296     | 83,031    |
| Other debt securities                                        | 382,921                | 124,266 | 60,136 | 7,575        | 834,415                              | 102,062                                   | 174,378 | 1,685,753 |
| Subtotal                                                     | 449,056                | 139,698 | 61,177 | 7,575        | 834,415                              | 102,189                                   | 174,674 | 1,768,784 |
| <b>Financial assets at fair value through profit or loss</b> |                        |         |        |              |                                      |                                           |         |           |
|                                                              | 16,785                 | 19,058  | 24,294 | 3,728        | 31,043                               | 5,622                                     | 10,104  | 110,634   |
| Total                                                        | 465,841                | 158,756 | 85,471 | 11,303       | 865,458                              | 107,811                                   | 184,778 | 1,879,418 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.6 Debt securities (Continued)

#### Bank

|                                                              | As at 31 December 2007 |        |        |              |                                      |                                           |        |           |
|--------------------------------------------------------------|------------------------|--------|--------|--------------|--------------------------------------|-------------------------------------------|--------|-----------|
|                                                              |                        |        |        |              | Unrated <sup>(2)</sup>               |                                           |        | Total     |
|                                                              |                        |        |        |              | PRC government and government bodies | Other governments and government agencies | Other  |           |
|                                                              | AAA                    | AA     | A      | Lower than A |                                      |                                           |        |           |
| <b>Investment debt securities</b>                            |                        |        |        |              |                                      |                                           |        |           |
| US subprime mortgage related debt securities <sup>(1)</sup>  |                        |        |        |              |                                      |                                           |        |           |
| – Asset-Backed Debt Securities                               | 22,119                 | 9,453  | 400    | 557          | –                                    | 76                                        | –      | 32,605    |
| – Collateralised Debt Obligations                            | –                      | –      | –      | –            | –                                    | –                                         | –      | –         |
|                                                              | 22,119                 | 9,453  | 400    | 557          | –                                    | 76                                        | –      | 32,605    |
| Other debt securities                                        | 190,073                | 27,122 | 29,916 | 2,047        | 895,592                              | 73,709                                    | 25,899 | 1,244,358 |
| Subtotal                                                     | 212,192                | 36,575 | 30,316 | 2,604        | 895,592                              | 73,785                                    | 25,899 | 1,276,963 |
| <b>Financial assets at fair value through profit or loss</b> |                        |        |        |              |                                      |                                           |        |           |
|                                                              | 5,153                  | 8,158  | 10,592 | 721          | 54,952                               | 1,535                                     | 1,571  | 82,682    |
| Total                                                        | 217,345                | 44,733 | 40,908 | 3,325        | 950,544                              | 75,320                                    | 27,470 | 1,359,645 |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.6 Debt securities (Continued)

#### Bank

|                                                              | As at 31 December 2006 |        |        |              |                                      |                                           |         |           |
|--------------------------------------------------------------|------------------------|--------|--------|--------------|--------------------------------------|-------------------------------------------|---------|-----------|
|                                                              |                        |        |        |              | Unrated <sup>(2)</sup>               |                                           |         | Total     |
|                                                              |                        |        |        |              | PRC government and government bodies | Other governments and government agencies | Other   |           |
|                                                              | AAA                    | AA     | A      | Lower than A |                                      |                                           |         |           |
| <b>Investment debt securities</b>                            |                        |        |        |              |                                      |                                           |         |           |
| US subprime mortgage related debt securities <sup>(1)</sup>  |                        |        |        |              |                                      |                                           |         |           |
| – Asset-Backed Debt Securities                               | 48,177                 | 14,817 | 1,041  | –            | –                                    | 127                                       | 296     | 64,458    |
| – Collateralised Debt Obligations                            | 2,087                  | 615    | –      | –            | –                                    | –                                         | –       | 2,702     |
|                                                              | 50,264                 | 15,432 | 1,041  | –            | –                                    | 127                                       | 296     | 67,160    |
| Other debt securities                                        | 289,836                | 37,702 | 25,986 | 2,305        | 834,393                              | 86,304                                    | 108,344 | 1,384,870 |
| Subtotal                                                     | 340,100                | 53,134 | 27,027 | 2,305        | 834,393                              | 86,431                                    | 108,640 | 1,452,030 |
| <b>Financial assets at fair value through profit or loss</b> | 13,733                 | 8,085  | 17,157 | 1,108        | 31,043                               | 1,880                                     | 3,575   | 76,581    |
| Total                                                        | 353,833                | 61,219 | 44,184 | 3,413        | 865,436                              | 88,311                                    | 112,215 | 1,528,611 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.6 Debt securities (Continued)

- (1) The Group's exposure to the US subprime mortgage market was limited to investments in US subprime mortgage asset-backed securities. As at 31 December 2007, the Group had no exposure to US subprime mortgage related collateralised debt obligations.

All US subprime mortgage related debt securities held by the Group are classified in "Investment securities" as available for sale or held to maturity. There are no US subprime mortgage related debt securities in "Financial assets at fair value through profit or loss". As at 31 December 2007, the carrying values of US subprime mortgage related debt securities classified as available for sale and held to maturity were RMB32,694 million and RMB3,760 million, respectively (2006: RMB73,298 million and RMB9,733 million).

With regard to risk management of the debt securities, the Group analyses important factors of the US subprime mortgage asset-backed securities such as different vintages, delinquency rates, credit ratings and underlying mortgage pools, as well as different attachment points and timing of cash flows.

- (2) The Group's unrated debt securities include those issued by PRC Government and PRC government bodies, such as the Ministry of Finance ("MOF"), PBOC, PRC policy banks and asset management companies invested by MOF directly (together "PRC government and government bodies") and those issued by other country government bodies and agencies ("Other governments and government agencies").

The Group's impairment allowance on available for sale and held to maturity investment securities held at 31 December 2007 amounted to RMB10,451 million and RMB1,612 million, respectively (2006: nil). The carrying value of the available for sale and held to maturity investment securities considered impaired as at 31 December 2007 was RMB20,634 million and RMB3,738 million respectively (2006: nil). Included in the impairment charge were impairment charges on US subprime mortgage related debt securities held at 31 December 2007 amounting to RMB9,461 million (2006: nil).

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.7 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Such repossessed assets of the Group are as follows:

##### Group

|                          | As at 31 December |         |
|--------------------------|-------------------|---------|
|                          | 2007              | 2006    |
| Residential property     | 2,301             | 1,270   |
| Business property        | 2,252             | 2,555   |
| Others                   | 645               | 1,730   |
| Allowance for impairment | (3,159)           | (3,588) |
| Total                    | 2,039             | 1,967   |

##### Bank

|                          | As at 31 December |         |
|--------------------------|-------------------|---------|
|                          | 2007              | 2006    |
| Residential property     | 1,073             | 1,172   |
| Business property        | 1,510             | 2,420   |
| Others                   | 211               | 1,729   |
| Allowance for impairment | (1,795)           | (3,585) |
| Total                    | 999               | 1,736   |

Repossessed assets are sold as soon as practicable. The Group does not generally occupy repossessed assets for its business use. Repossessed assets are classified in the balance sheet within "Other assets".

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.8 Derivatives

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or Hong Kong Monetary Authority as appropriate and are dependent on, among other factors, the creditworthiness of the customer and the maturity characteristics of each type of contract. The amounts disclosed below differ from the carrying amount at fair value and the maximum exposure to credit risk disclosed in Note III.3.4.

##### Group

|                                                                     | As at 31 December |       |
|---------------------------------------------------------------------|-------------------|-------|
|                                                                     | 2007              | 2006  |
| Exchange rate contracts                                             |                   |       |
| Currency forwards and swaps, and cross-currency interest rate swaps | 8,925             | 3,818 |
| Currency options                                                    | 228               | 461   |
| Interest rate contracts                                             |                   |       |
| Interest rate swaps                                                 | 3,763             | 3,218 |
| Interest rate options                                               | 9                 | 136   |
| Interest rate futures                                               | 10                | –     |
| Equity derivatives                                                  | 46                | 16    |
| Precious metals and other commodity derivatives                     | 1,060             | 233   |
|                                                                     | 14,041            | 7,882 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.8 Derivatives (Continued)

###### Bank

|                                                                     | As at 31 December |       |
|---------------------------------------------------------------------|-------------------|-------|
|                                                                     | 2007              | 2006  |
| Exchange rate contracts                                             |                   |       |
| Currency forwards and swaps, and cross-currency interest rate swaps | 7,165             | 3,214 |
| Currency options                                                    | 210               | 453   |
| Interest rate contracts                                             |                   |       |
| Interest rate swaps                                                 | 3,631             | 3,096 |
| Interest rate options                                               | 6                 | 131   |
| Interest rate futures                                               | 2                 | —     |
| Precious metals and other commodity derivatives                     | 1,001             | 214   |
|                                                                     | 12,015            | 7,108 |

The credit risk weighted amounts stated above have not taken into account any effects of netting arrangements.

#### 4 Market Risk

##### 4.1 Overview

The Group is exposed to market risks that may cause losses to the Group as a result of adverse changes in market prices. Market risk arises from open positions in the trading and banking books in interest rate, exchange rate, equities and commodities. Both the Bank's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are free of any restrictive covenants on their tradability and held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.1 Overview (Continued)

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of investment strategy, market risk management strategy, policies and procedures and the determination of market risk tolerance. Senior management is responsible for developing market risk management policies, procedures and specific operational rules, inspecting and monitoring on a regular basis the compliance with these policies, procedures and rules, and setting market risk limits within the Group's overall market risk appetite determined by the Board.

Within the Risk Management Department, the Group has set up an independent market risk management team which is dedicated to the identification, measurement, monitoring and control of market risks at the Group level, and reports in line with market risk management policies and procedures. Risk monitoring teams have been set up within each market risk-taking business line to monitor and report on the market risks within their respective business lines.

##### 4.2 Market risk measurement techniques and limits

###### (1) Trading book

Market risk in the trading book is monitored and controlled by establishing Value at Risk (VAR) limits and stop loss limits. Based on the different characteristics of specific products and the qualifications of the dealers, stop loss limits and position limits are established for each trading desk and dealer. The Risk Management Department monitors utilisation of the relevant VAR on a daily basis. The risk monitoring teams embedded in business operations monitor utilisation of these limits on a daily basis.

###### Value at risk

The Group applies a VAR methodology to its trading portfolios to estimate the market risk of positions held.

VAR is used to estimate the losses arising from adverse market movements in a specific holding period and within a certain confidence level.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.2 Market risk measurement techniques and limits (Continued)

###### (1) Trading book (Continued)

VAR analysis is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited ("BOCHK") and BOC International Holdings Limited ("BOCI"). The Bank uses a 95% level of confidence (therefore 5% statistical probability that actual losses could be greater than the VAR estimate) and uses a Monte Carlo Simulation model to calculate the VAR estimate. Since 1 April 2007, BOCHK uses a 99% level of confidence and a historical simulation model; prior to this a standard deviation covariance model was used. BOCI uses a 99% level of confidence and a historical simulation model to calculate the VAR estimate. The holding period of the VAR models is one day.

The chart below shows the VAR of the FX trading book by types of risk during the year of 2007 and 2006:

Unit: USD million

|                       | 2007        |              |             | 2006    |       |      |
|-----------------------|-------------|--------------|-------------|---------|-------|------|
|                       | Average     | High         | Low         | Average | High  | Low  |
| <b>Bank VAR*</b>      |             |              |             |         |       |      |
| Interest rate risk    | 5.12        | 11.30        | 1.26        | 2.71    | 16.25 | 0.54 |
| Foreign exchange risk | 2.13        | 8.24         | 0.18        | 2.99    | 14.12 | 0.39 |
| Volatility risk       | 0.55        | 1.48         | 0.08        | 0.79    | 6.19  | 0.07 |
| <b>Total Bank VAR</b> | <b>5.79</b> | <b>10.51</b> | <b>1.29</b> | 5.64    | 19.15 | 0.86 |

\* The Bank's VAR is calculated only on head office and domestic branch foreign currency trading positions. The RMB trading positions are included in the gap analysis in Note III.4.4.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.2 Market risk measurement techniques and limits (Continued)

###### (1) Trading book (Continued)

Unit: USD million

|                        | 2007        |             |             | 2006    |      |      |
|------------------------|-------------|-------------|-------------|---------|------|------|
|                        | Average     | High        | Low         | Average | High | Low  |
| <b>BOCHK VAR</b>       |             |             |             |         |      |      |
| Interest rate risk     | 0.21        | 0.50        | 0.06        | 0.21    | 0.39 | 0.09 |
| Foreign exchange risk  | 0.51        | 1.20        | 0.13        | 0.36    | 0.68 | 0.09 |
| Equity risk            | 0.05        | 0.14        | 0.01        | 0.04    | 0.13 | 0.01 |
| Commodity risk         | 0.01        | 0.05        | –           | –       | 0.04 | –    |
| <b>Total BOCHK VAR</b> | <b>0.53</b> | <b>1.33</b> | <b>0.18</b> | 0.36    | 0.64 | 0.17 |
| <b>BOCI VAR</b>        | <b>3.53</b> | <b>5.64</b> | <b>1.88</b> | 2.33    | 3.46 | 1.62 |

VAR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VARs did not add up to the total VAR as there was diversification effect due to correlation amongst the risk factors.

The exposure of the Group to potential price movement in commodity financial instruments and the related potential impact on the Group's income statement are considered to be insignificant.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.2 Market risk measurement techniques and limits (Continued)

###### (2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities or repricing periods of assets and liabilities.

The Group takes on exposure to the effects of changes in the prevailing level of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses. Currently, benchmark interest rates for RMB loans and deposits in the PRC are set by the PBOC. The Group's Domestic Operations are subject to an interest rate scheme regulated by the PBOC. It is normal practice for the interest rates of both interest-bearing assets and liabilities to move in tandem, although the timing of such movements may not be synchronised. This significantly mitigates the exposure of the Group to RMB interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

The Group manages interest rate risk in the banking book primarily through interest rate gap analysis. Interest rate gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods and is used to generate indicators of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note III.4.3 and also covers the trading book.

###### Sensitivity analysis on net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on net interest income. This analysis does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. The Group calculates the change in net interest income during the year due to a parallel shift of 100 basis points in the RMB, USD and Hong Kong dollar, and monitors this as a percentage of the net interest income budget for the year. Limits of the net interest income change are set as a percentage of net interest income budget for domestic operations and are approved by the Board and monitored by the Treasury Department on a monthly basis.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.2 Market risk measurement techniques and limits (Continued)

###### (2) Banking book (Continued)

The table below illustrates the potential impact of a 100 basis point move on the net interest income of the Group:

|                                                      | (Decrease)/increase in net interest income |         |
|------------------------------------------------------|--------------------------------------------|---------|
|                                                      | As at 31 December                          |         |
|                                                      | 2007                                       | 2006    |
| + 100 basis points parallel move in all yield curves | (8,708)                                    | (6,818) |
| – 100 basis points parallel move in all yield curves | 8,708                                      | 6,818   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.3 GAP Analysis

The table below summarises the Group's and the Bank's exposure to interest rate risks. It includes the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

#### Group

|                                                                     | As at 31 December 2007 |                             |                              |                            |                 |                             |                  |
|---------------------------------------------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-----------------|-----------------------------|------------------|
|                                                                     | Less than<br>1 month   | Between<br>1 to<br>3 months | Between<br>3 to<br>12 months | Between<br>1 to<br>5 years | Over<br>5 years | Non-<br>interest<br>bearing | Total            |
| <b>Assets</b>                                                       |                        |                             |                              |                            |                 |                             |                  |
| Cash and due from banks                                             | 36,281                 | –                           | –                            | –                          | –               | 34,940                      | 71,221           |
| Balances with central banks                                         | 618,952                | 25,431                      | 80,171                       | –                          | –               | 26,790                      | 751,344          |
| Placements with banks and<br>other financial institutions           | 277,395                | 79,593                      | 29,660                       | –                          | –               | –                           | 386,648          |
| Government certificates of<br>indebtedness for bank notes<br>issued | –                      | –                           | –                            | –                          | –               | 32,478                      | 32,478           |
| Precious metals                                                     | –                      | –                           | –                            | –                          | –               | 44,412                      | 44,412           |
| Financial assets at fair value<br>through profit or loss            | 12,425                 | 25,096                      | 29,116                       | 25,015                     | 25,422          | 7,591                       | 124,665          |
| Derivative financial instruments                                    | –                      | –                           | –                            | –                          | –               | 45,839                      | 45,839           |
| Loans and advances to<br>customers, net                             | 765,645                | 449,676                     | 1,471,136                    | 39,128                     | 22,278          | 6,630                       | 2,754,493        |
| Investment securities                                               |                        |                             |                              |                            |                 |                             |                  |
| – available for sale                                                | 106,442                | 95,020                      | 92,739                       | 167,809                    | 205,735         | 15,250                      | 682,995          |
| – held to maturity                                                  | 57,399                 | 64,056                      | 118,453                      | 136,946                    | 69,793          | –                           | 446,647          |
| – loans and receivables                                             | 18,477                 | 16,140                      | 44,395                       | 337,008                    | 42,600          | –                           | 458,620          |
| Investment in associates and<br>joint ventures                      | –                      | –                           | –                            | –                          | –               | 6,779                       | 6,779            |
| Property and equipment                                              | –                      | –                           | –                            | –                          | –               | 83,805                      | 83,805           |
| Investment property                                                 | –                      | –                           | –                            | –                          | –               | 9,986                       | 9,986            |
| Deferred income tax assets                                          | –                      | –                           | –                            | –                          | –               | 17,647                      | 17,647           |
| Other assets                                                        | 158                    | –                           | –                            | –                          | –               | 73,480                      | 73,638           |
| <b>Total assets</b>                                                 | <b>1,893,174</b>       | <b>755,012</b>              | <b>1,865,670</b>             | <b>705,906</b>             | <b>365,828</b>  | <b>405,627</b>              | <b>5,991,217</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.3 GAP Analysis (Continued)

#### Group

|                                                                                    | As at 31 December 2007 |                             |                              |                            |                 |                             | Total            |
|------------------------------------------------------------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-----------------|-----------------------------|------------------|
|                                                                                    | Less than<br>1 month   | Between<br>1 to<br>3 months | Between<br>3 to<br>12 months | Between<br>1 to<br>5 years | Over<br>5 years | Non-<br>interest<br>bearing |                  |
| <b>Liabilities</b>                                                                 |                        |                             |                              |                            |                 |                             |                  |
| Due to banks and other financial institutions                                      | 285,700                | –                           | –                            | –                          | –               | 39,148                      | 324,848          |
| Due to central banks                                                               | 55,501                 | 5,406                       | 29,477                       | –                          | –               | 101                         | 90,485           |
| Bank notes in circulation                                                          | –                      | –                           | –                            | –                          | –               | 32,605                      | 32,605           |
| Certificates of deposit and placements from banks and other financial institutions | 174,924                | 36,257                      | 31,222                       | 2,081                      | –               | 3,998                       | 248,482          |
| Financial liabilities at fair value through profit or loss                         | 54,226                 | 14,044                      | 10,985                       | 1,583                      | 785             | 5,032                       | 86,655           |
| Derivative financial instruments                                                   | –                      | –                           | –                            | –                          | –               | 27,262                      | 27,262           |
| Due to customers                                                                   | 2,718,020              | 483,456                     | 951,852                      | 201,062                    | 75              | 45,646                      | 4,400,111        |
| Bonds issued                                                                       | –                      | 9,000                       | 1,848                        | 44,381                     | 9,162           | –                           | 64,391           |
| Other borrowings                                                                   | 3,122                  | 3,264                       | 7,344                        | 15,723                     | 11,425          | 10,830                      | 51,708           |
| Current tax liabilities                                                            | –                      | –                           | –                            | –                          | –               | 21,045                      | 21,045           |
| Retirement benefit obligations                                                     | –                      | –                           | –                            | –                          | –               | 7,231                       | 7,231            |
| Deferred income tax liabilities                                                    | –                      | –                           | –                            | –                          | –               | 2,894                       | 2,894            |
| Other liabilities                                                                  | 4                      | –                           | –                            | –                          | –               | 182,839                     | 182,843          |
| <b>Total liabilities</b>                                                           | <b>3,291,497</b>       | <b>551,427</b>              | <b>1,032,728</b>             | <b>264,830</b>             | <b>21,447</b>   | <b>378,631</b>              | <b>5,540,560</b> |
| <b>Total interest repricing gap</b>                                                | <b>(1,398,323)</b>     | <b>203,585</b>              | <b>832,942</b>               | <b>441,076</b>             | <b>344,381</b>  | <b>26,996</b>               | <b>450,657</b>   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.3 GAP Analysis (Continued)

##### Bank

|                                                                     | As at 31 December 2007 |                             |                              |                            |                 |                             |                  |
|---------------------------------------------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-----------------|-----------------------------|------------------|
|                                                                     | Less than<br>1 month   | Between<br>1 to<br>3 months | Between<br>3 to<br>12 months | Between<br>1 to<br>5 years | Over<br>5 years | Non-<br>interest<br>bearing | Total            |
| <b>Assets</b>                                                       |                        |                             |                              |                            |                 |                             |                  |
| Cash and due from banks                                             | 35,915                 | –                           | –                            | –                          | –               | 30,433                      | 66,348           |
| Balances with central banks                                         | 589,967                | 25,431                      | 80,171                       | –                          | –               | 25,864                      | 721,433          |
| Placements with banks and<br>other financial institutions           | 203,199                | 52,467                      | 22,237                       | 7,454                      | –               | –                           | 285,357          |
| Government certificates of<br>indebtedness for bank notes<br>issued | –                      | –                           | –                            | –                          | –               | 1,792                       | 1,792            |
| Precious metals                                                     | –                      | –                           | –                            | –                          | –               | 42,782                      | 42,782           |
| Financial assets at fair value<br>through profit or loss            | 8,433                  | 22,224                      | 26,257                       | 18,246                     | 7,522           | –                           | 82,682           |
| Derivative financial instruments                                    | –                      | –                           | –                            | –                          | –               | 30,971                      | 30,971           |
| Loans and advances to<br>customers, net                             | 451,228                | 390,407                     | 1,450,747                    | 23,568                     | 16,876          | 3,241                       | 2,336,067        |
| Investment securities                                               |                        |                             |                              |                            |                 |                             |                  |
| – available for sale                                                | 94,640                 | 73,395                      | 86,347                       | 147,465                    | 165,760         | 1,280                       | 568,887          |
| – held to maturity                                                  | 31,929                 | 20,789                      | 100,016                      | 94,607                     | 37,726          | –                           | 285,067          |
| – loans and receivables                                             | 9,495                  | 3,909                       | 31,277                       | 337,008                    | 42,600          | –                           | 424,289          |
| Investment in subsidiaries                                          | –                      | –                           | –                            | –                          | –               | 49,014                      | 49,014           |
| Investment in associates and<br>joint ventures                      | –                      | –                           | –                            | –                          | –               | 19                          | 19               |
| Property and equipment                                              | –                      | –                           | –                            | –                          | –               | 50,453                      | 50,453           |
| Investment property                                                 | –                      | –                           | –                            | –                          | –               | 1,362                       | 1,362            |
| Deferred income tax assets                                          | –                      | –                           | –                            | –                          | –               | 18,080                      | 18,080           |
| Other assets                                                        | 484                    | –                           | –                            | –                          | –               | 40,828                      | 41,312           |
| <b>Total assets</b>                                                 | <b>1,425,290</b>       | <b>588,622</b>              | <b>1,797,052</b>             | <b>628,348</b>             | <b>270,484</b>  | <b>296,119</b>              | <b>5,005,915</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.3 GAP Analysis (Continued)

#### Bank

|                                                                                          | As at 31 December 2007 |                             |                              |                            |                 |                             | Total            |
|------------------------------------------------------------------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-----------------|-----------------------------|------------------|
|                                                                                          | Less than<br>1 month   | Between<br>1 to<br>3 months | Between<br>3 to<br>12 months | Between<br>1 to<br>5 years | Over<br>5 years | Non-<br>interest<br>bearing |                  |
| <b>Liabilities</b>                                                                       |                        |                             |                              |                            |                 |                             |                  |
| Due to banks and other<br>financial institutions                                         | 272,982                | –                           | –                            | –                          | –               | 38,849                      | 311,831          |
| Due to central banks                                                                     | 55,500                 | 5,406                       | 29,477                       | –                          | –               | 71                          | 90,454           |
| Bank notes in circulation                                                                | –                      | –                           | –                            | –                          | –               | 1,919                       | 1,919            |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | 181,745                | 40,181                      | 28,680                       | 1,284                      | –               | –                           | 251,890          |
| Financial liabilities at fair value<br>through profit or loss                            | 48,145                 | 11,870                      | 10,436                       | 1,519                      | 785             | –                           | 72,755           |
| Derivative financial instruments                                                         | –                      | –                           | –                            | –                          | –               | 16,001                      | 16,001           |
| Due to customers                                                                         | 2,106,387              | 386,345                     | 916,417                      | 200,397                    | 75              | 8,268                       | 3,617,889        |
| Bonds issued                                                                             | –                      | 9,000                       | –                            | 45,000                     | 9,162           | –                           | 63,162           |
| Other borrowings                                                                         | 1,133                  | 980                         | 10,786                       | 11,283                     | 10,817          | 3,122                       | 38,121           |
| Current tax liabilities                                                                  | –                      | –                           | –                            | –                          | –               | 19,454                      | 19,454           |
| Retirement benefit obligations                                                           | –                      | –                           | –                            | –                          | –               | 7,231                       | 7,231            |
| Deferred income tax liabilities                                                          | –                      | –                           | –                            | –                          | –               | 44                          | 44               |
| Other liabilities                                                                        | 7                      | 3                           | –                            | –                          | –               | 128,674                     | 128,684          |
| <b>Total liabilities</b>                                                                 | <b>2,665,899</b>       | <b>453,785</b>              | <b>995,796</b>               | <b>259,483</b>             | <b>20,839</b>   | <b>223,633</b>              | <b>4,619,435</b> |
| <b>Total interest repricing gap</b>                                                      | <b>(1,240,609)</b>     | <b>134,837</b>              | <b>801,256</b>               | <b>368,865</b>             | <b>249,645</b>  | <b>72,486</b>               | <b>386,480</b>   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.3 GAP Analysis (Continued)

##### Group

|                                                                     | As at 31 December 2006 |                             |                              |                            |                 |                             | Total            |
|---------------------------------------------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-----------------|-----------------------------|------------------|
|                                                                     | Less than<br>1 month   | Between<br>1 to<br>3 months | Between<br>3 to<br>12 months | Between<br>1 to<br>5 years | Over<br>5 years | Non-<br>interest<br>bearing |                  |
| <b>Assets</b>                                                       |                        |                             |                              |                            |                 |                             |                  |
| Cash and due from banks                                             | 7,724                  | –                           | –                            | –                          | –               | 32,088                      | 39,812           |
| Balances with central banks                                         | 352,873                | –                           | –                            | –                          | –               | 26,758                      | 379,631          |
| Placements with banks and<br>other financial institutions           | 265,023                | 106,212                     | 27,783                       | 120                        | –               | –                           | 399,138          |
| Government certificates of<br>indebtedness for bank notes<br>issued | –                      | –                           | –                            | –                          | –               | 36,626                      | 36,626           |
| Precious metals                                                     | –                      | –                           | –                            | –                          | –               | 42,083                      | 42,083           |
| Financial assets at fair value<br>through profit or loss            | 8,409                  | 17,950                      | 17,787                       | 35,507                     | 29,405          | 6,770                       | 115,828          |
| Derivative financial instruments                                    | –                      | –                           | –                            | –                          | –               | 24,837                      | 24,837           |
| Loans and advances to<br>customers, net                             | 766,022                | 391,764                     | 1,128,407                    | 26,320                     | 18,942          | 6,271                       | 2,337,726        |
| Investment securities                                               |                        |                             |                              |                            |                 |                             |                  |
| – available for sale                                                | 119,182                | 86,881                      | 143,113                      | 249,999                    | 208,133         | 7,870                       | 815,178          |
| – held to maturity                                                  | 56,479                 | 93,807                      | 116,519                      | 121,376                    | 72,959          | –                           | 461,140          |
| – loans and receivables                                             | 52,744                 | 62,973                      | 92,151                       | 249,868                    | 42,600          | –                           | 500,336          |
| Investment in associates and<br>joint ventures                      | –                      | –                           | –                            | –                          | –               | 5,931                       | 5,931            |
| Property and equipment                                              | –                      | –                           | –                            | –                          | –               | 86,200                      | 86,200           |
| Investment property                                                 | –                      | –                           | –                            | –                          | –               | 8,221                       | 8,221            |
| Deferred income tax assets                                          | –                      | –                           | –                            | –                          | –               | 21,396                      | 21,396           |
| Other assets                                                        | 193                    | –                           | –                            | –                          | –               | 53,377                      | 53,570           |
| <b>Total assets</b>                                                 | <b>1,628,649</b>       | <b>759,587</b>              | <b>1,525,760</b>             | <b>683,190</b>             | <b>372,039</b>  | <b>358,428</b>              | <b>5,327,653</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.3 GAP Analysis (Continued)

##### Group

|                                                                                          | As at 31 December 2006 |                             |                              |                            |                 |                             | Total            |
|------------------------------------------------------------------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-----------------|-----------------------------|------------------|
|                                                                                          | Less than<br>1 month   | Between<br>1 to<br>3 months | Between<br>3 to<br>12 months | Between<br>1 to<br>5 years | Over<br>5 years | Non-<br>interest<br>bearing |                  |
| <b>Liabilities</b>                                                                       |                        |                             |                              |                            |                 |                             |                  |
| Due to banks and other<br>financial institutions                                         | 142,042                | 260                         | 991                          | –                          | –               | 35,484                      | 178,777          |
| Due to central banks                                                                     | 15,497                 | 5,077                       | 21,757                       | –                          | –               | 43                          | 42,374           |
| Bank notes in circulation                                                                | –                      | –                           | –                            | –                          | –               | 36,823                      | 36,823           |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | 82,335                 | 39,415                      | 15,636                       | 8,939                      | –               | 583                         | 146,908          |
| Financial liabilities at fair value<br>through profit or loss                            | 27,010                 | 22,408                      | 34,485                       | 3,303                      | 6,772           | 4,747                       | 98,725           |
| Derivative financial instruments                                                         | –                      | –                           | –                            | –                          | –               | 14,323                      | 14,323           |
| Due to customers                                                                         | 2,484,610              | 453,841                     | 842,988                      | 268,310                    | 428             | 40,941                      | 4,091,118        |
| Bonds issued                                                                             | –                      | 9,000                       | –                            | 42,000                     | 9,173           | –                           | 60,173           |
| Other borrowings                                                                         | 4,466                  | 8,792                       | 18,400                       | 13,618                     | 14,372          | 3,750                       | 63,398           |
| Current tax liabilities                                                                  | –                      | –                           | –                            | –                          | –               | 18,149                      | 18,149           |
| Retirement benefit obligations                                                           | –                      | –                           | –                            | –                          | –               | 7,444                       | 7,444            |
| Deferred income tax liabilities                                                          | –                      | –                           | –                            | –                          | –               | 3,029                       | 3,029            |
| Other liabilities                                                                        | –                      | –                           | –                            | –                          | –               | 153,456                     | 153,456          |
| <b>Total liabilities</b>                                                                 | <b>2,755,960</b>       | <b>538,793</b>              | <b>934,257</b>               | <b>336,170</b>             | <b>30,745</b>   | <b>318,772</b>              | <b>4,914,697</b> |
| <b>Total interest repricing gap</b>                                                      | <b>(1,127,311)</b>     | <b>220,794</b>              | <b>591,503</b>               | <b>347,020</b>             | <b>341,294</b>  | <b>39,656</b>               | <b>412,956</b>   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.3 GAP Analysis (Continued)

##### Bank

|                                                                     | As at 31 December 2006 |                             |                              |                            |                 |                             | Total            |
|---------------------------------------------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-----------------|-----------------------------|------------------|
|                                                                     | Less than<br>1 month   | Between<br>1 to<br>3 months | Between<br>3 to<br>12 months | Between<br>1 to<br>5 years | Over<br>5 years | Non-<br>interest<br>bearing |                  |
| <b>Assets</b>                                                       |                        |                             |                              |                            |                 |                             |                  |
| Cash and due from banks                                             | 10,155                 | –                           | –                            | –                          | –               | 27,687                      | 37,842           |
| Balances with central banks                                         | 328,444                | –                           | –                            | –                          | –               | 26,437                      | 354,881          |
| Placements with banks and<br>other financial institutions           | 215,369                | 59,793                      | 27,720                       | 120                        | –               | –                           | 303,002          |
| Government certificates of<br>indebtedness for bank notes<br>issued | –                      | –                           | –                            | –                          | –               | 1,713                       | 1,713            |
| Precious metals                                                     | –                      | –                           | –                            | –                          | –               | 40,542                      | 40,542           |
| Financial assets at fair value<br>through profit or loss            | 3,734                  | 12,013                      | 15,037                       | 30,675                     | 15,122          | –                           | 76,581           |
| Derivative financial instruments                                    | –                      | –                           | –                            | –                          | –               | 16,363                      | 16,363           |
| Loans and advances to<br>customers, net                             | 459,068                | 358,013                     | 1,116,522                    | 19,922                     | 14,754          | 3,586                       | 1,971,865        |
| Investment securities                                               |                        |                             |                              |                            |                 |                             |                  |
| – available for sale                                                | 113,450                | 71,593                      | 137,711                      | 222,824                    | 160,448         | 713                         | 706,739          |
| – held to maturity                                                  | 29,676                 | 52,625                      | 83,130                       | 77,475                     | 44,492          | –                           | 287,398          |
| – loans and receivables                                             | 48,966                 | 48,310                      | 68,861                       | 249,869                    | 42,600          | –                           | 458,606          |
| Investment in subsidiaries                                          | –                      | –                           | –                            | –                          | –               | 45,451                      | 45,451           |
| Investment in associates and<br>joint ventures                      | –                      | –                           | –                            | –                          | –               | 21                          | 21               |
| Property and equipment                                              | –                      | –                           | –                            | –                          | –               | 49,473                      | 49,473           |
| Investment property                                                 | –                      | –                           | –                            | –                          | –               | 620                         | 620              |
| Deferred income tax assets                                          | –                      | –                           | –                            | –                          | –               | 21,843                      | 21,843           |
| Other assets                                                        | 192                    | –                           | –                            | –                          | –               | 30,080                      | 30,272           |
| <b>Total assets</b>                                                 | <b>1,209,054</b>       | <b>602,347</b>              | <b>1,448,981</b>             | <b>600,885</b>             | <b>277,416</b>  | <b>264,529</b>              | <b>4,403,212</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.3 GAP Analysis (Continued)

#### Bank

|                                                                                          | As at 31 December 2006 |                             |                              |                            |                 |                             | Total            |
|------------------------------------------------------------------------------------------|------------------------|-----------------------------|------------------------------|----------------------------|-----------------|-----------------------------|------------------|
|                                                                                          | Less than<br>1 month   | Between<br>1 to<br>3 months | Between<br>3 to<br>12 months | Between<br>1 to<br>5 years | Over<br>5 years | Non-<br>interest<br>bearing |                  |
| <b>Liabilities</b>                                                                       |                        |                             |                              |                            |                 |                             |                  |
| Due to banks and other<br>financial institutions                                         | 129,396                | –                           | –                            | –                          | –               | 34,980                      | 164,376          |
| Due to central banks                                                                     | 15,497                 | 5,077                       | 21,757                       | –                          | –               | 18                          | 42,349           |
| Bank notes in circulation                                                                | –                      | –                           | –                            | –                          | –               | 1,909                       | 1,909            |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | 78,339                 | 42,201                      | 19,084                       | 6,972                      | –               | –                           | 146,596          |
| Financial liabilities at fair value<br>through profit or loss                            | 21,154                 | 18,822                      | 31,606                       | 3,085                      | 6,772           | 2                           | 81,441           |
| Derivative financial instruments                                                         | –                      | –                           | –                            | –                          | –               | 9,643                       | 9,643            |
| Due to customers                                                                         | 1,891,308              | 370,618                     | 817,744                      | 267,573                    | 115             | 11,207                      | 3,358,565        |
| Bonds issued                                                                             | –                      | 9,000                       | –                            | 42,000                     | 9,173           | –                           | 60,173           |
| Other borrowings                                                                         | 1,736                  | 1,115                       | 11,572                       | 13,619                     | 14,372          | 3,592                       | 46,006           |
| Current tax liabilities                                                                  | –                      | –                           | –                            | –                          | –               | 16,757                      | 16,757           |
| Retirement benefit obligations                                                           | –                      | –                           | –                            | –                          | –               | 7,444                       | 7,444            |
| Deferred income tax liabilities                                                          | –                      | –                           | –                            | –                          | –               | 32                          | 32               |
| Other liabilities                                                                        | –                      | –                           | –                            | –                          | –               | 112,527                     | 112,527          |
| <b>Total liabilities</b>                                                                 | <b>2,137,430</b>       | <b>446,833</b>              | <b>901,763</b>               | <b>333,249</b>             | <b>30,432</b>   | <b>198,111</b>              | <b>4,047,818</b> |
| <b>Total interest repricing gap</b>                                                      | <b>(928,376)</b>       | <b>155,514</b>              | <b>547,218</b>               | <b>267,636</b>             | <b>246,984</b>  | <b>66,418</b>               | <b>355,394</b>   |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VAR.

The Group conducts the majority of its business in RMB, with certain transactions denominated in USD, Hong Kong dollars ("HKD") and, to a much lesser extent, other currencies. The major subsidiary, Bank of China Hong Kong, conducts the majority of its business in HKD.

On 21 July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The Group conducts the majority of its foreign currency transactions in USD. The value of the RMB appreciated by 6.90% against the USD during the year ended 31 December 2007 (2006: 3.35%). The PRC Government may make further adjustments to the exchange rate system in the future.

The Group's net foreign currency positions as at 31 December 2007 and 31 December 2006 are analysed below:

##### Group

|                                                                                           | As at 31 December |                               |                |                               |
|-------------------------------------------------------------------------------------------|-------------------|-------------------------------|----------------|-------------------------------|
|                                                                                           | 2007              |                               | 2006           |                               |
|                                                                                           | RMB<br>million    | USD<br>million<br>equivalent* | RMB<br>million | USD<br>million<br>equivalent* |
| Net foreign currency position<br>of the Group**                                           | 144,877           | 19,834                        | 236,355        | 30,268                        |
| Less:                                                                                     |                   |                               |                |                               |
| Foreign currency<br>denominated net<br>investment in foreign<br>operations <sup>(i)</sup> | (114,637)         | (15,694)                      | (113,780)      | (14,571)                      |
| Net position <sup>(ii)</sup>                                                              | 30,240            | 4,140                         | 122,575        | 15,697                        |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

\* The Group's foreign currency position expressed in USD equivalent in the above table comprises all net foreign currency exposures as of 31 December 2007 and 2006 based on the respective year-end closing foreign exchange rates of each currency with the USD.

\*\* Net foreign currency position of the Group represents the difference between the Group's net on-balance sheet foreign currency position and the net off-balance sheet foreign currency position.

(i) The Group's net investment in foreign operations represents the foreign currency net assets/liabilities of overseas subsidiaries, branches or associated undertakings, the functional currencies of which are currencies other than RMB. The results of operations and financial position of these operations are translated into RMB, for reporting purposes with all exchange differences arising from the translation recognised under "Currency translation differences" as a separate component of equity.

In addition, the result of operations and financial position of these foreign operations are exposed to foreign currency movements against their functional currencies.

(ii) The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Bank's foreign currency position arose largely through foreign currency capital contributions from equity holders and its foreign currency operations. In 2005, the Bank entered into a foreign currency option agreement with Huijin ("Huijin option"), having a notional amount of USD18 billion, to economically hedge a portion of its net foreign currency position (see Note V.17). During the year ended 31 December 2007, the Bank has exercised all tranches of the Huijin options and sold USD18 billion to Huijin for RMB at the exchange rate as agreed in the foreign currency option agreement.

During 2007 and 2006, the Bank entered into certain foreign exchange derivative transactions as part of asset and liability management and funding requirements (see Note V.17), and concurrently, entered into foreign exchange spot transactions to reduce its net foreign currency position by USD17.3 billion and USD26.3 billion respectively.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

The Group conducts sensitivity analysis to the net outstanding foreign currency position, to identify the impact to the income statement of potential movements in foreign currency exchange rates against the RMB and against functional currencies of its foreign operations that are not in RMB (in relation to which the principle exposure is to foreign currency movements against the HKD). The impact of fluctuations (e.g. 1 percent fluctuation) in exchange rates is not considered by management to be significant to the income statement. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the balance sheet date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

The table below summarises the Group's and the Bank's exposure to foreign currency exchange rate risk as at 31 December 2007 and 2006. Included in the table are the carrying amounts of the assets and liabilities of the Group and the Bank along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currency. Derivative financial instruments are included in net off-balance sheet position using notional amounts.

#### Group

|                                                               | As at 31 December 2007 |                  |                |                |               |               |                |                  |
|---------------------------------------------------------------|------------------------|------------------|----------------|----------------|---------------|---------------|----------------|------------------|
|                                                               | RMB                    | USD              | HKD            | EURO           | JPY           | GBP           | Others         | Total            |
| <b>Assets</b>                                                 |                        |                  |                |                |               |               |                |                  |
| Cash and due from banks                                       | 23,149                 | 38,412           | 4,216          | 1,854          | 1,280         | 598           | 1,712          | 71,221           |
| Balances with central banks                                   | 724,471                | 19,179           | 3,556          | 1,050          | 77            | –             | 3,011          | 751,344          |
| Placements with banks and other financial institutions        | 39,993                 | 196,256          | 118,014        | 13,553         | 1,128         | 6,437         | 11,267         | 386,648          |
| Government certificates of indebtedness for bank notes issued | –                      | –                | 30,686         | –              | –             | –             | 1,792          | 32,478           |
| Precious metals                                               | –                      | –                | 1,630          | –              | –             | –             | 42,782         | 44,412           |
| Financial assets at fair value through profit or loss         | 59,020                 | 32,728           | 24,336         | 4,056          | –             | –             | 4,525          | 124,665          |
| Derivative financial instruments                              | 18,856                 | 12,584           | 13,462         | 79             | 12            | 256           | 590            | 45,839           |
| Loans and advances to customers, net                          | 1,885,841              | 433,151          | 342,996        | 42,357         | 22,440        | 4,862         | 22,846         | 2,754,493        |
| Investment securities                                         |                        |                  |                |                |               |               |                |                  |
| – available for sale                                          | 276,690                | 295,293          | 47,534         | 36,386         | 10,930        | 1,995         | 14,167         | 682,995          |
| – held to maturity                                            | 221,625                | 134,387          | 68,185         | 4,941          | –             | 1,431         | 16,078         | 446,647          |
| – loans and receivables                                       | 410,538                | 3,366            | 24,824         | 401            | 1,281         | –             | 18,210         | 458,620          |
| Investment in associates and joint ventures                   | 2,824                  | 865              | 3,090          | –              | –             | –             | –              | 6,779            |
| Property and equipment                                        | 48,561                 | 19,545           | 12,732         | 131            | 1,033         | 482           | 1,321          | 83,805           |
| Investment property                                           | –                      | –                | 8,624          | –              | –             | –             | 1,362          | 9,986            |
| Deferred income tax assets                                    | 17,446                 | 69               | 77             | –              | –             | –             | 55             | 17,647           |
| Other assets                                                  | 31,591                 | 19,865           | 18,618         | 1,552          | 269           | 432           | 1,311          | 73,638           |
| <b>Total assets</b>                                           | <b>3,760,605</b>       | <b>1,205,700</b> | <b>722,580</b> | <b>106,360</b> | <b>38,450</b> | <b>16,493</b> | <b>141,029</b> | <b>5,991,217</b> |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Group

|                                                                                    | As at 31 December 2007 |                |                |               |               |               |                |                  |
|------------------------------------------------------------------------------------|------------------------|----------------|----------------|---------------|---------------|---------------|----------------|------------------|
|                                                                                    | RMB                    | USD            | HKD            | EURO          | JPY           | GBP           | Others         | Total            |
| <b>Liabilities</b>                                                                 |                        |                |                |               |               |               |                |                  |
| Due to banks and other financial institutions                                      | 229,319                | 36,378         | 6,681          | 4,432         | 3,537         | 319           | 44,182         | 324,848          |
| Due to central banks                                                               | 40,000                 | 42,502         | 7,242          | 701           | –             | –             | 40             | 90,485           |
| Bank notes in circulation                                                          | –                      | –              | 30,686         | –             | –             | –             | 1,919          | 32,605           |
| Certificates of deposit and placements from banks and other financial institutions | 170,332                | 66,683         | 4,349          | 2,242         | 1,452         | 964           | 2,460          | 248,482          |
| Financial liabilities at fair value through profit or loss                         | 37,130                 | 30,110         | 17,471         | 1,395         | –             | 25            | 524            | 86,655           |
| Derivative financial instruments                                                   | –                      | 16,782         | 9,400          | 73            | 12            | 827           | 168            | 27,262           |
| Due to customers                                                                   | 3,239,078              | 384,682        | 588,231        | 46,140        | 28,015        | 23,181        | 90,784         | 4,400,111        |
| Bonds issued                                                                       | 62,276                 | 786            | 1,329          | –             | –             | –             | –              | 64,391           |
| Other borrowings                                                                   | –                      | 32,562         | –              | 13,732        | 3,085         | 426           | 1,903          | 51,708           |
| Current tax liabilities                                                            | 18,731                 | 278            | 1,336          | 58            | 39            | 125           | 478            | 21,045           |
| Retirement benefit obligations                                                     | 7,231                  | –              | –              | –             | –             | –             | –              | 7,231            |
| Deferred income tax liabilities                                                    | –                      | 665            | 2,178          | –             | –             | –             | 51             | 2,894            |
| Other liabilities                                                                  | 102,725                | 31,140         | 42,205         | 2,645         | 1,390         | 956           | 1,782          | 182,843          |
| <b>Total liabilities</b>                                                           | <b>3,906,822</b>       | <b>642,568</b> | <b>711,108</b> | <b>71,418</b> | <b>37,530</b> | <b>26,823</b> | <b>144,291</b> | <b>5,540,560</b> |
| Net on-balance sheet position                                                      | (146,217)              | 563,132        | 11,472         | 34,942        | 920           | (10,330)      | (3,262)        | 450,657          |
| Net off-balance sheet position                                                     | 476,729                | (534,295)      | 98,248         | (35,862)      | (751)         | 10,023        | 10,640         | 24,732           |
| Credit commitments                                                                 | 613,722                | 450,244        | 174,455        | 63,346        | 16,203        | 4,707         | 12,870         | 1,335,547        |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Bank

|                                                               | As at 31 December 2007 |                |                |               |               |               |               |                  |
|---------------------------------------------------------------|------------------------|----------------|----------------|---------------|---------------|---------------|---------------|------------------|
|                                                               | RMB                    | USD            | HKD            | EURO          | JPY           | GBP           | Others        | Total            |
| <b>Assets</b>                                                 |                        |                |                |               |               |               |               |                  |
| Cash and due from banks                                       | 22,713                 | 37,216         | 1,259          | 1,713         | 1,154         | 463           | 1,830         | 66,348           |
| Balances with central banks                                   | 696,924                | 19,001         | 2,553          | 1,050         | 77            | –             | 1,828         | 721,433          |
| Placements with banks and other financial institutions        | 41,731                 | 163,859        | 42,265         | 18,677        | 3,026         | 7,211         | 8,588         | 285,357          |
| Government certificates of indebtedness for bank notes issued | –                      | –              | –              | –             | –             | –             | 1,792         | 1,792            |
| Precious metals                                               | –                      | –              | –              | –             | –             | –             | 42,782        | 42,782           |
| Financial assets at fair value through profit or loss         | 55,674                 | 20,718         | –              | 2,685         | –             | –             | 3,605         | 82,682           |
| Derivative financial instruments                              | 18,856                 | 11,469         | –              | 66            | 12            | 283           | 285           | 30,971           |
| Loans and advances to customers, net                          | 1,873,393              | 362,021        | 26,921         | 37,406        | 20,882        | 2,089         | 13,355        | 2,336,067        |
| Investment securities                                         |                        |                |                |               |               |               |               |                  |
| – available for sale                                          | 276,632                | 234,259        | 14,265         | 25,993        | 10,668        | 434           | 6,636         | 568,887          |
| – held to maturity                                            | 221,126                | 54,670         | 6,283          | 2,626         | –             | –             | 362           | 285,067          |
| – loans and receivables                                       | 410,538                | –              | –              | –             | 1,281         | –             | 12,470        | 424,289          |
| Investment in subsidiaries                                    | –                      | 1,396          | 44,609         | 45            | –             | 2,126         | 838           | 49,014           |
| Investment in associates and joint ventures                   | –                      | –              | –              | –             | –             | –             | 19            | 19               |
| Property and equipment                                        | 47,823                 | 187            | –              | 129           | 1,033         | 464           | 817           | 50,453           |
| Investment property                                           | –                      | –              | –              | –             | –             | –             | 1,362         | 1,362            |
| Deferred income tax assets                                    | 17,976                 | 69             | –              | –             | –             | –             | 35            | 18,080           |
| Other assets                                                  | 24,964                 | 12,443         | 1,763          | 1,170         | 208           | 186           | 578           | 41,312           |
| <b>Total assets</b>                                           | <b>3,708,350</b>       | <b>917,308</b> | <b>139,918</b> | <b>91,560</b> | <b>38,341</b> | <b>13,256</b> | <b>97,182</b> | <b>5,005,915</b> |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Bank

|                                                                                    | As at 31 December 2007 |                |               |               |               |               |               |                  |
|------------------------------------------------------------------------------------|------------------------|----------------|---------------|---------------|---------------|---------------|---------------|------------------|
|                                                                                    | RMB                    | USD            | HKD           | EURO          | JPY           | GBP           | Others        | Total            |
| <b>Liabilities</b>                                                                 |                        |                |               |               |               |               |               |                  |
| Due to banks and other financial institutions                                      | 214,550                | 37,867         | 7,042         | 4,371         | 3,647         | 400           | 43,954        | 311,831          |
| Due to central banks                                                               | 40,000                 | 42,477         | 7,236         | 701           | –             | –             | 40            | 90,454           |
| Bank notes in circulation                                                          | –                      | –              | –             | –             | –             | –             | 1,919         | 1,919            |
| Certificates of deposit and placements from banks and other financial institutions | 163,777                | 71,447         | 8,214         | 2,889         | 1,280         | 2,272         | 2,011         | 251,890          |
| Financial liabilities at fair value through profit or loss                         | 37,129                 | 24,971         | 8,780         | 1,326         | –             | 25            | 524           | 72,755           |
| Derivative financial instruments                                                   | –                      | 14,981         | –             | 57            | 12            | 830           | 121           | 16,001           |
| Due to customers                                                                   | 3,222,327              | 219,187        | 60,660        | 38,048        | 25,572        | 9,549         | 42,546        | 3,617,889        |
| Bonds issued                                                                       | 63,000                 | 162            | –             | –             | –             | –             | –             | 63,162           |
| Other borrowings                                                                   | –                      | 18,947         | –             | 13,732        | 3,085         | 426           | 1,931         | 38,121           |
| Current tax liabilities                                                            | 18,613                 | 278            | –             | 51            | 39            | 91            | 382           | 19,454           |
| Retirement benefit obligations                                                     | 7,231                  | –              | –             | –             | –             | –             | –             | 7,231            |
| Deferred income tax liabilities                                                    | –                      | 39             | –             | –             | –             | –             | 5             | 44               |
| Other liabilities                                                                  | 89,770                 | 27,691         | 4,676         | 2,873         | 1,427         | 495           | 1,752         | 128,684          |
| <b>Total Liabilities</b>                                                           | <b>3,856,397</b>       | <b>458,047</b> | <b>96,608</b> | <b>64,048</b> | <b>35,062</b> | <b>14,088</b> | <b>95,185</b> | <b>4,619,435</b> |
| Net on-balance sheet position                                                      | (148,047)              | 459,261        | 43,310        | 27,512        | 3,279         | (832)         | 1,997         | 386,480          |
| Net off-balance sheet position                                                     | 475,848                | (451,476)      | 26,190        | (28,821)      | (3,069)       | 537           | 751           | 19,960           |
| Credit commitments                                                                 | 610,870                | 403,681        | 22,852        | 58,231        | 15,258        | 2,853         | 9,530         | 1,123,275        |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Group

|                                                               | As at 31 December 2006 |                  |                |                |               |               |                |                  |
|---------------------------------------------------------------|------------------------|------------------|----------------|----------------|---------------|---------------|----------------|------------------|
|                                                               | RMB                    | USD              | HKD            | EURO           | JPY           | GBP           | Others         | Total            |
| <b>Assets</b>                                                 |                        |                  |                |                |               |               |                |                  |
| Cash and due from banks                                       | 20,313                 | 9,174            | 4,478          | 2,020          | 1,691         | 658           | 1,478          | 39,812           |
| Balances with central banks                                   | 349,839                | 19,556           | 2,322          | 425            | 4,865         | –             | 2,624          | 379,631          |
| Placements with banks and other financial institutions        | 50,136                 | 185,382          | 111,652        | 20,085         | 8,346         | 6,984         | 16,553         | 399,138          |
| Government certificates of indebtedness for bank notes issued | –                      | –                | 34,913         | –              | –             | –             | 1,713          | 36,626           |
| Precious metals                                               | –                      | –                | 1,541          | –              | –             | –             | 40,542         | 42,083           |
| Financial assets at fair value through profit or loss         | 34,273                 | 38,772           | 23,677         | 8,688          | 6,491         | 80            | 3,847          | 115,828          |
| Derivative financial instruments                              | 7,418                  | 9,161            | 7,694          | 150            | 88            | 174           | 152            | 24,837           |
| Loans and advances to customers, net                          | 1,614,521              | 329,663          | 316,546        | 33,913         | 21,422        | 4,468         | 17,193         | 2,337,726        |
| Investment securities                                         |                        |                  |                |                |               |               |                |                  |
| – available for sale                                          | 313,323                | 398,383          | 45,325         | 31,962         | 10,684        | 2,870         | 12,631         | 815,178          |
| – held to maturity                                            | 180,914                | 192,383          | 63,521         | 6,325          | –             | 1,794         | 16,203         | 461,140          |
| – loans and receivables                                       | 350,159                | 76,235           | 43,609         | –              | 13,520        | 1,065         | 15,748         | 500,336          |
| Investment in associates and joint ventures                   | 2,461                  | 762              | 2,708          | –              | –             | –             | –              | 5,931            |
| Property and equipment                                        | 47,346                 | 22,538           | 12,864         | 134            | 1,064         | 511           | 1,743          | 86,200           |
| Investment property                                           | –                      | –                | 7,601          | –              | –             | –             | 620            | 8,221            |
| Deferred income tax assets                                    | 21,200                 | 4                | 73             | –              | 37            | –             | 82             | 21,396           |
| Other assets                                                  | 14,343                 | 21,303           | 13,987         | 1,252          | 307           | 227           | 2,151          | 53,570           |
| <b>Total assets</b>                                           | <b>3,006,246</b>       | <b>1,303,316</b> | <b>692,511</b> | <b>104,954</b> | <b>68,515</b> | <b>18,831</b> | <b>133,280</b> | <b>5,327,653</b> |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Group

|                                                                                    | As at 31 December 2006 |                |                |               |               |               |                |                  |
|------------------------------------------------------------------------------------|------------------------|----------------|----------------|---------------|---------------|---------------|----------------|------------------|
|                                                                                    | RMB                    | USD            | HKD            | EURO          | JPY           | GBP           | Others         | Total            |
| <b>Liabilities</b>                                                                 |                        |                |                |               |               |               |                |                  |
| Due to banks and other financial institutions                                      | 99,311                 | 27,643         | 5,044          | 2,542         | 8,322         | 270           | 35,645         | 178,777          |
| Due to central banks                                                               | –                      | 36,598         | 5,776          | –             | –             | –             | –              | 42,374           |
| Bank notes in circulation                                                          | –                      | –              | 34,914         | –             | –             | –             | 1,909          | 36,823           |
| Certificates of deposit and placements from banks and other financial institutions | 78,497                 | 59,308         | 5,037          | 2,397         | 120           | 147           | 1,402          | 146,908          |
| Financial liabilities at fair value through profit or loss                         | 9,682                  | 63,207         | 25,037         | 130           | –             | 613           | 56             | 98,725           |
| Derivative financial instruments                                                   | 6                      | 10,669         | 3,046          | 152           | 78            | 149           | 223            | 14,323           |
| Due to customers                                                                   | 2,902,584              | 420,197        | 572,423        | 42,529        | 44,032        | 23,210        | 86,143         | 4,091,118        |
| Bonds issued                                                                       | 60,000                 | 173            | –              | –             | –             | –             | –              | 60,173           |
| Other borrowings                                                                   | –                      | 40,014         | –              | 15,247        | 3,984         | 786           | 3,367          | 63,398           |
| Current tax liabilities                                                            | 16,072                 | 223            | 1,269          | 13            | 13            | 3             | 556            | 18,149           |
| Retirement benefit obligations                                                     | 7,444                  | –              | –              | –             | –             | –             | –              | 7,444            |
| Deferred income tax liabilities                                                    | –                      | 806            | 2,178          | –             | –             | –             | 45             | 3,029            |
| Other liabilities                                                                  | 88,800                 | 25,753         | 33,339         | 2,190         | 968           | 556           | 1,850          | 153,456          |
| <b>Total liabilities</b>                                                           | <b>3,262,396</b>       | <b>684,591</b> | <b>688,063</b> | <b>65,200</b> | <b>57,517</b> | <b>25,734</b> | <b>131,196</b> | <b>4,914,697</b> |
| Net on-balance sheet position                                                      | (256,150)              | 618,725        | 4,448          | 39,754        | 10,998        | (6,903)       | 2,084          | 412,956          |
| Net off-balance sheet position                                                     | 439,850                | (468,346)      | 79,804         | (37,825)      | (13,762)      | 7,222         | 156            | 7,099            |
| Credit commitments                                                                 | 505,383                | 345,814        | 152,091        | 51,404        | 16,424        | 4,440         | 12,266         | 1,087,822        |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Bank

|                                                               | As at 31 December 2006 |                  |                |               |               |               |               |                  |
|---------------------------------------------------------------|------------------------|------------------|----------------|---------------|---------------|---------------|---------------|------------------|
|                                                               | RMB                    | USD              | HKD            | EURO          | JPY           | GBP           | Others        | Total            |
| <b>Assets</b>                                                 |                        |                  |                |               |               |               |               |                  |
| Cash and due from banks                                       | 19,674                 | 8,757            | 3,952          | 1,932         | 1,604         | 615           | 1,308         | 37,842           |
| Balances with central banks                                   | 326,117                | 19,389           | 2,269          | 425           | 4,865         | –             | 1,816         | 354,881          |
| Placements with banks and other financial institutions        | 50,932                 | 173,541          | 29,164         | 22,310        | 8,408         | 6,360         | 12,287        | 303,002          |
| Government certificates of indebtedness for bank notes issued | –                      | –                | –              | –             | –             | –             | 1,713         | 1,713            |
| Precious metals                                               | –                      | –                | –              | –             | –             | –             | 40,542        | 40,542           |
| Financial assets at fair value through profit or loss         | 31,497                 | 30,533           | –              | 6,437         | 6,324         | –             | 1,790         | 76,581           |
| Derivative financial instruments                              | 7,418                  | 8,391            | 61             | 126           | 88            | 169           | 110           | 16,363           |
| Loans and advances to customers, net                          | 1,609,963              | 274,178          | 22,619         | 31,003        | 19,735        | 3,476         | 10,891        | 1,971,865        |
| Investment securities                                         |                        |                  |                |               |               |               |               |                  |
| – available for sale                                          | 312,925                | 336,857          | 12,343         | 27,613        | 10,684        | 750           | 5,567         | 706,739          |
| – held to maturity                                            | 180,914                | 92,451           | 10,915         | 2,540         | –             | 13            | 565           | 287,398          |
| – loans and receivables                                       | 350,159                | 73,668           | 10,546         | –             | 13,520        | 761           | 9,952         | 458,606          |
| Investment in subsidiaries                                    | –                      | 1,413            | 43,155         | 45            | –             | –             | 838           | 45,451           |
| Investment in associates and joint ventures                   | –                      | 10               | –              | –             | –             | –             | 11            | 21               |
| Property and equipment                                        | 46,668                 | 215              | –              | 134           | 1,064         | 511           | 881           | 49,473           |
| Investment property                                           | –                      | –                | –              | –             | –             | –             | 620           | 620              |
| Deferred income tax assets                                    | 21,742                 | 4                | –              | –             | 37            | –             | 60            | 21,843           |
| Other assets                                                  | 14,044                 | 12,803           | 1,280          | 1,062         | 302           | 115           | 666           | 30,272           |
| <b>Total assets</b>                                           | <b>2,972,053</b>       | <b>1,032,210</b> | <b>136,304</b> | <b>93,627</b> | <b>66,631</b> | <b>12,770</b> | <b>89,617</b> | <b>4,403,212</b> |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market Risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Bank

|                                                                                    | As at 31 December 2006 |                |                |               |               |               |               |                  |
|------------------------------------------------------------------------------------|------------------------|----------------|----------------|---------------|---------------|---------------|---------------|------------------|
|                                                                                    | RMB                    | USD            | HKD            | EURO          | JPY           | GBP           | Others        | Total            |
| <b>Liabilities</b>                                                                 |                        |                |                |               |               |               |               |                  |
| Due to banks and other financial institutions                                      | 84,378                 | 29,206         | 3,960          | 2,412         | 8,460         | 320           | 35,640        | 164,376          |
| Due to central banks                                                               | –                      | 36,573         | 5,776          | –             | –             | –             | –             | 42,349           |
| Bank notes in circulation                                                          | –                      | –              | –              | –             | –             | –             | 1,909         | 1,909            |
| Certificates of deposit and placements from banks and other financial institutions | 78,156                 | 57,015         | 7,102          | 3,163         | 142           | 147           | 871           | 146,596          |
| Financial liabilities at fair value through profit or loss                         | 9,682                  | 57,116         | 13,844         | 130           | –             | 613           | 56            | 81,441           |
| Derivative financial instruments                                                   | 6                      | 9,141          | 69             | 113           | 78            | 140           | 96            | 9,643            |
| Due to customers                                                                   | 2,891,429              | 268,327        | 69,661         | 36,405        | 40,242        | 11,075        | 41,426        | 3,358,565        |
| Bonds issued                                                                       | 60,000                 | 173            | –              | –             | –             | –             | –             | 60,173           |
| Other borrowings                                                                   | –                      | 24,000         | –              | 15,247        | 3,984         | 786           | 1,989         | 46,006           |
| Current tax liabilities                                                            | 16,058                 | 223            | –              | 9             | 13            | 3             | 451           | 16,757           |
| Retirement benefit obligations                                                     | 7,444                  | –              | –              | –             | –             | –             | –             | 7,444            |
| Deferred income tax liabilities                                                    | –                      | 20             | –              | –             | –             | –             | 12            | 32               |
| Other liabilities                                                                  | 87,583                 | 17,979         | 2,467          | 1,986         | 879           | 418           | 1,215         | 112,527          |
| <b>Total liabilities</b>                                                           | <b>3,234,736</b>       | <b>499,773</b> | <b>102,879</b> | <b>59,465</b> | <b>53,798</b> | <b>13,502</b> | <b>83,665</b> | <b>4,047,818</b> |
| Net on-balance sheet position                                                      | (262,683)              | 532,437        | 33,425         | 34,162        | 12,833        | (732)         | 5,952         | 355,394          |
| Net off-balance sheet position                                                     | 439,686                | (407,017)      | 22,467         | (32,369)      | (15,426)      | 1,170         | (4,795)       | 3,716            |
| Credit commitments                                                                 | 502,965                | 310,418        | 11,297         | 48,725        | 15,890        | 4,323         | 8,610         | 902,228          |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk

Liquidity risk is the risk that the Group is unable to obtain funds at a reasonable cost when required to meet a repayment obligation and fund its asset portfolio. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet its needs to fund deposit withdrawals and other liabilities as they fall due, as well as being able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

##### 5.1 *Liquidity risk management policy and process*

The Bank and overseas subsidiaries manage liquidity risk on their own basis. The Bank manages the liquidity risk of all branches, domestic and overseas.

The Bank has adopted the dual management strategies of asset liquidity management and liability liquidity management. The asset liquidity management strategies are intended to encourage diversification, the ability to realise assets, and to hold an appropriate level of high liquid assets in the portfolio. The strategies relating to liabilities are intended to increase the proportion of core deposits and to maintain the stability of liabilities and financing ability.

Sources of liquidity are regularly reviewed by a separate team in the Treasury Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Treasury Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, certain central bank balances, loans and advances to banks, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

For purposes of these tables, loans and advances to customers are considered overdue only if principal payments are overdue. In addition, for loans and advances to customers that are repayable by instalments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis

The table below analyses the Group's and the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

#### Group

|                                                               | As at 31 December 2007 |                |                      |                       |                        |                      |                  | Total            |
|---------------------------------------------------------------|------------------------|----------------|----------------------|-----------------------|------------------------|----------------------|------------------|------------------|
|                                                               | Overdue                | On demand      | Less than<br>1 month | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years  |                  |
| <b>Assets</b>                                                 |                        |                |                      |                       |                        |                      |                  |                  |
| Cash and due from banks                                       | -                      | 71,221         | -                    | -                     | -                      | -                    | -                | 71,221           |
| Balances with central banks                                   | -                      | 121,681        | 524,061              | 25,431                | 80,171                 | -                    | -                | 751,344          |
| Placements with banks and other financial institutions        | -                      | -              | 276,014              | 76,777                | 33,847                 | 10                   | -                | 386,648          |
| Government certificates of indebtedness for bank notes issued | -                      | 32,478         | -                    | -                     | -                      | -                    | -                | 32,478           |
| Precious metals                                               | -                      | 44,412         | -                    | -                     | -                      | -                    | -                | 44,412           |
| Financial assets at fair value through profit or loss         | -                      | 4,235          | 8,398                | 19,142                | 26,147                 | 31,303               | 35,440           | 124,665          |
| Derivative financial instruments                              | -                      | 11,879         | 4,587                | 5,727                 | 16,666                 | 4,237                | 2,743            | 45,839           |
| Loans and advances to customers, net                          | 24,894                 | 26,904         | 135,571              | 262,986               | 758,152                | 771,723              | 774,263          | 2,754,493        |
| Investment securities                                         |                        |                |                      |                       |                        |                      |                  |                  |
| – available for sale                                          | -                      | -              | 44,584               | 61,803                | 74,211                 | 223,744              | 278,653          | 682,995          |
| – held to maturity                                            | -                      | -              | 28,918               | 30,676                | 96,417                 | 203,707              | 86,929           | 446,647          |
| – loans and receivables                                       | -                      | -              | 18,477               | 16,140                | 37,950                 | 337,308              | 48,745           | 458,620          |
| Investment in associates and joint ventures                   | -                      | -              | -                    | -                     | -                      | 636                  | 6,143            | 6,779            |
| Property and equipment                                        | -                      | -              | -                    | -                     | -                      | -                    | 83,805           | 83,805           |
| Investment property                                           | -                      | -              | -                    | -                     | -                      | -                    | 9,986            | 9,986            |
| Deferred income tax assets                                    | -                      | -              | -                    | -                     | 10                     | 17,637               | -                | 17,647           |
| Other assets                                                  | 168                    | 9,607          | 17,630               | 9,662                 | 10,300                 | 11,694               | 14,577           | 73,638           |
| <b>Total assets</b>                                           | <b>25,062</b>          | <b>322,417</b> | <b>1,058,240</b>     | <b>508,344</b>        | <b>1,133,871</b>       | <b>1,601,999</b>     | <b>1,341,284</b> | <b>5,991,217</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Group

|                                                                                    | As at 31 December 2007 |             |                      |                       |                        |                      |                 |           |
|------------------------------------------------------------------------------------|------------------------|-------------|----------------------|-----------------------|------------------------|----------------------|-----------------|-----------|
|                                                                                    | Overdue                | On demand   | Less than<br>1 month | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years | Total     |
| <b>Liabilities</b>                                                                 |                        |             |                      |                       |                        |                      |                 |           |
| Due to banks and other financial institutions                                      | -                      | 324,848     | -                    | -                     | -                      | -                    | -               | 324,848   |
| Due to central banks                                                               | -                      | 11,425      | 44,155               | 5,408                 | 29,497                 | -                    | -               | 90,485    |
| Bank notes in circulation                                                          | -                      | 32,605      | -                    | -                     | -                      | -                    | -               | 32,605    |
| Certificates of deposit and placements from banks and other financial institutions | -                      | 895         | 171,559              | 35,574                | 33,058                 | 7,396                | -               | 248,482   |
| Financial liabilities at fair value through profit or loss                         | -                      | -           | 50,148               | 11,729                | 16,557                 | 6,430                | 1,791           | 86,655    |
| Derivative financial instruments                                                   | -                      | 7,791       | 3,051                | 3,025                 | 6,183                  | 3,831                | 3,381           | 27,262    |
| Due to customers                                                                   | -                      | 2,026,682   | 717,561              | 466,710               | 985,708                | 202,954              | 496             | 4,400,111 |
| Bonds issued                                                                       | -                      | -           | -                    | -                     | 1,847                  | 2,381                | 60,163          | 64,391    |
| Other borrowings                                                                   | -                      | -           | 1,153                | 668                   | 5,214                  | 18,392               | 26,281          | 51,708    |
| Current tax liabilities                                                            | -                      | 26          | 28                   | 4                     | 20,987                 | -                    | -               | 21,045    |
| Retirement benefit obligations                                                     | -                      | -           | 81                   | 162                   | 728                    | 3,025                | 3,235           | 7,231     |
| Deferred income tax liabilities                                                    | -                      | -           | -                    | -                     | -                      | 2,894                | -               | 2,894     |
| Other liabilities                                                                  | -                      | 82,309      | 23,828               | 9,017                 | 39,427                 | 19,710               | 8,552           | 182,843   |
| <b>Total liabilities</b>                                                           | -                      | 2,486,581   | 1,011,564            | 532,297               | 1,139,206              | 267,013              | 103,899         | 5,540,560 |
| <b>Net Liquidity Gap</b>                                                           | 25,062                 | (2,164,164) | 46,676               | (23,953)              | (5,335)                | 1,334,986            | 1,237,385       | 450,657   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Bank

|                                                                     | As at 31 December 2007 |                |                      |                       |                        |                      |                  |                  |
|---------------------------------------------------------------------|------------------------|----------------|----------------------|-----------------------|------------------------|----------------------|------------------|------------------|
|                                                                     | Overdue                | On demand      | Less than<br>1 month | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years  | Total            |
| <b>Assets</b>                                                       |                        |                |                      |                       |                        |                      |                  |                  |
| Cash and due from banks                                             | –                      | 66,348         | –                    | –                     | –                      | –                    | –                | 66,348           |
| Balances with central banks                                         | –                      | 90,280         | 525,551              | 25,431                | 80,171                 | –                    | –                | 721,433          |
| Placements with banks and<br>other financial institutions           | –                      | –              | 201,509              | 49,352                | 26,915                 | 7,464                | 117              | 285,357          |
| Government certificates of<br>indebtedness for bank<br>notes issued | –                      | 1,792          | –                    | –                     | –                      | –                    | –                | 1,792            |
| Precious metals                                                     | –                      | 42,782         | –                    | –                     | –                      | –                    | –                | 42,782           |
| Financial assets at fair value<br>through profit or loss            | –                      | –              | 7,349                | 17,863                | 22,258                 | 21,828               | 13,384           | 82,682           |
| Derivative financial<br>instruments                                 | –                      | –              | 3,952                | 5,523                 | 15,102                 | 3,695                | 2,699            | 30,971           |
| Loans and advances to<br>customers, net                             | 19,212                 | 6,693          | 115,575              | 234,968               | 715,098                | 596,746              | 647,775          | 2,336,067        |
| Investment securities                                               |                        |                |                      |                       |                        |                      |                  |                  |
| – available for sale                                                | –                      | –              | 38,263               | 57,750                | 64,158                 | 179,066              | 229,650          | 568,887          |
| – held to maturity                                                  | –                      | –              | 22,985               | 17,035                | 76,268                 | 117,831              | 50,948           | 285,067          |
| – loans and receivables                                             | –                      | –              | 9,495                | 3,909                 | 24,832                 | 337,308              | 48,745           | 424,289          |
| Investment in subsidiaries                                          | –                      | –              | –                    | –                     | –                      | 321                  | 48,693           | 49,014           |
| Investment in associates and<br>joint ventures                      | –                      | –              | –                    | –                     | –                      | –                    | 19               | 19               |
| Property and equipment                                              | –                      | –              | –                    | –                     | –                      | –                    | 50,453           | 50,453           |
| Investment property                                                 | –                      | –              | –                    | –                     | –                      | –                    | 1,362            | 1,362            |
| Deferred income tax assets                                          | –                      | –              | –                    | –                     | –                      | 18,080               | –                | 18,080           |
| Other assets                                                        | 155                    | 1,718          | 4,395                | 8,884                 | 8,399                  | 8,230                | 9,531            | 41,312           |
| <b>Total assets</b>                                                 | <b>19,367</b>          | <b>209,613</b> | <b>929,074</b>       | <b>420,715</b>        | <b>1,033,201</b>       | <b>1,290,569</b>     | <b>1,103,376</b> | <b>5,005,915</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Bank

|                                                                                    | As at 31 December 2007 |             |                   |                    |                     |                   |              |           |
|------------------------------------------------------------------------------------|------------------------|-------------|-------------------|--------------------|---------------------|-------------------|--------------|-----------|
|                                                                                    | Overdue                | On demand   | Less than 1 month | Between 1-3 months | Between 3-12 months | Between 1-5 years | Over 5 years | Total     |
| <b>Liabilities</b>                                                                 |                        |             |                   |                    |                     |                   |              |           |
| Due to banks and other financial institutions                                      | -                      | 311,831     | -                 | -                  | -                   | -                 | -            | 311,831   |
| Due to central banks                                                               | -                      | 11,394      | 44,155            | 5,408              | 29,497              | -                 | -            | 90,454    |
| Bank notes in circulation                                                          | -                      | 1,919       | -                 | -                  | -                   | -                 | -            | 1,919     |
| Certificates of deposit and placements from banks and other financial institutions | -                      | -           | 175,814           | 40,100             | 29,392              | 6,584             | -            | 251,890   |
| Financial liabilities at fair value through profit or loss                         | -                      | -           | 47,592            | 9,773              | 10,520              | 3,366             | 1,504        | 72,755    |
| Derivative financial instruments                                                   | -                      | -           | 2,588             | 2,525              | 5,068               | 2,657             | 3,163        | 16,001    |
| Due to customers                                                                   | -                      | 1,696,836   | 399,188           | 369,701            | 949,390             | 202,278           | 496          | 3,617,889 |
| Bonds issued                                                                       | -                      | -           | -                 | -                  | -                   | 3,000             | 60,162       | 63,162    |
| Other borrowings                                                                   | -                      | -           | 1,153             | 653                | 5,214               | 14,801            | 16,300       | 38,121    |
| Current tax liabilities                                                            | -                      | 13          | 2                 | 4                  | 19,435              | -                 | -            | 19,454    |
| Retirement benefit obligations                                                     | -                      | -           | 81                | 162                | 728                 | 3,025             | 3,235        | 7,231     |
| Deferred income tax liabilities                                                    | -                      | -           | -                 | -                  | -                   | 44                | -            | 44        |
| Other liabilities                                                                  | -                      | 67,264      | 12,075            | 7,033              | 36,893              | 3,783             | 1,636        | 128,684   |
| <b>Total liabilities</b>                                                           | -                      | 2,089,257   | 682,648           | 435,359            | 1,086,137           | 239,538           | 86,496       | 4,619,435 |
| <b>Net liquidity gap</b>                                                           | 19,367                 | (1,879,644) | 246,426           | (14,644)           | (52,936)            | 1,051,031         | 1,016,880    | 386,480   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Group

|                                                               | As at 31 December 2006 |                |                   |                    |                     |                   |                  |                  |
|---------------------------------------------------------------|------------------------|----------------|-------------------|--------------------|---------------------|-------------------|------------------|------------------|
|                                                               | Overdue                | On demand      | Less than 1 month | Between 1-3 months | Between 3-12 months | Between 1-5 years | Over 5 years     | Total            |
| <b>Assets</b>                                                 |                        |                |                   |                    |                     |                   |                  |                  |
| Cash and due from banks                                       | –                      | 39,812         | –                 | –                  | –                   | –                 | –                | 39,812           |
| Balances with central banks                                   | –                      | 102,017        | 277,614           | –                  | –                   | –                 | –                | 379,631          |
| Placements with banks and other financial institutions        | –                      | –              | 264,913           | 106,193            | 27,909              | 123               | –                | 399,138          |
| Government certificates of indebtedness for bank notes issued | –                      | 36,626         | –                 | –                  | –                   | –                 | –                | 36,626           |
| Precious metals                                               | –                      | 42,083         | –                 | –                  | –                   | –                 | –                | 42,083           |
| Financial assets at fair value through profit or loss         | –                      | –              | 9,611             | 10,043             | 14,868              | 41,703            | 39,603           | 115,828          |
| Derivative financial instruments                              | –                      | 6,466          | 2,516             | 1,699              | 8,181               | 3,321             | 2,654            | 24,837           |
| Loans and advances to customers, net                          | 48,388                 | 32,925         | 129,262           | 251,375            | 646,647             | 624,209           | 604,920          | 2,337,726        |
| Investment securities                                         |                        |                |                   |                    |                     |                   |                  |                  |
| – available for sale                                          | –                      | –              | 23,457            | 47,972             | 132,998             | 293,914           | 316,837          | 815,178          |
| – held to maturity                                            | –                      | –              | 26,616            | 57,308             | 102,015             | 186,741           | 88,460           | 461,140          |
| – loans and receivables                                       | –                      | –              | 52,744            | 62,973             | 85,706              | 250,169           | 48,744           | 500,336          |
| Investment in associates and joint ventures                   | –                      | –              | –                 | –                  | –                   | 147               | 5,784            | 5,931            |
| Property and equipment                                        | –                      | –              | –                 | –                  | –                   | –                 | 86,200           | 86,200           |
| Investment property                                           | –                      | –              | –                 | –                  | –                   | –                 | 8,221            | 8,221            |
| Deferred income tax assets                                    | –                      | –              | –                 | –                  | 23                  | 21,321            | 52               | 21,396           |
| Other assets                                                  | 366                    | 8,473          | 10,994            | 6,422              | 16,733              | 4,131             | 6,451            | 53,570           |
| <b>Total assets</b>                                           | <b>48,754</b>          | <b>268,402</b> | <b>797,727</b>    | <b>543,985</b>     | <b>1,035,080</b>    | <b>1,425,779</b>  | <b>1,207,926</b> | <b>5,327,653</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Group

|                                                                                    | As at 31 December 2006 |             |                   |                    |                     |                   |              |           |
|------------------------------------------------------------------------------------|------------------------|-------------|-------------------|--------------------|---------------------|-------------------|--------------|-----------|
|                                                                                    | Overdue                | On demand   | Less than 1 month | Between 1-3 months | Between 3-12 months | Between 1-5 years | Over 5 years | Total     |
| <b>Liabilities</b>                                                                 |                        |             |                   |                    |                     |                   |              |           |
| Due to banks and other financial institutions                                      | –                      | 178,777     | –                 | –                  | –                   | –                 | –            | 178,777   |
| Due to central banks                                                               | –                      | 11,116      | 4,412             | 5,078              | 21,768              | –                 | –            | 42,374    |
| Bank notes in circulation                                                          | –                      | 36,823      | –                 | –                  | –                   | –                 | –            | 36,823    |
| Certificates of deposit and placements from banks and other financial institutions | –                      | 2,515       | 79,096            | 19,698             | 25,160              | 20,439            | –            | 146,908   |
| Financial liabilities at fair value through profit or loss                         | –                      | –           | 20,933            | 14,501             | 38,739              | 14,966            | 9,586        | 98,725    |
| Derivative financial instruments                                                   | –                      | 2,977       | 1,087             | 1,787              | 2,228               | 3,673             | 2,571        | 14,323    |
| Due to customers                                                                   | –                      | 1,854,295   | 671,453           | 439,215            | 847,843             | 277,401           | 911          | 4,091,118 |
| Bonds issued                                                                       | –                      | –           | –                 | –                  | –                   | –                 | 60,173       | 60,173    |
| Other borrowings                                                                   | –                      | –           | 947               | 743                | 5,754               | 22,633            | 33,321       | 63,398    |
| Current tax liabilities                                                            | –                      | 14          | 26                | 6                  | 17,792              | 271               | 40           | 18,149    |
| Retirement benefit obligations                                                     | –                      | –           | 82                | 163                | 713                 | 3,087             | 3,399        | 7,444     |
| Deferred income tax liabilities                                                    | –                      | –           | –                 | –                  | 1,808               | 1,201             | 20           | 3,029     |
| Other liabilities                                                                  | –                      | 71,136      | 15,508            | 7,197              | 31,699              | 11,894            | 16,022       | 153,456   |
| <b>Total liabilities</b>                                                           | –                      | 2,157,653   | 793,544           | 488,388            | 993,504             | 355,565           | 126,043      | 4,914,697 |
| <b>Net liquidity gap</b>                                                           | 48,754                 | (1,889,251) | 4,183             | 55,597             | 41,576              | 1,070,214         | 1,081,883    | 412,956   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Bank

|                                                               | As at 31 December 2006 |                |                   |                    |                     |                   |                |                  |
|---------------------------------------------------------------|------------------------|----------------|-------------------|--------------------|---------------------|-------------------|----------------|------------------|
|                                                               | Overdue                | On demand      | Less than 1 month | Between 1-3 months | Between 3-12 months | Between 1-5 years | Over 5 years   | Total            |
| <b>Assets</b>                                                 |                        |                |                   |                    |                     |                   |                |                  |
| Cash and due from banks                                       | –                      | 37,842         | –                 | –                  | –                   | –                 | –              | 37,842           |
| Balances with central banks                                   | –                      | 77,810         | 277,071           | –                  | –                   | –                 | –              | 354,881          |
| Placements with banks and other financial institutions        | –                      | 40             | 214,335           | 59,378             | 21,562              | 7,687             | –              | 303,002          |
| Government certificates of indebtedness for bank notes issued | –                      | 1,713          | –                 | –                  | –                   | –                 | –              | 1,713            |
| Precious metals                                               | –                      | 40,542         | –                 | –                  | –                   | –                 | –              | 40,542           |
| Financial assets at fair value through profit or loss         | –                      | –              | 2,967             | 7,254              | 10,311              | 33,203            | 22,846         | 76,581           |
| Derivative financial instruments                              | –                      | 77             | 1,726             | 1,391              | 7,863               | 2,861             | 2,445          | 16,363           |
| Loans and advances to customers, net                          | 46,546                 | 2,730          | 118,855           | 233,901            | 605,283             | 481,126           | 483,424        | 1,971,865        |
| Investment securities                                         |                        |                |                   |                    |                     |                   |                |                  |
| – available for sale                                          | –                      | –              | 21,494            | 42,162             | 125,821             | 250,249           | 267,013        | 706,739          |
| – held to maturity                                            | –                      | –              | 21,077            | 47,967             | 62,063              | 98,480            | 57,811         | 287,398          |
| – loans and receivables                                       | –                      | –              | 48,966            | 48,310             | 62,417              | 250,169           | 48,744         | 458,606          |
| Investment in subsidiaries                                    | –                      | –              | –                 | –                  | –                   | 376               | 45,075         | 45,451           |
| Investment in associates and joint ventures                   | –                      | –              | –                 | –                  | –                   | 10                | 11             | 21               |
| Property and equipment                                        | –                      | –              | –                 | –                  | –                   | –                 | 49,473         | 49,473           |
| Investment property                                           | –                      | –              | –                 | –                  | –                   | –                 | 620            | 620              |
| Deferred income tax assets                                    | –                      | –              | –                 | –                  | –                   | 21,791            | 52             | 21,843           |
| Other assets                                                  | 192                    | 3,625          | 1,691             | 5,741              | 15,591              | 56                | 3,376          | 30,272           |
| <b>Total assets</b>                                           | <b>46,738</b>          | <b>164,379</b> | <b>708,182</b>    | <b>446,104</b>     | <b>910,911</b>      | <b>1,146,008</b>  | <b>980,890</b> | <b>4,403,212</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Bank

|                                                                                    | As at 31 December 2006 |             |                   |                    |                     |                   |              |           |
|------------------------------------------------------------------------------------|------------------------|-------------|-------------------|--------------------|---------------------|-------------------|--------------|-----------|
|                                                                                    | Overdue                | On demand   | Less than 1 month | Between 1-3 months | Between 3-12 months | Between 1-5 years | Over 5 years | Total     |
| <b>Liabilities</b>                                                                 |                        |             |                   |                    |                     |                   |              |           |
| Due to banks and other financial institutions                                      | –                      | 164,376     | –                 | –                  | –                   | –                 | –            | 164,376   |
| Due to central banks                                                               | –                      | 11,091      | 4,412             | 5,078              | 21,768              | –                 | –            | 42,349    |
| Bank notes in circulation                                                          | –                      | 1,909       | –                 | –                  | –                   | –                 | –            | 1,909     |
| Certificates of deposit and placements from banks and other financial institutions | –                      | 830         | 77,969            | 23,610             | 25,614              | 18,573            | –            | 146,596   |
| Financial liabilities at fair value through profit or loss                         | –                      | –           | 16,093            | 11,998             | 32,748              | 11,329            | 9,273        | 81,441    |
| Derivative financial instruments                                                   | –                      | –           | 731               | 1,621              | 2,046               | 2,952             | 2,293        | 9,643     |
| Due to customers                                                                   | –                      | 1,545,119   | 357,605           | 355,959            | 822,620             | 276,664           | 598          | 3,358,565 |
| Bonds issued                                                                       | –                      | –           | –                 | –                  | –                   | –                 | 60,173       | 60,173    |
| Other borrowings                                                                   | –                      | –           | 947               | 743                | 4,870               | 17,862            | 21,584       | 46,006    |
| Current tax liabilities                                                            | –                      | 14          | 22                | 6                  | 16,404              | 271               | 40           | 16,757    |
| Retirement benefit obligations                                                     | –                      | –           | 82                | 163                | 713                 | 3,087             | 3,399        | 7,444     |
| Deferred income tax liabilities                                                    | –                      | –           | –                 | –                  | 8                   | 4                 | 20           | 32        |
| Other liabilities                                                                  | –                      | 58,809      | 7,114             | 5,454              | 30,688              | 10,309            | 153          | 112,527   |
| <b>Total liabilities</b>                                                           | –                      | 1,782,148   | 464,975           | 404,632            | 957,479             | 341,051           | 97,533       | 4,047,818 |
| <b>Net liquidity gap</b>                                                           | 46,738                 | (1,617,769) | 243,207           | 41,472             | (46,568)            | 804,957           | 883,357      | 355,394   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.3 Non-derivative cash flows

The table below presents the cash flows by the Group and the Bank under non-derivative financial assets and financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

#### Group

|                                                                                          | As at 31 December 2007 |                      |                       |                        |                      |                  |               |                  |
|------------------------------------------------------------------------------------------|------------------------|----------------------|-----------------------|------------------------|----------------------|------------------|---------------|------------------|
|                                                                                          | On demand              | Less than<br>1 month | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years  | Overdue       | Total            |
| Cash and due from banks                                                                  | 71,221                 | –                    | –                     | –                      | –                    | –                | –             | 71,221           |
| Balances with central banks                                                              | 121,681                | 524,061              | 25,431                | 80,171                 | –                    | –                | –             | 751,344          |
| Placements with banks and<br>other financial institutions                                | –                      | 276,014              | 76,777                | 33,847                 | 10                   | –                | –             | 386,648          |
| Financial assets at fair value<br>through profit or loss                                 | 4,235                  | 8,405                | 19,233                | 26,303                 | 31,161               | 35,744           | –             | 125,081          |
| Loans and advances to<br>customers, net                                                  | 31,650                 | 136,500              | 264,976               | 764,978                | 772,807              | 774,959          | 29,241        | 2,775,111        |
| Investment securities                                                                    |                        |                      |                       |                        |                      |                  |               |                  |
| – available for sale                                                                     | –                      | 44,623               | 61,993                | 74,585                 | 225,919              | 282,691          | –             | 689,811          |
| – held to maturity                                                                       | –                      | 29,237               | 30,440                | 97,182                 | 204,060              | 86,664           | –             | 447,583          |
| – loans and receivables                                                                  | –                      | 18,478               | 16,139                | 38,225                 | 337,297              | 48,745           | –             | 458,884          |
| Other assets <sup>(1)</sup>                                                              | 7,360                  | 32,008               | 44,304                | 145,218                | 400,288              | 428,472          | 336           | 1,057,986        |
| <b>Total financial assets</b>                                                            | <b>236,147</b>         | <b>1,069,326</b>     | <b>539,293</b>        | <b>1,260,509</b>       | <b>1,971,542</b>     | <b>1,657,275</b> | <b>29,577</b> | <b>6,763,669</b> |
| Due to banks and other<br>financial institutions                                         | 324,848                | –                    | –                     | –                      | –                    | –                | –             | 324,848          |
| Due to central banks                                                                     | 11,425                 | 44,155               | 5,408                 | 29,497                 | –                    | –                | –             | 90,485           |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | 895                    | 171,559              | 35,574                | 33,058                 | 7,396                | –                | –             | 248,482          |
| Financial liabilities at fair<br>value through profit or loss                            | –                      | 50,147               | 11,729                | 16,557                 | 6,421                | 1,777            | –             | 86,631           |
| Due to customers                                                                         | 2,026,682              | 717,561              | 466,710               | 985,708                | 202,954              | 496              | –             | 4,400,111        |
| Bonds issued                                                                             | –                      | –                    | –                     | 1,847                  | 2,381                | 60,163           | –             | 64,391           |
| Other borrowings                                                                         | –                      | 1,153                | 668                   | 5,214                  | 18,392               | 26,281           | –             | 51,708           |
| Other liabilities <sup>(1)</sup>                                                         | 60,450                 | 23,924               | 14,484                | 57,397                 | 57,110               | 23,422           | –             | 236,787          |
| <b>Total financial liabilities</b>                                                       | <b>2,424,300</b>       | <b>1,008,499</b>     | <b>534,573</b>        | <b>1,129,278</b>       | <b>294,654</b>       | <b>112,139</b>   | <b>–</b>      | <b>5,503,443</b> |

(1) Within other assets and other liabilities are amounts relating to the interest elements on financial assets and financial liabilities.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.3 Non-derivative cash flows (Continued)

#### Bank

|                                                                                          | As at 31 December 2007 |                      |                       |                        |                      |                  |               |                  |
|------------------------------------------------------------------------------------------|------------------------|----------------------|-----------------------|------------------------|----------------------|------------------|---------------|------------------|
|                                                                                          | On demand              | Less than<br>1 month | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years  | Overdue       | Total            |
| Cash and due from banks                                                                  | 66,348                 | –                    | –                     | –                      | –                    | –                | –             | 66,348           |
| Balances with central banks                                                              | 90,280                 | 525,551              | 25,431                | 80,171                 | –                    | –                | –             | 721,433          |
| Placements with banks and<br>other financial institutions                                | –                      | 201,509              | 49,352                | 26,915                 | 7,464                | 117              | –             | 285,357          |
| Financial assets at fair value<br>through profit or loss                                 | –                      | 7,356                | 17,954                | 22,415                 | 21,640               | 13,543           | –             | 82,908           |
| Loans and advances to<br>customers, net                                                  | 6,693                  | 115,628              | 235,391               | 716,640                | 597,178              | 647,782          | 28,269        | 2,347,581        |
| Investment securities                                                                    |                        |                      |                       |                        |                      |                  |               |                  |
| – available for sale                                                                     | –                      | 38,301               | 57,940                | 64,529                 | 181,213              | 233,603          | –             | 575,586          |
| – held to maturity                                                                       | –                      | 23,305               | 16,799                | 77,033                 | 118,183              | 50,682           | –             | 286,002          |
| – loans and receivables                                                                  | –                      | 9,214                | 4,190                 | 25,107                 | 337,297              | 48,745           | –             | 424,553          |
| Other assets <sup>(1)</sup>                                                              | 532                    | 15,979               | 37,955                | 123,994                | 348,730              | 347,415          | 319           | 874,924          |
| <b>Total financial assets</b>                                                            | <b>163,853</b>         | <b>936,843</b>       | <b>445,012</b>        | <b>1,136,804</b>       | <b>1,611,705</b>     | <b>1,341,887</b> | <b>28,588</b> | <b>5,664,692</b> |
| Due to banks and other<br>financial institutions                                         | 311,831                | –                    | –                     | –                      | –                    | –                | –             | 311,831          |
| Due to central banks                                                                     | 11,394                 | 44,155               | 5,408                 | 29,497                 | –                    | –                | –             | 90,454           |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | –                      | 175,814              | 40,100                | 29,392                 | 6,584                | –                | –             | 251,890          |
| Financial liabilities at fair<br>value through profit or loss                            | –                      | 47,592               | 9,773                 | 10,520                 | 3,357                | 1,490            | –             | 72,732           |
| Due to customers                                                                         | 1,696,836              | 399,188              | 369,701               | 949,390                | 202,278              | 496              | –             | 3,617,889        |
| Bonds issued                                                                             | –                      | –                    | –                     | –                      | 3,000                | 60,162           | –             | 63,162           |
| Other borrowings                                                                         | –                      | 1,153                | 653                   | 5,214                  | 14,801               | 16,300           | –             | 38,121           |
| Other liabilities <sup>(1)</sup>                                                         | 53,947                 | 11,775               | 12,363                | 55,407                 | 54,805               | 23,027           | –             | 211,324          |
| <b>Total financial liabilities</b>                                                       | <b>2,074,008</b>       | <b>679,677</b>       | <b>437,998</b>        | <b>1,079,420</b>       | <b>284,825</b>       | <b>101,475</b>   | <b>–</b>      | <b>4,657,403</b> |

(1) Within other assets and other liabilities are amounts relating to the interest elements on financial assets and financial liabilities.

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.3 Non-derivative cash flows (Continued)

#### Group

|                                                                                          | As at 31 December 2006 |                      |                       |                        |                      |                  |               |                  |
|------------------------------------------------------------------------------------------|------------------------|----------------------|-----------------------|------------------------|----------------------|------------------|---------------|------------------|
|                                                                                          | On demand              | Less than<br>1 month | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years  | Overdue       | Total            |
| Cash and due from banks                                                                  | 39,812                 | –                    | –                     | –                      | –                    | –                | –             | 39,812           |
| Balances with central banks                                                              | 102,017                | 277,614              | –                     | –                      | –                    | –                | –             | 379,631          |
| Placements with banks and<br>other financial institutions                                | –                      | 264,913              | 106,193               | 27,909                 | 123                  | –                | –             | 399,138          |
| Financial assets at fair value<br>through profit or loss                                 | –                      | 9,611                | 10,051                | 14,929                 | 41,313               | 39,736           | –             | 115,640          |
| Loans and advances to<br>customers, net                                                  | 33,241                 | 130,172              | 253,706               | 654,047                | 625,887              | 606,111          | 57,204        | 2,360,368        |
| Investment securities                                                                    |                        |                      |                       |                        |                      |                  |               |                  |
| – available for sale                                                                     | –                      | 23,790               | 48,112                | 134,482                | 293,741              | 317,748          | –             | 817,873          |
| – held to maturity                                                                       | –                      | 26,658               | 57,404                | 102,804                | 187,245              | 88,086           | –             | 462,197          |
| – loans and receivables                                                                  | –                      | 52,831               | 63,247                | 86,135                 | 250,169              | 48,745           | –             | 501,127          |
| Other assets <sup>(1)</sup>                                                              | 9,401                  | 53,765               | 55,308                | 83,737                 | 229,470              | 441,651          | 422           | 873,754          |
| <b>Total financial assets</b>                                                            | <b>184,471</b>         | <b>839,354</b>       | <b>594,021</b>        | <b>1,104,043</b>       | <b>1,627,948</b>     | <b>1,542,077</b> | <b>57,626</b> | <b>5,949,540</b> |
| Due to banks and other<br>financial institutions                                         | 178,777                | –                    | –                     | –                      | –                    | –                | –             | 178,777          |
| Due to central banks                                                                     | 11,116                 | 4,412                | 5,078                 | 21,768                 | –                    | –                | –             | 42,374           |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | 2,515                  | 79,096               | 19,698                | 25,160                 | 20,439               | –                | –             | 146,908          |
| Financial liabilities at fair<br>value through profit or loss                            | –                      | 21,010               | 14,501                | 38,740                 | 14,963               | 9,511            | –             | 98,725           |
| Due to customers                                                                         | 1,854,295              | 671,453              | 439,215               | 847,843                | 277,401              | 911              | –             | 4,091,118        |
| Bonds issued                                                                             | –                      | –                    | –                     | –                      | –                    | 60,173           | –             | 60,173           |
| Other borrowings                                                                         | –                      | 947                  | 743                   | 5,754                  | 22,633               | 33,321           | –             | 63,398           |
| Other liabilities <sup>(1)</sup>                                                         | 63,770                 | 21,512               | 12,248                | 48,259                 | 53,637               | 20,186           | –             | 219,612          |
| <b>Total financial liabilities</b>                                                       | <b>2,110,473</b>       | <b>798,430</b>       | <b>491,483</b>        | <b>987,524</b>         | <b>389,073</b>       | <b>124,102</b>   | <b>–</b>      | <b>4,901,085</b> |

(1) Within other assets and other liabilities are amounts relating to the interest elements on financial assets and financial liabilities.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.3 Non-derivative cash flows (Continued)

##### Bank

|                                                                                          | As at 31 December 2006 |                      |                       |                        |                      |                  |               |                  |
|------------------------------------------------------------------------------------------|------------------------|----------------------|-----------------------|------------------------|----------------------|------------------|---------------|------------------|
|                                                                                          | On demand              | Less than<br>1 month | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years  | Overdue       | Total            |
| Cash and due from banks                                                                  | 37,842                 | –                    | –                     | –                      | –                    | –                | –             | 37,842           |
| Balances with central banks                                                              | 77,810                 | 277,071              | –                     | –                      | –                    | –                | –             | 354,881          |
| Placements with banks and<br>other financial institutions                                | 40                     | 214,335              | 59,378                | 21,562                 | 7,687                | –                | –             | 303,002          |
| Financial assets at fair value<br>through profit or loss                                 | –                      | 2,970                | 7,262                 | 10,367                 | 32,818               | 22,957           | –             | 76,374           |
| Loans and advances to<br>customers, net                                                  | 2,942                  | 119,357              | 234,791               | 606,763                | 482,293              | 484,164          | 55,357        | 1,985,667        |
| Investment securities                                                                    |                        |                      |                       |                        |                      |                  |               |                  |
| – available for sale                                                                     | –                      | 21,827               | 42,302                | 127,304                | 250,077              | 267,926          | –             | 709,436          |
| – held to maturity                                                                       | –                      | 21,120               | 48,063                | 62,851                 | 98,985               | 57,437           | –             | 288,456          |
| – loans and receivables                                                                  | –                      | 49,053               | 48,584                | 62,845                 | 250,169              | 48,745           | –             | 459,396          |
| Other assets <sup>(1)</sup>                                                              | 3,225                  | 49,668               | 52,351                | 72,546                 | 195,169              | 352,264          | 243           | 725,466          |
| <b>Total financial assets</b>                                                            | <b>121,859</b>         | <b>755,401</b>       | <b>492,731</b>        | <b>964,238</b>         | <b>1,317,198</b>     | <b>1,233,493</b> | <b>55,600</b> | <b>4,940,520</b> |
| Due to banks and other<br>financial institutions                                         | 164,376                | –                    | –                     | –                      | –                    | –                | –             | 164,376          |
| Due to central banks                                                                     | 11,091                 | 4,412                | 5,078                 | 21,768                 | –                    | –                | –             | 42,349           |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | 830                    | 77,969               | 23,610                | 25,614                 | 18,573               | –                | –             | 146,596          |
| Financial liabilities at fair<br>value through profit or loss                            | –                      | 16,171               | 11,998                | 32,748                 | 11,327               | 9,197            | –             | 81,441           |
| Due to customers                                                                         | 1,545,119              | 357,605              | 355,959               | 822,620                | 276,664              | 598              | –             | 3,358,565        |
| Bonds issued                                                                             | –                      | –                    | –                     | –                      | –                    | 60,173           | –             | 60,173           |
| Other borrowings                                                                         | –                      | 947                  | 743                   | 4,870                  | 17,862               | 21,584           | –             | 46,006           |
| Other liabilities <sup>(1)</sup>                                                         | 56,266                 | 10,697               | 10,465                | 45,093                 | 55,075               | 16,046           | –             | 193,642          |
| <b>Total financial liabilities</b>                                                       | <b>1,777,682</b>       | <b>467,801</b>       | <b>407,853</b>        | <b>952,713</b>         | <b>379,501</b>       | <b>107,598</b>   | <b>–</b>      | <b>4,093,148</b> |

(1) Within other assets and other liabilities are amounts relating to the interest elements on financial assets and financial liabilities.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.4 Derivatives cash flows

###### (a) Derivatives settled on a net basis

The table below analyses the Group's and the Bank's derivative financial instruments with net positive or negative fair value at the balance sheet date that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Except for customer driven derivatives which are disclosed at fair value (i.e. discounted cash flows basis), other derivatives are disclosed at undiscounted cash flows.

#### Group

|                                                          | As at 31 December 2007 |                       |                        |                      |                 | Total        |
|----------------------------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------|--------------|
|                                                          | Less than<br>1 month   | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years |              |
| Exchange rate derivatives                                |                        |                       |                        |                      |                 |              |
| – Cash flows of derivatives with net positive fair value | 11,207                 | 54                    | (243)                  | 11                   | –               | 11,029       |
| – Cash flows of derivatives with net negative fair value | (6,791)                | (61)                  | 258                    | (9)                  | –               | (6,603)      |
| Interest rate derivatives                                |                        |                       |                        |                      |                 |              |
| – Cash flows of derivatives with net positive fair value | 259                    | 150                   | 194                    | 942                  | 1,993           | 3,538        |
| – Cash flows of derivatives with net negative fair value | (140)                  | (285)                 | (257)                  | (899)                | (2,035)         | (3,616)      |
| Precious metals derivatives                              |                        |                       |                        |                      |                 |              |
| – Cash flows of derivatives with net positive fair value | 702                    | –                     | –                      | –                    | –               | 702          |
| – Cash flows of derivatives with net negative fair value | (1,039)                | –                     | –                      | –                    | –               | (1,039)      |
| Equity derivatives                                       |                        |                       |                        |                      |                 |              |
| – Cash flows of derivatives with net positive fair value | 33                     | 43                    | 588                    | 18                   | –               | 682          |
| – Cash flows of derivatives with net negative fair value | (3)                    | (92)                  | (317)                  | (17)                 | –               | (429)        |
| <b>Total</b>                                             | <b>4,228</b>           | <b>(191)</b>          | <b>223</b>             | <b>46</b>            | <b>(42)</b>     | <b>4,264</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.4 Derivatives cash flows (Continued)

(a) Derivatives settled on a net basis (Continued)

#### Bank

|                                                          | As at 31 December 2007 |                       |                        |                      |                 |            |
|----------------------------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------|------------|
|                                                          | Less than<br>1 month   | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years | Total      |
| Exchange rate derivatives                                |                        |                       |                        |                      |                 |            |
| – Cash flows of derivatives with net positive fair value | 21                     | 36                    | 133                    | 28                   | –               | 218        |
| – Cash flows of derivatives with net negative fair value | (30)                   | (50)                  | (169)                  | (28)                 | –               | (277)      |
| Interest rate derivatives                                |                        |                       |                        |                      |                 |            |
| – Cash flows of derivatives with net positive fair value | 245                    | 105                   | 113                    | 738                  | 1,992           | 3,193      |
| – Cash flows of derivatives with net negative fair value | (12)                   | (184)                 | (89)                   | (504)                | (1,967)         | (2,756)    |
| <b>Total</b>                                             | <b>224</b>             | <b>(93)</b>           | <b>(12)</b>            | <b>234</b>           | <b>25</b>       | <b>378</b> |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.4 Derivatives cash flows (Continued)

(a) Derivatives settled on a net basis (Continued)

#### Group

|                                                          | As at 31 December 2006 |                       |                        |                      |                 |              |
|----------------------------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------|--------------|
|                                                          | Less than<br>1 month   | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years | Total        |
| Exchange rate derivatives                                |                        |                       |                        |                      |                 |              |
| – Cash flows of derivatives with net positive fair value | 6,092                  | 153                   | 126                    | 30                   | –               | 6,401        |
| – Cash flows of derivatives with net negative fair value | (2,575)                | (139)                 | (98)                   | (29)                 | –               | (2,841)      |
| Interest rate derivatives                                |                        |                       |                        |                      |                 |              |
| – Cash flows of derivatives with net positive fair value | 319                    | 293                   | 693                    | 1,634                | 1,573           | 4,512        |
| – Cash flows of derivatives with net negative fair value | (139)                  | (395)                 | (973)                  | (2,321)              | (1,710)         | (5,538)      |
| Precious metals derivatives                              |                        |                       |                        |                      |                 |              |
| – Cash flows of derivatives with net positive fair value | 202                    | –                     | –                      | –                    | –               | 202          |
| – Cash flows of derivatives with net negative fair value | (440)                  | –                     | –                      | –                    | –               | (440)        |
| Equity derivatives                                       |                        |                       |                        |                      |                 |              |
| – Cash flows of derivatives with net positive fair value | 2                      | 1                     | 4                      | –                    | –               | 7            |
| – Cash flows of derivatives with net negative fair value | (7)                    | (1)                   | 2                      | (2)                  | –               | (8)          |
| <b>Total</b>                                             | <b>3,454</b>           | <b>(88)</b>           | <b>(246)</b>           | <b>(688)</b>         | <b>(137)</b>    | <b>2,295</b> |

#### Bank

|                                                          | As at 31 December 2006 |                       |                        |                      |                 |            |
|----------------------------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------|------------|
|                                                          | Less than<br>1 month   | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years | Total      |
| Exchange rate derivatives                                |                        |                       |                        |                      |                 |            |
| – Cash flows of derivatives with net positive fair value | 55                     | 153                   | 148                    | 31                   | –               | 387        |
| – Cash flows of derivatives with net negative fair value | (48)                   | (139)                 | (126)                  | (30)                 | –               | (343)      |
| Interest rate derivatives                                |                        |                       |                        |                      |                 |            |
| – Cash flows of derivatives with net positive fair value | 314                    | 279                   | 752                    | 1,583                | 1,618           | 4,546      |
| – Cash flows of derivatives with net negative fair value | (121)                  | (327)                 | (748)                  | (1,586)              | (1,633)         | (4,415)    |
| <b>Total</b>                                             | <b>200</b>             | <b>(34)</b>           | <b>26</b>              | <b>(2)</b>           | <b>(15)</b>     | <b>175</b> |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.4 Derivatives cash flows (Continued)

###### (b) Derivatives settled on a gross basis

The table below analyses the Group's and the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Except for customer driven derivatives which are disclosed at fair value (i.e. discounted cash flows basis), other derivatives are disclosed at undiscounted cash flows.

#### Group

|                                                     | As at 31 December 2007 |                       |                        |                      |                 |                    |
|-----------------------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------|--------------------|
|                                                     | Less than<br>1 month   | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years | Total              |
| Exchange rate derivatives:                          |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (293,300)              | (270,384)             | (753,455)              | (53,776)             | (538)           | (1,371,453)        |
| – Inflow                                            | 289,765                | 274,337               | 764,574                | 55,035               | 515             | 1,384,226          |
| Interest rate derivatives:                          |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (14,396)               | –                     | (3,637)                | (7)                  | –               | (18,040)           |
| – Inflow                                            | 7,585                  | 2,497                 | 1                      | 2                    | –               | 10,085             |
| Precious metals and other<br>commodity derivatives: |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (3,681)                | (2,682)               | (9,713)                | (1,924)              | –               | (18,000)           |
| – Inflow                                            | 3,375                  | 2,286                 | 9,148                  | 1,928                | –               | 16,737             |
| Equity derivatives:                                 |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (120)                  | (66)                  | (938)                  | (26)                 | –               | (1,150)            |
| – Inflow                                            | 207                    | 93                    | 938                    | 26                   | –               | 1,264              |
| <b>Total outflow</b>                                | <b>(311,497)</b>       | <b>(273,132)</b>      | <b>(767,743)</b>       | <b>(55,733)</b>      | <b>(538)</b>    | <b>(1,408,643)</b> |
| <b>Total inflow</b>                                 | <b>300,932</b>         | <b>279,213</b>        | <b>774,661</b>         | <b>56,991</b>        | <b>515</b>      | <b>1,412,312</b>   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.4 Derivatives cash flows (Continued)

(b) Derivatives settled on a gross basis (Continued)

#### Bank

|                                                     | As at 31 December 2007 |                       |                        |                      |                 |                    |
|-----------------------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------|--------------------|
|                                                     | Less than<br>1 month   | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years | Total              |
| Exchange rate derivatives:                          |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (215,940)              | (222,186)             | (730,371)              | (49,500)             | (538)           | (1,218,535)        |
| – Inflow                                            | 210,621                | 226,329               | 741,599                | 50,818               | 515             | 1,229,882          |
| Interest rate derivatives:                          |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (14,396)               | –                     | (3,635)                | –                    | –               | (18,031)           |
| – Inflow                                            | 7,585                  | 2,201                 | –                      | –                    | –               | 9,786              |
| Precious metals and other<br>commodity derivatives: |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (3,473)                | (2,283)               | (9,044)                | (1,924)              | –               | (16,724)           |
| – Inflow                                            | 3,375                  | 2,286                 | 9,148                  | 1,928                | –               | 16,737             |
| <b>Total outflow</b>                                | <b>(233,809)</b>       | <b>(224,469)</b>      | <b>(743,050)</b>       | <b>(51,424)</b>      | <b>(538)</b>    | <b>(1,253,290)</b> |
| <b>Total inflow</b>                                 | <b>221,581</b>         | <b>230,816</b>        | <b>750,747</b>         | <b>52,746</b>        | <b>515</b>      | <b>1,256,405</b>   |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.4 Derivatives cash flows (Continued)

(b) Derivatives settled on a gross basis (Continued)

#### Group

|                                                     | As at 31 December 2006 |                       |                        |                      |                 |                    |
|-----------------------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------|--------------------|
|                                                     | Less than<br>1 month   | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years | Total              |
| Exchange rate derivatives:                          |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (315,016)              | (115,156)             | (500,289)              | (44,538)             | (25,660)        | (1,000,659)        |
| – Inflow                                            | 316,448                | 115,799               | 503,832                | 44,016               | 25,666          | 1,005,761          |
| Interest rate derivatives:                          |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (6,634)                | (6,619)               | –                      | –                    | –               | (13,253)           |
| – Inflow                                            | 5,122                  | 9,220                 | 54,094                 | –                    | –               | 68,436             |
| Precious metals and other<br>commodity derivatives: |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (519)                  | (372)                 | (872)                  | (556)                | –               | (2,319)            |
| – Inflow                                            | 1,008                  | –                     | 232                    | 562                  | –               | 1,802              |
| Equity derivatives:                                 |                        |                       |                        |                      |                 |                    |
| – Outflow                                           | (14)                   | (1)                   | –                      | –                    | –               | (15)               |
| – Inflow                                            | 2                      | 1                     | 4                      | –                    | –               | 7                  |
| <b>Total outflow</b>                                | <b>(322,183)</b>       | <b>(122,148)</b>      | <b>(501,161)</b>       | <b>(45,094)</b>      | <b>(25,660)</b> | <b>(1,016,246)</b> |
| <b>Total inflow</b>                                 | <b>322,580</b>         | <b>125,020</b>        | <b>558,162</b>         | <b>44,578</b>        | <b>25,666</b>   | <b>1,076,006</b>   |

(Amount in millions of Renminbi, unless otherwise stated)

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.4 Derivatives cash flows (Continued)

(b) Derivatives settled on a gross basis (Continued)

#### Bank

|                                                     | As at 31 December 2006 |                       |                        |                      |                 |                  |
|-----------------------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------|------------------|
|                                                     | Less than<br>1 month   | Between<br>1-3 months | Between<br>3-12 months | Between<br>1-5 years | Over<br>5 years | Total            |
| Exchange rate derivatives:                          |                        |                       |                        |                      |                 |                  |
| – Outflow                                           | (168,228)              | (78,256)              | (490,419)              | (44,453)             | (1,313)         | (782,669)        |
| – Inflow                                            | 169,298                | 78,737                | 493,964                | 43,930               | 1,319           | 787,248          |
| Interest rate derivatives:                          |                        |                       |                        |                      |                 |                  |
| – Outflow                                           | (6,634)                | (6,619)               | –                      | –                    | –               | (13,253)         |
| – Inflow                                            | 5,122                  | 9,220                 | 54,094                 | –                    | –               | 68,436           |
| Precious metals and other<br>commodity derivatives: |                        |                       |                        |                      |                 |                  |
| – Outflow                                           | (416)                  | –                     | (230)                  | (556)                | –               | (1,202)          |
| – Inflow                                            | 1,008                  | –                     | 232                    | 562                  | –               | 1,802            |
| <b>Total outflow</b>                                | <b>(175,278)</b>       | <b>(84,875)</b>       | <b>(490,649)</b>       | <b>(45,009)</b>      | <b>(1,313)</b>  | <b>(797,124)</b> |
| <b>Total inflow</b>                                 | <b>175,428</b>         | <b>87,957</b>         | <b>548,290</b>         | <b>44,492</b>        | <b>1,319</b>    | <b>857,486</b>   |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.5 Off-balance sheet items

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the bank is the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.41, are summarised in the tables below.

##### Group

|                                                           | As at 31 December 2007 |                      |                 |           |
|-----------------------------------------------------------|------------------------|----------------------|-----------------|-----------|
|                                                           | Less than<br>1 year    | Between<br>1-5 years | Over<br>5 years | Total     |
| Loan commitments                                          | 512,360                | 42,427               | 11,212          | 565,999   |
| Guarantees, acceptances and<br>other financial facilities | 491,721                | 178,906              | 98,921          | 769,548   |
| Operating lease commitments                               | 1,852                  | 4,051                | 1,556           | 7,459     |
| Capital commitments                                       | 8,353                  | 37,557               | –               | 45,910    |
| Total                                                     | 1,014,286              | 262,941              | 111,689         | 1,388,916 |

|                                                           | As at 31 December 2006 |                      |                 |           |
|-----------------------------------------------------------|------------------------|----------------------|-----------------|-----------|
|                                                           | Less than<br>1 year    | Between<br>1-5 years | Over<br>5 years | Total     |
| Loan commitments                                          | 427,467                | 34,420               | 8,684           | 470,571   |
| Guarantees, acceptances and<br>other financial facilities | 401,008                | 133,650              | 82,593          | 617,251   |
| Operating lease commitments                               | 1,604                  | 3,511                | 1,571           | 6,686     |
| Capital commitments                                       | 7,457                  | 31,694               | 1,126           | 40,277    |
| Total                                                     | 837,536                | 203,275              | 93,974          | 1,134,785 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.5 Off-balance sheet items (Continued)

###### Bank

|                                                           | As at 31 December 2007 |                      |                 |           |
|-----------------------------------------------------------|------------------------|----------------------|-----------------|-----------|
|                                                           | Less than<br>1 year    | Between<br>1-5 years | Over<br>5 years | Total     |
| Loan commitments                                          | 328,344                | 41,273               | 10,977          | 380,594   |
| Guarantees, acceptances and<br>other financial facilities | 462,830                | 180,550              | 99,301          | 742,681   |
| Operating lease commitments                               | 1,467                  | 3,648                | 1,556           | 6,671     |
| Capital commitments                                       | 2,562                  | 325                  | –               | 2,887     |
| Total                                                     | 795,203                | 225,796              | 111,834         | 1,132,833 |

|                                                           | As at 31 December 2006 |                      |                 |         |
|-----------------------------------------------------------|------------------------|----------------------|-----------------|---------|
|                                                           | Less than<br>1 year    | Between<br>1-5 years | Over<br>5 years | Total   |
| Loan commitments                                          | 267,259                | 34,045               | 8,608           | 309,912 |
| Guarantees, acceptances and<br>other financial facilities | 377,327                | 134,866              | 80,123          | 592,316 |
| Operating lease commitments                               | 1,286                  | 3,175                | 1,565           | 6,026   |
| Capital commitments                                       | 4,364                  | 377                  | –               | 4,741   |
| Total                                                     | 650,236                | 172,463              | 90,296          | 912,995 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 6 Fair value of financial assets and liabilities

##### 6.1 Financial instruments measured at fair value using a valuation technique

The total amount of the change in fair value estimated using a valuation technique based on unobservable parameters that was recognised in profit or loss during the year is nil (2006: nil).

##### 6.2 Financial instruments not measured at fair value

The tables below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value. Financial assets and liabilities for which the carrying value approximates fair value, such as balances with central banks, placements with banks and other financial institutions and government certificates of indebtedness for bank notes issued, have not been included in the tables below.

#### Group

|                                                                                          | Carrying value<br>as at 31 December |           | Fair value<br>as at 31 December |           |
|------------------------------------------------------------------------------------------|-------------------------------------|-----------|---------------------------------|-----------|
|                                                                                          | 2007                                | 2006      | 2007                            | 2006      |
| <b>Financial assets</b>                                                                  |                                     |           |                                 |           |
| Loans and advances to customers, net                                                     | <b>2,754,493</b>                    | 2,337,726 | <b>2,741,712</b>                | 2,337,710 |
| Investment securities                                                                    |                                     |           |                                 |           |
| – held to maturity                                                                       | <b>446,647</b>                      | 461,140   | <b>443,610</b>                  | 459,897   |
| – loans and receivables                                                                  | <b>458,620</b>                      | 500,336   | <b>458,665</b>                  | 500,359   |
| <b>Financial liabilities</b>                                                             |                                     |           |                                 |           |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | <b>248,482</b>                      | 146,908   | <b>248,552</b>                  | 146,967   |
| Due to customers                                                                         | <b>4,400,111</b>                    | 4,091,118 | <b>4,397,109</b>                | 4,091,513 |
| Bonds issued                                                                             | <b>64,391</b>                       | 60,173    | <b>64,138</b>                   | 60,931    |
| Other borrowings                                                                         | <b>51,708</b>                       | 63,398    | <b>47,674</b>                   | 57,441    |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 6 Fair value of financial assets and liabilities (Continued)

##### 6.2 Financial instruments not measured at fair value (Continued)

###### Bank

|                                                                                          | Carrying value<br>as at 31 December |           | Fair value<br>as at 31 December |           |
|------------------------------------------------------------------------------------------|-------------------------------------|-----------|---------------------------------|-----------|
|                                                                                          | 2007                                | 2006      | 2007                            | 2006      |
| <b>Financial assets</b>                                                                  |                                     |           |                                 |           |
| Loans and advances to customers, net                                                     | <b>2,336,067</b>                    | 1,971,865 | <b>2,323,269</b>                | 1,971,846 |
| Investment securities                                                                    |                                     |           |                                 |           |
| – held to maturity                                                                       | <b>285,067</b>                      | 287,398   | <b>282,965</b>                  | 287,082   |
| – loans and receivables                                                                  | <b>424,289</b>                      | 458,606   | <b>424,291</b>                  | 458,581   |
| <b>Financial liabilities</b>                                                             |                                     |           |                                 |           |
| Certificates of deposit and<br>placements from banks and<br>other financial institutions | <b>251,890</b>                      | 146,596   | <b>251,959</b>                  | 146,655   |
| Due to customers                                                                         | <b>3,617,889</b>                    | 3,358,565 | <b>3,614,887</b>                | 3,358,960 |
| Bonds issued                                                                             | <b>63,162</b>                       | 60,173    | <b>62,910</b>                   | 60,931    |
| Other borrowings                                                                         | <b>38,121</b>                       | 46,006    | <b>34,087</b>                   | 40,049    |

##### (i) Loans and advances to customers

Loans and advances are net of allowances for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

##### (ii) Investment securities

Investment securities include interest-bearing assets held to maturity, available for sale and loans and receivables. Assets classified as available for sale are measured at fair value. Fair value of held to maturity securities is based on market prices or broker/dealer price quotations. Where this information for held to maturity securities and loans and receivables is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 6 Fair value of financial assets and liabilities (Continued)

##### 6.2 Financial instruments not measured at fair value (Continued)

- (iii) *Certificates of deposit and placements from banks and other financial institutions and due to customers*

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits, placements from banks and other financial institutions and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity; unless they are quoted in an active market in which case quoted prices are used to estimate fair value.

- (iv) *Bond issued and other borrowings*

The aggregate fair values are calculated based on quoted market prices. For those bonds and borrowings where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

#### 7 Capital management

The Group's objectives when managing capital, are:

- to comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and regulatory capital are monitored by Group management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 7 Capital management (Continued)

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to its risk-weighted assets at or above the agreed minimum of 8%, and a core capital ratio of above 4%.

The Group's regulatory capital as managed by its Treasury Department is divided into two tiers:

- Core capital: share capital, capital reserve, reserves created by appropriations of retained earnings, retained earnings and minority interest arising on consolidation from interests in permanent shareholders' equity; and
- Supplementary capital: long-term subordinated bond issued, collective impairment allowances and others.

Goodwill, investments in entities engaged in banking and financial activities which are not consolidated in the financial statements, investment properties and investments in commercial corporations are deducted from core and supplementary capital to arrive at the regulatory capital.

The on-balance sheet risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardized (market risk) approach.

The tables below summarise the capital adequacy ratios and the composition of regulatory capital of the Group for the years ended 31 December 2007 and 2006. The Group complied with the externally imposed capital requirements to which it is subject.

|                             | As at 31 December |        |
|-----------------------------|-------------------|--------|
|                             | 2007              | 2006   |
| Capital adequacy ratio      | <b>13.34%</b>     | 13.59% |
| Core capital adequacy ratio | <b>10.67%</b>     | 11.44% |

The capital adequacy ratios above are calculated in accordance with the rules and regulations promulgated by the CBRC, and the generally accepted accounting principles of the PRC. The regulatory indicators are measured according to the regulatory requirements and accounting standards of the reporting period, and no retrospective adjustment was made to the comparative amounts.

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 7 Capital management (Continued)

##### Group

|                                                                                                | As at 31 December |           |
|------------------------------------------------------------------------------------------------|-------------------|-----------|
|                                                                                                | 2007              | 2006      |
| <b>Components of Capital base</b>                                                              |                   |           |
| Core capital:                                                                                  |                   |           |
| Share capital                                                                                  | 253,794           | 253,623   |
| Reserves <sup>(b)</sup>                                                                        | 126,567           | 126,916   |
| Minority interest                                                                              | 30,227            | 29,560    |
| Subtotal core capital                                                                          | 410,588           | 410,099   |
| Supplementary capital:                                                                         |                   |           |
| Collective impairment allowances                                                               | 31,897            | 28,315    |
| Long-term subordinated bonds issued                                                            | 60,000            | 60,000    |
| Others <sup>(b)</sup>                                                                          | 16,672            | (2,439)   |
| Gross value of supplementary capital                                                           | 108,569           | 85,876    |
| Total capital base before deductions                                                           | 519,157           | 495,975   |
| Deductions:                                                                                    |                   |           |
| Goodwill                                                                                       | (1,752)           | (1,875)   |
| Investments in entities engaged in banking and financial activities which are not consolidated | (1,932)           | (4,371)   |
| Investment properties                                                                          | (9,986)           | (5,141)   |
| Investments in commercial corporations                                                         | (4,847)           | (13,226)  |
| Total capital base after deductions                                                            | 500,640           | 471,362   |
| Core capital base after deductions <sup>(a)</sup>                                              | 400,454           | 396,855   |
| <b>Risk-weighted assets and market risk capital adjustment</b>                                 |                   |           |
| Risk-weighted assets and market risk capital adjustment                                        | 3,754,108         | 3,469,017 |

### III FINANCIAL RISK MANAGEMENT (Continued)

#### 7 Capital management (Continued)

- (a) Pursuant to the relevant regulations, 100% of goodwill and 50% of other deductions were applied in deriving the core capital base.

The increase of the regulatory capital in 2007 was mainly due to the contribution of the current year profit.

- (b) Pursuant to regulations released by CBRC in November 2007, all net unrealised fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognised in profit and loss are included in the supplementary capital. Only a certain percentage of fair value gain recognised in equity can be included in the supplementary capital.

#### 8 Insurance risk

Insurance contracts are mainly sold in the Chinese Mainland and Hong Kong and are mainly denominated in Renminbi and Hong Kong Dollars. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

## IV CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates referred to below.

### 1 Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### 2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel. The Group's models for fair value of derivatives and other financial instruments use only observable data and input parameters.

With respect to PRC government obligations related to large-scale policy directed financing transactions fair value is determined using the stated interest rate of the related instrument and with reference to rates determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor, available.

## **IV CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

### **3 Impairment of available for sale financial assets and held to maturity securities**

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

### **4 Held to maturity securities**

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available for sale.

### **5 Employee retirement benefit obligations**

As described in Note II.22(2) and Note V.34, the Bank has established liabilities in connection with benefits paid to certain retired and early retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee retirement benefit obligations.

### **6 Income taxes**

The Group is subject to income taxes in numerous jurisdictions; principally, however in the Chinese Mainland and Hong Kong. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in the Chinese Mainland is subject to government approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period during which such a determination is made.

## V NOTES TO THE FINANCIAL STATEMENTS

### 1 Segment information

The Group's businesses operate in three principal geographical areas: the Chinese Mainland, Hong Kong and Macau, and other overseas locations. Significant other overseas locations include New York, London, Singapore and Tokyo.

The geographical analysis of revenue, expense, segment result, segment assets, segment liabilities and capital expenditure reflects the process through which the Group's operating activities are managed. In accordance with the Group's organisational structure and its internal financial reporting process, the Group has determined that geographical segments should be presented as its primary segment.

Profit and loss accounts, assets and liabilities, capital expenditure, depreciation and amortisation and credit commitments have generally been based on the country in which the branch or subsidiary is located.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 Segment information (Continued)

As at and for the year ended 31 December 2007

|                                                   | Hong Kong and Macau |                     |                |                  | Other overseas locations | Elimination      | Total            |
|---------------------------------------------------|---------------------|---------------------|----------------|------------------|--------------------------|------------------|------------------|
|                                                   | Chinese Mainland    | BOC Hong Kong Group | Others         | Subtotal         |                          |                  |                  |
| Interest income                                   | 208,599             | 44,677              | 5,775          | 50,452           | 10,222                   | (7,402)          | 261,871          |
| Interest expense                                  | (78,066)            | (25,622)            | (4,832)        | (30,454)         | (8,008)                  | 7,402            | (109,126)        |
| <b>Net interest income</b>                        | <b>130,533</b>      | <b>19,055</b>       | <b>943</b>     | <b>19,998</b>    | <b>2,214</b>             | <b>–</b>         | <b>152,745</b>   |
| Fee and commission income                         | 18,904              | 7,726               | 3,963          | 11,689           | 1,092                    | (131)            | 31,554           |
| Fee and commission expense                        | (970)               | (1,752)             | (1,309)        | (3,061)          | (166)                    | 131              | (4,066)          |
| <b>Net fee and commission income</b>              | <b>17,934</b>       | <b>5,974</b>        | <b>2,654</b>   | <b>8,628</b>     | <b>926</b>               | <b>–</b>         | <b>27,488</b>    |
| Net trading (losses)/gains                        | (3,275)             | 1,796               | 740            | 2,536            | 77                       | –                | (662)            |
| Net (losses)/gains on investment securities       | (17,444)            | (2,126)             | 3,992          | 1,866            | 52                       | –                | (15,526)         |
| Other operating income*                           | 2,625               | 9,962               | 5,640          | 15,602           | 512                      | (72)             | 18,667           |
| <b>Operating income</b>                           | <b>130,373</b>      | <b>34,661</b>       | <b>13,969</b>  | <b>48,630</b>    | <b>3,781</b>             | <b>(72)</b>      | <b>182,712</b>   |
| Operating expenses*                               | (61,134)            | (16,721)            | (5,548)        | (22,269)         | (1,695)                  | 72               | (85,026)         |
| Impairment losses on loans and advances           | (8,831)             | 670                 | 22             | 692              | (113)                    | –                | (8,252)          |
| <b>Operating profit</b>                           | <b>60,408</b>       | <b>18,610</b>       | <b>8,443</b>   | <b>27,053</b>    | <b>1,973</b>             | <b>–</b>         | <b>89,434</b>    |
| Share of results of associates and joint ventures | –                   | 4                   | 1,259          | 1,263            | –                        | –                | 1,263            |
| <b>Profit before income tax</b>                   | <b>60,408</b>       | <b>18,614</b>       | <b>9,702</b>   | <b>28,316</b>    | <b>1,973</b>             | <b>–</b>         | <b>90,697</b>    |
| Income tax expense                                | (24,577)            | (3,213)             | (462)          | (3,675)          | (409)                    | –                | (28,661)         |
| <b>Profit for the year</b>                        | <b>35,831</b>       | <b>15,401</b>       | <b>9,240</b>   | <b>24,641</b>    | <b>1,564</b>             | <b>–</b>         | <b>62,036</b>    |
| Segment assets                                    | 4,778,855           | 987,437             | 164,497        | 1,151,934        | 236,754                  | (183,105)        | 5,984,438        |
| Investment in associates and joint ventures       | –                   | 78                  | 6,701          | 6,779            | –                        | –                | 6,779            |
| <b>Total assets</b>                               | <b>4,778,855</b>    | <b>987,515</b>      | <b>171,198</b> | <b>1,158,713</b> | <b>236,754</b>           | <b>(183,105)</b> | <b>5,991,217</b> |
| Segment liabilities                               | 4,451,257           | 906,204             | 141,709        | 1,047,913        | 224,495                  | (183,105)        | 5,540,560        |
| Other segment items:                              |                     |                     |                |                  |                          |                  |                  |
| Capital expenditure                               | 8,354               | 1,121               | 3,050          | 4,171            | 223                      | –                | 12,748           |
| Depreciation and amortisation                     | 5,528               | 631                 | 820            | 1,451            | 115                      | –                | 7,094            |
| Credit commitments                                | 1,052,891           | 216,583             | 15,602         | 232,185          | 74,963                   | (24,492)         | 1,335,547        |

\* Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 Segment information (Continued)

As at and for the year ended 31 December 2006

|                                                   | Hong Kong and Macau |                     |         |           |                          |             | Total     |
|---------------------------------------------------|---------------------|---------------------|---------|-----------|--------------------------|-------------|-----------|
|                                                   | Chinese Mainland    | BOC Hong Kong Group | Others  | Subtotal  | Other overseas locations | Elimination |           |
| Interest income                                   | 167,024             | 41,061              | 4,870   | 45,931    | 7,563                    | (5,184)     | 215,334   |
| Interest expense                                  | (65,575)            | (24,668)            | (3,158) | (27,826)  | (5,750)                  | 5,188       | (93,963)  |
| <b>Net interest income</b>                        | 101,449             | 16,393              | 1,712   | 18,105    | 1,813                    | 4           | 121,371   |
| Fee and commission income                         | 9,593               | 4,893               | 2,311   | 7,204     | 911                      | (569)       | 17,139    |
| Fee and commission expense                        | (964)               | (1,306)             | (529)   | (1,835)   | (82)                     | 65          | (2,816)   |
| <b>Net fee and commission income</b>              | 8,629               | 3,587               | 1,782   | 5,369     | 829                      | (504)       | 14,323    |
| Net trading (losses)/gains                        | (3,927)             | 1,835               | 570     | 2,405     | (22)                     | –           | (1,544)   |
| Net gains/(losses) on investment securities       | 664                 | (5)                 | 434     | 429       | 39                       | –           | 1,132     |
| Other operating income*                           | 1,695               | 7,317               | 4,044   | 11,361    | 85                       | (45)        | 13,096    |
| <b>Operating income</b>                           | 108,510             | 29,127              | 8,542   | 37,669    | 2,744                    | (545)       | 148,378   |
| Operating expenses*                               | (50,357)            | (13,431)            | (3,520) | (16,951)  | (1,483)                  | 60          | (68,731)  |
| Impairment losses on loans and advances           | (15,546)            | 1,836               | 1,147   | 2,983     | 221                      | –           | (12,342)  |
| <b>Operating profit</b>                           | 42,607              | 17,532              | 6,169   | 23,701    | 1,482                    | (485)       | 67,305    |
| Share of results of associates and joint ventures | –                   | 4                   | 683     | 687       | –                        | (55)        | 632       |
| <b>Profit before income tax</b>                   | 42,607              | 17,536              | 6,852   | 24,388    | 1,482                    | (540)       | 67,937    |
| Income tax expense                                | (16,138)            | (2,902)             | (533)   | (3,435)   | (290)                    | 190         | (19,673)  |
| <b>Profit for the year</b>                        | 26,469              | 14,634              | 6,319   | 20,953    | 1,192                    | (350)       | 48,264    |
| Segment assets                                    | 4,220,394           | 926,023             | 152,125 | 1,078,148 | 214,766                  | (191,586)   | 5,321,722 |
| Investment in associates and joint ventures       | 1                   | 59                  | 5,871   | 5,930     | –                        | –           | 5,931     |
| <b>Total assets</b>                               | 4,220,395           | 926,082             | 157,996 | 1,084,078 | 214,766                  | (191,586)   | 5,327,653 |
| Segment liabilities                               | 3,921,219           | 844,984             | 135,405 | 980,389   | 204,675                  | (191,586)   | 4,914,697 |
| Other segment items:                              |                     |                     |         |           |                          |             |           |
| Capital expenditure                               | 5,954               | 740                 | 666     | 1,406     | 52                       | –           | 7,412     |
| Depreciation and amortisation                     | 5,193               | 557                 | 188     | 745       | 88                       | –           | 6,026     |
| Credit commitments                                | 839,637             | 188,664             | 14,810  | 203,474   | 61,048                   | (16,337)    | 1,087,822 |

\* Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 Segment information (Continued)

Business segments comprise the Group's secondary segment. The Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations. Segment revenue, segment expense, segment result, segment assets and capital expenditure presented in business segments include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market deposit and lending rates, adjusted for pre-determined margins. These margins reflect differentiation based on product features and maturities. The transactions are eliminated on consolidation.

Corporate banking – providing services to corporate customers including current accounts, deposits, overdrafts, lending, trade related products and other credit facilities, custody, foreign currency and derivative products.

Personal banking – providing services to retail customers including current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.

Treasury operations – consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset-liability management. The results of this segment include the inter-segment funding income and expenses, resulting from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking – consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance – underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 Segment information (Continued)

As at and for the year ended 31 December 2007

|                                                   | Corporate<br>banking | Personal<br>banking | Treasury<br>operations | Investment<br>banking | Insurance     | Others         | Elimination     | Total            |
|---------------------------------------------------|----------------------|---------------------|------------------------|-----------------------|---------------|----------------|-----------------|------------------|
| Interest income                                   | 117,941              | 93,873              | 100,744                | 1,217                 | 871           | 456            | (53,231)        | 261,871          |
| Interest expense                                  | (52,324)             | (50,543)            | (55,685)               | (828)                 | –             | (2,977)        | 53,231          | (109,126)        |
| <b>Net interest income</b>                        | <b>65,617</b>        | <b>43,330</b>       | <b>45,059</b>          | <b>389</b>            | <b>871</b>    | <b>(2,521)</b> | <b>–</b>        | <b>152,745</b>   |
| Fee and commission income                         | 16,776               | 10,588              | 1,238                  | 3,292                 | 2             | 261            | (603)           | 31,554           |
| Fee and commission expense                        | (932)                | (1,593)             | (164)                  | (1,003)               | (646)         | (227)          | 499             | (4,066)          |
| <b>Net fee and commission income</b>              | <b>15,844</b>        | <b>8,995</b>        | <b>1,074</b>           | <b>2,289</b>          | <b>(644)</b>  | <b>34</b>      | <b>(104)</b>    | <b>27,488</b>    |
| Net trading gains/(losses)                        | 4,934                | 3,042               | (10,169)               | 436                   | 966           | 129            | –               | (662)            |
| Net (losses)/gains on investment securities       | –                    | –                   | (19,519)               | –                     | –             | 3,993          | –               | (15,526)         |
| Other operating income                            | 210                  | 1,410               | 11                     | 80                    | 9,353         | 8,979          | (1,376)         | 18,667           |
| <b>Operating income</b>                           | <b>86,605</b>        | <b>56,777</b>       | <b>16,456</b>          | <b>3,194</b>          | <b>10,546</b> | <b>10,614</b>  | <b>(1,480)</b>  | <b>182,712</b>   |
| Operating expenses                                | (31,467)             | (29,324)            | (10,461)               | (1,822)               | (10,313)      | (3,119)        | 1,480           | (85,026)         |
| Impairment losses on loans and advances           | (7,518)              | (746)               | –                      | 12                    | –             | –              | –               | (8,252)          |
| <b>Operating profit</b>                           | <b>47,620</b>        | <b>26,707</b>       | <b>5,995</b>           | <b>1,384</b>          | <b>233</b>    | <b>7,495</b>   | <b>–</b>        | <b>89,434</b>    |
| Share of results of associates and joint ventures | –                    | –                   | –                      | 606                   | –             | 669            | (12)            | 1,263            |
| <b>Profit before income tax</b>                   | <b>47,620</b>        | <b>26,707</b>       | <b>5,995</b>           | <b>1,990</b>          | <b>233</b>    | <b>8,164</b>   | <b>(12)</b>     | <b>90,697</b>    |
| Income tax expense                                |                      |                     |                        |                       |               |                |                 | (28,661)         |
| <b>Profit for the year</b>                        |                      |                     |                        |                       |               |                |                 | <b>62,036</b>    |
| Segment assets                                    | 2,064,142            | 811,793             | 2,983,730              | 33,419                | 28,222        | 114,406        | (51,274)        | 5,984,438        |
| Investment in associates and joint ventures       | –                    | –                   | –                      | 1,373                 | 245           | 5,206          | (45)            | 6,779            |
| <b>Total assets</b>                               | <b>2,064,142</b>     | <b>811,793</b>      | <b>2,983,730</b>       | <b>34,792</b>         | <b>28,467</b> | <b>119,612</b> | <b>(51,319)</b> | <b>5,991,217</b> |
| Capital expenditure                               | 2,861                | 3,152               | 151                    | 99                    | 169           | 6,316          | –               | 12,748           |

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 Segment information (Continued)

As at and for the year ended 31 December 2006

|                                                         | Corporate<br>banking | Personal<br>banking | Treasury<br>operations | Investment<br>banking | Insurance     | Others         | Elimination     | Total            |
|---------------------------------------------------------|----------------------|---------------------|------------------------|-----------------------|---------------|----------------|-----------------|------------------|
| Interest income                                         | 96,920               | 88,291              | 84,521                 | 679                   | 594           | 536            | (56,207)        | 215,334          |
| Interest expense                                        | (41,111)             | (51,877)            | (54,661)               | (543)                 | (19)          | (1,963)        | 56,211          | (93,963)         |
| <b>Net interest income</b>                              | <b>55,809</b>        | <b>36,414</b>       | <b>29,860</b>          | <b>136</b>            | <b>575</b>    | <b>(1,427)</b> | <b>4</b>        | <b>121,371</b>   |
| Fee and commission<br>income                            | 7,039                | 7,774               | 930                    | 2,039                 | 3             | 385            | (1,031)         | 17,139           |
| Fee and commission<br>expense                           | (365)                | (1,537)             | (171)                  | (396)                 | (546)         | (270)          | 469             | (2,816)          |
| <b>Net fee and<br/>commission income</b>                | <b>6,674</b>         | <b>6,237</b>        | <b>759</b>             | <b>1,643</b>          | <b>(543)</b>  | <b>115</b>     | <b>(562)</b>    | <b>14,323</b>    |
| Net trading gains/(losses)                              | 4,105                | 2,264               | (8,810)                | 310                   | 546           | 40             | 1               | (1,544)          |
| Net gains on investment<br>securities                   | –                    | –                   | 695                    | –                     | –             | 437            | –               | 1,132            |
| Other operating income                                  | 136                  | 396                 | 32                     | 149                   | 7,968         | 5,700          | (1,285)         | 13,096           |
| <b>Operating income</b>                                 | <b>66,724</b>        | <b>45,311</b>       | <b>22,536</b>          | <b>2,238</b>          | <b>8,546</b>  | <b>4,865</b>   | <b>(1,842)</b>  | <b>148,378</b>   |
| Operating expenses                                      | (26,098)             | (23,927)            | (8,818)                | (1,177)               | (7,965)       | (2,096)        | 1,350           | (68,731)         |
| Impairment losses on<br>loans and advances              | (11,542)             | (794)               | –                      | (6)                   | –             | –              | –               | (12,342)         |
| <b>Operating profit</b>                                 | <b>29,084</b>        | <b>20,590</b>       | <b>13,718</b>          | <b>1,055</b>          | <b>581</b>    | <b>2,769</b>   | <b>(492)</b>    | <b>67,305</b>    |
| Share of results of<br>associates and<br>joint ventures | –                    | –                   | –                      | 238                   | 2             | 440            | (48)            | 632              |
| <b>Profit before<br/>income tax</b>                     | <b>29,084</b>        | <b>20,590</b>       | <b>13,718</b>          | <b>1,293</b>          | <b>583</b>    | <b>3,209</b>   | <b>(540)</b>    | <b>67,937</b>    |
| Income tax expense                                      |                      |                     |                        |                       |               |                |                 | (19,673)         |
| <b>Profit for the year</b>                              |                      |                     |                        |                       |               |                |                 | <b>48,264</b>    |
| Segment assets                                          | 1,795,152            | 687,553             | 2,725,362              | 22,755                | 19,933        | 108,722        | (37,755)        | 5,321,722        |
| Investment in associates<br>and joint ventures          | –                    | –                   | –                      | 911                   | 244           | 4,844          | (68)            | 5,931            |
| <b>Total assets</b>                                     | <b>1,795,152</b>     | <b>687,553</b>      | <b>2,725,362</b>       | <b>23,666</b>         | <b>20,177</b> | <b>113,566</b> | <b>(37,823)</b> | <b>5,327,653</b> |
| <b>Capital expenditure</b>                              | <b>1,542</b>         | <b>2,744</b>        | <b>105</b>             | <b>24</b>             | <b>19</b>     | <b>2,978</b>   | <b>–</b>        | <b>7,412</b>     |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 Segment information (Continued)

With effect from 1 January 2007, the Group revised its basis of allocating segment operating expense in respect of the cost of retail counter staff and sales department staff between the corporate banking and personal banking segments to more appropriately reflect its business segment operating profit.

The effect of the change in basis of staff cost allocation between corporate banking and personal banking segments for the year ended 31 December 2006 is summarised below:

|                             | Corporate<br>banking | Personal<br>banking | Treasury<br>operations | Other<br>business<br>segments | Total    |
|-----------------------------|----------------------|---------------------|------------------------|-------------------------------|----------|
| Operating Expenses          |                      |                     |                        |                               |          |
| – Original                  | (22,904)             | (27,121)            | (8,818)                | (9,888)                       | (68,731) |
| Operating Expenses          |                      |                     |                        |                               |          |
| – Restated                  | (26,098)             | (23,927)            | (8,818)                | (9,888)                       | (68,731) |
| Effect of Change            | (3,194)              | 3,194               | –                      | –                             | –        |
| Operating Profit – Original | 32,278               | 17,396              | 13,718                 | 3,913                         | 67,305   |
| Operating Profit – Restated | 29,084               | 20,590              | 13,718                 | 3,913                         | 67,305   |
| Effect of Change            | (3,194)              | 3,194               | –                      | –                             | –        |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 Net interest income

|                                                                                          | Year ended 31 December |          |
|------------------------------------------------------------------------------------------|------------------------|----------|
|                                                                                          | 2007                   | 2006     |
| Interest income                                                                          |                        |          |
| Loans and advances to customers                                                          | <b>158,390</b>         | 128,934  |
| Investment securities and trading assets                                                 | <b>73,500</b>          | 67,195   |
| Due from central banks                                                                   | <b>7,645</b>           | 5,313    |
| Due from banks and other financial institutions                                          | <b>22,336</b>          | 13,892   |
| Subtotal                                                                                 | <b>261,871</b>         | 215,334  |
| Interest expense                                                                         |                        |          |
| Due to customers                                                                         | <b>(89,170)</b>        | (79,939) |
| Due to banks and other financial institutions                                            | <b>(14,584)</b>        | (9,393)  |
| Other borrowed funds                                                                     | <b>(5,372)</b>         | (4,631)  |
| Subtotal                                                                                 | <b>(109,126)</b>       | (93,963) |
| Net interest income                                                                      | <b>152,745</b>         | 121,371  |
| Included within interest income is interest income accrued on impaired financial assets: | <b>342</b>             | 628      |

Included within interest income and interest expenses are RMB256,654 million (2006: RMB211,010 million) and RMB104,558 million (2006: RMB91,227 million) for financial assets and financial liabilities that are not at fair value through profit or loss respectively.

For the year ended 31 December 2007, the interest income from listed investments and unlisted investments is RMB26,480 million and RMB47,020 million respectively.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 Net fee and commission income

|                                            | Year ended 31 December |         |
|--------------------------------------------|------------------------|---------|
|                                            | 2007                   | 2006    |
| Agency commissions                         | <b>14,383</b>          | 4,621   |
| Settlement and clearing fees               | <b>4,849</b>           | 3,848   |
| Credit commitment fees                     | <b>3,590</b>           | 3,064   |
| Bank card fees                             | <b>3,721</b>           | 2,937   |
| Custodian and other fiduciary service fees | <b>1,380</b>           | 531     |
| Others                                     | <b>3,631</b>           | 2,138   |
| Fee and commission income                  | <b>31,554</b>          | 17,139  |
| Fee and commission expense                 | <b>(4,066)</b>         | (2,816) |
| Net fee and commission income              | <b>27,488</b>          | 14,323  |

### 4 Net trading losses

#### Group

|                                                                               | Year ended 31 December |         |
|-------------------------------------------------------------------------------|------------------------|---------|
|                                                                               | 2007                   | 2006    |
| Net losses from foreign exchange and foreign exchange products <sup>(1)</sup> | <b>(948)</b>           | (1,496) |
| Net gains/(losses) from precious metals and other commodity products          | <b>134</b>             | (68)    |
| Net losses from interest rate products                                        | <b>(1,290)</b>         | (302)   |
| Net gains from equity products                                                | <b>1,442</b>           | 324     |
| Others                                                                        | —                      | (2)     |
| Total <sup>(2)</sup>                                                          | <b>(662)</b>           | (1,544) |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 Net trading losses (Continued)

- (1) The net losses from foreign exchange and foreign exchange products include spread income earned on domestic operations foreign exchange transactions business of RMB7.6 billion (2006: RMB5.9 billion), losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB26.9 billion (2006: RMB14.2 billion), and net realised and unrealised gains on foreign exchange derivatives (including those entered into in conjunction with the Group's assets and liability management and funding arrangements) of RMB16.8 billion (2006: RMB5.5 billion).
- (2) Included in "Net trading losses" above for the year ended 31 December 2007 are losses of RMB2.8 billion in relation to financial assets and financial liabilities designated at fair value through profit and loss (2006: Gain of RMB0.04 billion). The related fair value of derivative instruments managed in conjunction with the financial assets and financial liabilities designated at fair value through profit and loss is also reported in "Net trading losses".

### 5 Net (losses)/gains on investment securities

|                                                          | Year ended 31 December |       |
|----------------------------------------------------------|------------------------|-------|
|                                                          | 2007                   | 2006  |
| (Losses)/gains on derecognition of investment securities | (3,263)                | 1,178 |
| Allowance for impairment losses                          | (12,263)               | (46)  |
| Total                                                    | (15,526)               | 1,132 |

During 2007, the Group disposed of a portion of the US subprime mortgage related asset-backed securities and all US subprime mortgage related collateralised debt obligations. In addition, the Group has impairment charges on available for sale and held to maturity investment securities held at 31 December 2007 (Note III.3.6).

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6 Other operating income

|                                                                  | Year ended 31 December |        |
|------------------------------------------------------------------|------------------------|--------|
|                                                                  | 2007                   | 2006   |
| Insurance premiums                                               |                        |        |
| – Long term insurance contracts                                  | <b>8,197</b>           | 6,349  |
| – General insurance contracts                                    | <b>974</b>             | 1,359  |
| Gains on disposal of subsidiaries, associates and joint ventures | <b>222</b>             | 789    |
| Gains on disposal of property and equipment and other assets     | <b>744</b>             | 717    |
| Changes in fair value of investment properties                   | <b>2,070</b>           | 595    |
| Dividend income                                                  | <b>258</b>             | 186    |
| Aircraft leasing income                                          | <b>2,055</b>           | 97     |
| Others                                                           | <b>4,147</b>           | 3,004  |
| Total                                                            | <b>18,667</b>          | 13,096 |

### 7 Operating expenses

|                                                              | Year ended 31 December |        |
|--------------------------------------------------------------|------------------------|--------|
|                                                              | 2007                   | 2006   |
| Staff costs (Note V.8)                                       | <b>36,261</b>          | 30,896 |
| General operating and administrative expenses <sup>(1)</sup> | <b>21,736</b>          | 16,378 |
| Depreciation and amortisation                                | <b>7,094</b>           | 6,026  |
| Business and other taxes                                     | <b>8,726</b>           | 6,462  |
| Insurance benefits and claims                                |                        |        |
| – Long term insurance contracts                              | <b>9,185</b>           | 6,820  |
| – General insurance contracts                                | <b>652</b>             | 664    |
| Losses on disposal of property and equipment                 | <b>49</b>              | 148    |
| Allowance for litigation losses (Note V.37(2))               | <b>199</b>             | 897    |
| Others                                                       | <b>1,124</b>           | 440    |
| Total                                                        | <b>85,026</b>          | 68,731 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 7 Operating expenses (Continued)

- (1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB216 million for the year ended 31 December 2007 (2006: RMB183 million).

Included in the general operating and administrative expenses are operating lease rental of RMB2,362 million for the year ended 31 December 2007 (2006: RMB1,775 million).

### 8 Staff costs

|                                               | Year ended 31 December |        |
|-----------------------------------------------|------------------------|--------|
|                                               | 2007                   | 2006   |
| Salaries and benefits                         | <b>28,352</b>          | 23,293 |
| Defined contribution plans <sup>(1) (2)</sup> | <b>3,026</b>           | 3,079  |
| Retirement benefits (Note V.34)               | <b>802</b>             | 1,391  |
| Housing funds                                 | <b>1,551</b>           | 1,224  |
| Social security costs                         | <b>1,106</b>           | 993    |
| Others                                        | <b>1,424</b>           | 916    |
| Total                                         | <b>36,261</b>          | 30,896 |

- (1) Contributions to defined contribution plans for the years ended 31 December 2007 and 2006 include the effect of deductions of forfeited contributions of approximately RMB17 million and RMB34 million, respectively.
- (2) In 2005, the Group established the Annuity Plan (Note II.22(1)), a defined contribution plan, in addition to local Labour and Social Security Bureau contribution plans. The expense recorded in the Bank's income statement for the years ended 31 December 2007 and 2006 amounted to RMB506 million and RMB955 million, respectively.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 Directors', supervisors' and senior management's emoluments

The total remuneration of the directors and supervisors for the years ended 31 December 2007 and 2006 are approximately RMB12.72 million and RMB11.19 million respectively.

Details of the directors' and supervisors' emoluments are as follows:

**For the year ended 31 December 2007**  
**(Amount in thousands of Renminbi)**

|                                                | Fees              | Basic salaries,<br>allowances<br>and benefits<br>in kind | Contributions<br>to pension<br>schemes | Discretionary<br>bonuses | Total         |
|------------------------------------------------|-------------------|----------------------------------------------------------|----------------------------------------|--------------------------|---------------|
| <b>Executive directors</b>                     |                   |                                                          |                                        |                          |               |
| Xiao Gang <sup>(6)</sup>                       | – <sup>(4)</sup>  | 668                                                      | 47                                     | 960 <sup>(5)</sup>       | 1,675         |
| Li Lihui <sup>(6)</sup>                        | 66 <sup>(4)</sup> | 654                                                      | 47                                     | 949 <sup>(5)</sup>       | 1,716         |
| Hua Qingshan <sup>(6)</sup>                    | 26 <sup>(4)</sup> | 312                                                      | 23                                     | 461 <sup>(5)</sup>       | 822           |
| Li Zaohang <sup>(6)</sup>                      | 56 <sup>(4)</sup> | 612                                                      | 45                                     | 944 <sup>(5)</sup>       | 1,657         |
| <b>Independent non-executive<br/>directors</b> |                   |                                                          |                                        |                          |               |
| Anthony Francis Neoh                           | 550               | –                                                        | –                                      | –                        | 550           |
| William Peter Cooke                            | 643               | –                                                        | –                                      | –                        | 643           |
| Patrick de Saint-Aignan                        | 493               | –                                                        | –                                      | –                        | 493           |
| Alberto Togni                                  | 362               | –                                                        | –                                      | –                        | 362           |
| Huang Shizhong                                 | 132               | –                                                        | –                                      | –                        | 132           |
| Huang Danhan                                   | 43                | –                                                        | –                                      | –                        | 43            |
| <b>Non-executive directors</b>                 |                   |                                                          |                                        |                          |               |
| Zhang Jinghua <sup>(1)</sup>                   | –                 | –                                                        | –                                      | –                        | –             |
| Yu Erniu <sup>(1)</sup>                        | –                 | –                                                        | –                                      | –                        | –             |
| Zhu Yan <sup>(1)</sup>                         | –                 | –                                                        | –                                      | –                        | –             |
| Zhang Xinze <sup>(1)</sup>                     | –                 | –                                                        | –                                      | –                        | –             |
| Hong Zhihua <sup>(1)</sup>                     | –                 | –                                                        | –                                      | –                        | –             |
| Huang Haibo <sup>(1)</sup>                     | –                 | –                                                        | –                                      | –                        | –             |
| Cai Haoyi <sup>(1)</sup>                       | –                 | –                                                        | –                                      | –                        | –             |
| Wang Gang <sup>(1)</sup>                       | –                 | –                                                        | –                                      | –                        | –             |
| Frederick Anderson Goodwin <sup>(2)</sup>      | –                 | –                                                        | –                                      | –                        | –             |
| Seah Lim Huat Peter <sup>(2)</sup>             | –                 | –                                                        | –                                      | –                        | –             |
| <b>Supervisors</b>                             |                   |                                                          |                                        |                          |               |
| Liu Ziqiang <sup>(6)</sup>                     | –                 | 612                                                      | 34                                     | 944 <sup>(5)</sup>       | 1,590         |
| Wang Xueqiang <sup>(6)</sup>                   | –                 | 443                                                      | 34                                     | 494 <sup>(5)</sup>       | 971           |
| Liu Wanming <sup>(6)</sup>                     | –                 | 440                                                      | 34                                     | 515 <sup>(5)</sup>       | 989           |
| Li Chunyu                                      | –                 | 318                                                      | 30                                     | 132                      | 480           |
| Liu Dun                                        | –                 | 282                                                      | 23                                     | 289                      | 594           |
|                                                | <b>2,371</b>      | <b>4,341</b>                                             | <b>317</b>                             | <b>5,688</b>             | <b>12,717</b> |

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2006

(Amount in thousands of Renminbi)

|                                            | Fees              | Basic salaries,<br>allowances<br>and benefits<br>in kind | Contributions<br>to pension<br>schemes | Discretionary<br>bonuses | Total  |
|--------------------------------------------|-------------------|----------------------------------------------------------|----------------------------------------|--------------------------|--------|
| <b>Executive directors</b>                 |                   |                                                          |                                        |                          |        |
| Xiao Gang                                  | 78 <sup>(4)</sup> | 640                                                      | 103                                    | 703                      | 1,524  |
| Li Lihui                                   | 93 <sup>(4)</sup> | 609                                                      | 97                                     | 730                      | 1,529  |
| Hua Qingshan                               | 78 <sup>(4)</sup> | 530                                                      | 87                                     | 613                      | 1,308  |
| Li Zaohang                                 | 78 <sup>(4)</sup> | 525                                                      | 87                                     | 617                      | 1,307  |
| <b>Independent non-executive directors</b> |                   |                                                          |                                        |                          |        |
| Anthony Francis Neoh                       | 400               | –                                                        | –                                      | –                        | 400    |
| William Peter Cooke                        | 606               | –                                                        | –                                      | –                        | 606    |
| Patrick de Saint-Aignan                    | 400               | –                                                        | –                                      | –                        | 400    |
| Alberto Togni                              | 146               | –                                                        | –                                      | –                        | 146    |
| <b>Non-executive directors</b>             |                   |                                                          |                                        |                          |        |
| Zhang Jinghua <sup>(1)</sup>               | –                 | –                                                        | –                                      | –                        | –      |
| Yu Erniu <sup>(1)</sup>                    | –                 | –                                                        | –                                      | –                        | –      |
| Zhu Yan <sup>(1)</sup>                     | –                 | –                                                        | –                                      | –                        | –      |
| Zhang Xinze <sup>(1)</sup>                 | –                 | –                                                        | –                                      | –                        | –      |
| Hong Zhihua <sup>(1)</sup>                 | –                 | –                                                        | –                                      | –                        | –      |
| Huang Haibo <sup>(1)</sup>                 | –                 | –                                                        | –                                      | –                        | –      |
| Frederick Anderson Goodwin <sup>(2)</sup>  | –                 | –                                                        | –                                      | –                        | –      |
| Seah Lim Huat Peter <sup>(2)</sup>         | –                 | –                                                        | –                                      | –                        | –      |
| <b>Supervisors</b>                         |                   |                                                          |                                        |                          |        |
| Liu Ziqiang                                | –                 | 566                                                      | 92                                     | 655                      | 1,313  |
| Wang Xueqiang                              | –                 | 426                                                      | 68                                     | 384                      | 878    |
| Liu Wanming                                | –                 | 426                                                      | 68                                     | 380                      | 874    |
| Li Chunyu                                  | –                 | 299                                                      | 44                                     | 135                      | 478    |
| Liu Dun                                    | –                 | 226                                                      | 30                                     | 167                      | 423    |
|                                            | 1,879             | 4,247                                                    | 676                                    | 4,384                    | 11,186 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 Directors', supervisors' and senior management's emoluments (Continued)

- (1) During 2007 and 2006, these full-time non-executive directors of the Bank received emoluments from Huijin for their services to the Bank.
- (2) During 2007 and 2006, the Bank did not pay any emolument to these non-executive directors.
- (3) In July 2002, options to purchase shares of BOCHK Holdings were granted to several directors of the Bank under the Pre-Listing Share Option Scheme (as more fully described in Note V.35). During the year 2007, certain options were exercised (2006: nil) but no benefits arising from the granting of these share options were included in the directors' emoluments disclosed above or recognised in the consolidated income statement.
- (4) In addition to the fees disclosed, these executive directors of the Bank waived emoluments amounting to RMB0.70 million for the year ended 31 December 2007 (2006: RMB0.88 million).
- (5) Discretionary bonuses for these directors and supervisors for the year ended 31 December 2007 have been reviewed and approved by the Board of Directors. The above discretionary bonuses represent the amounts determined according to the relevant remuneration policies.
- (6) The amounts of discretionary bonuses payable to these executive directors and supervisors for the year ended 31 December 2007 are subject to approval of the Bank's equity holders in the Annual General Meeting to be held on 19 June 2008.

#### **Five highest paid individuals**

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2007 and 2006 respectively are as follows:

|                                  | Year ended 31 December |            |
|----------------------------------|------------------------|------------|
|                                  | 2007                   | 2006       |
| Basic salaries and allowances    | 8                      | 8          |
| Discretionary bonuses            | 179                    | 132        |
| Contributions to pension schemes | 1                      | 1          |
|                                  | <b>188</b>             | <b>141</b> |

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 Directors', supervisors' and senior management's emoluments (Continued)

#### *Five highest paid individuals (Continued)*

Emoluments of the individuals were within the following bands:  
(Amount in Renminbi)

|                       | Year ended 31 December |      |
|-----------------------|------------------------|------|
|                       | 2007                   | 2006 |
| 19,500,001-20,000,000 | –                      | 1    |
| 23,500,001-24,000,000 | –                      | 1    |
| 25,000,001-25,500,000 | –                      | 1    |
| 27,500,001-28,000,000 | 1                      | –    |
| 28,500,001-29,000,000 | –                      | 1    |
| 29,000,001-29,500,000 | 1                      | –    |
| 31,000,001-31,500,000 | 1                      | –    |
| 37,000,001-37,500,000 | 1                      | –    |
| 44,500,001-45,000,000 | –                      | 1    |
| 62,000,001-62,500,000 | 1                      | –    |

During the years ended 31 December 2007 and 2006, the Group has not paid any emoluments to the directors, supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10 Impairment losses on loans and advances

|                                               | Year ended 31 December |        |
|-----------------------------------------------|------------------------|--------|
|                                               | 2007                   | 2006   |
| Net charge for impairment losses              |                        |        |
| – Individually assessed                       | 2,559                  | 8,694  |
| – Collectively assessed                       | 5,693                  | 3,648  |
| Total impairment losses on loans and advances | 8,252                  | 12,342 |

Details of new allowances (including the amount directly written off in the period) and releases are disclosed in Note V.18.

### 11 Income tax expense

|                                 | Year ended 31 December |        |
|---------------------------------|------------------------|--------|
|                                 | 2007                   | 2006   |
| Current income tax              |                        |        |
| – Chinese Mainland income tax   | 20,618                 | 16,477 |
| – Hong Kong profits tax         | 2,933                  | 2,717  |
| – Overseas taxation             | 742                    | 570    |
|                                 | 24,293                 | 19,764 |
| Deferred income tax (Note V.36) | 4,368                  | (91)   |
|                                 | 28,661                 | 19,673 |

The provision for Chinese Mainland income tax is calculated based on the statutory rate of 33% of the assessable income of the Bank and each of the subsidiaries established in the Chinese Mainland as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2007 and 2006. In addition, the Bank's Overseas Operations are subject to supplementary PRC tax at a rate determined by the relevant PRC Authority.

The Group's operations in Hong Kong are subject to Hong Kong profits tax at the rate of 17.5% on the estimated assessable income for the years ended 31 December 2007 and 2006.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 11 Income tax expense (Continued)

Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic domestic tax rate of the Bank as follows:

|                                                         | Year ended 31 December |         |
|---------------------------------------------------------|------------------------|---------|
|                                                         | 2007                   | 2006    |
| Profit before income tax                                | 90,697                 | 67,937  |
| Tax calculated at 33%                                   | 29,930                 | 22,419  |
| Effect of different tax rates on Overseas Operations    | (4,580)                | (3,880) |
| Supplementary tax on overseas income paid in the PRC    | 2,468                  | 2,510   |
| Income not subject to tax <sup>(1)</sup>                | (2,863)                | (2,402) |
| Expenses not deductible for tax purposes <sup>(2)</sup> | 1,143                  | 781     |
| Others <sup>(3)</sup>                                   | 2,563                  | 245     |
| Income tax expense                                      | 28,661                 | 19,673  |

(1) Income not subject to tax mainly comprises interest income from PRC treasury bills.

(2) In 2007, non-deductible expenses primarily included staff salary costs and marketing and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.

(3) These mainly comprise the effect of the reduction of the PRC enterprise income tax rate for domestic enterprises from 33% to 25% with effect from 1 January 2008 on the Group's net deferred tax assets.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 12 Earnings per share (basic and diluted)

Basic and diluted earnings per share were computed by dividing the profit attributable to the equity holders of the Bank for the year ended 31 December 2007 and 2006 by the weighted average number of ordinary shares in issue during the periods.

The Bank had no dilutive potential ordinary shares for the years ended 31 December 2007 and 2006.

|                                                                   | Year ended 31 December |         |
|-------------------------------------------------------------------|------------------------|---------|
|                                                                   | 2007                   | 2006    |
| Profit attributable to equity holders of the Bank                 | <b>56,248</b>          | 42,830  |
| Weighted average number of ordinary shares in issue (in millions) | <b>253,821</b>         | 236,055 |
| Basic and diluted earnings per share (in Renminbi)                | <b>0.22</b>            | 0.18    |

### 13 Cash and due from banks

|                                                          | As at 31 December |        |               |        |
|----------------------------------------------------------|-------------------|--------|---------------|--------|
|                                                          | Group             |        | Bank          |        |
|                                                          | 2007              | 2006   | 2007          | 2006   |
| Cash                                                     | <b>33,965</b>     | 31,110 | <b>30,400</b> | 27,632 |
| Due from domestic banks and other financial institutions | <b>1,791</b>      | 1,581  | <b>1,722</b>  | 1,551  |
| Due from overseas banks and other financial institutions | <b>35,465</b>     | 7,121  | <b>34,226</b> | 8,659  |
| Total                                                    | <b>71,221</b>     | 39,812 | <b>66,348</b> | 37,842 |

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14 Balances with central banks

|                                   | As at 31 December |         |                |         |
|-----------------------------------|-------------------|---------|----------------|---------|
|                                   | Group             |         | Bank           |         |
|                                   | 2007              | 2006    | 2007           | 2006    |
| Mandatory reserves <sup>(1)</sup> | <b>484,515</b>    | 277,855 | <b>483,472</b> | 277,071 |
| Other deposits                    | <b>266,829</b>    | 101,776 | <b>237,961</b> | 77,810  |
| Total                             | <b>751,344</b>    | 379,631 | <b>721,433</b> | 354,881 |

- (1) The Group places mandatory reserve funds with the PBOC and the central banks of other countries or regions where it has operations. As at 31 December 2007, mandatory reserve funds placed with the PBOC were calculated at 14.5% (2006: 9%) and 5% (2006: 4%) of eligible RMB deposits and foreign currency deposits from customers of domestic branches of the Bank respectively. The amount of mandatory reserve funds placed with the central banks of other countries is determined by local jurisdiction. These mandatory reserve funds are not available for use in the Group's day to day operations.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15 Placements with banks and other financial institutions

|                                                                                                   | As at 31 December |         |                |         |
|---------------------------------------------------------------------------------------------------|-------------------|---------|----------------|---------|
|                                                                                                   | Group             |         | Bank           |         |
|                                                                                                   | 2007              | 2006    | 2007           | 2006    |
| Placements with domestic banks                                                                    | <b>46,842</b>     | 33,567  | <b>38,180</b>  | 29,235  |
| Placements with other domestic financial institutions                                             | <b>18,044</b>     | 21,579  | <b>18,044</b>  | 21,579  |
| Placements with overseas banks and other financial institutions                                   | <b>322,152</b>    | 344,491 | <b>229,523</b> | 252,687 |
|                                                                                                   | <b>387,038</b>    | 399,637 | <b>285,747</b> | 303,501 |
| Allowance for impairment losses                                                                   | <b>(390)</b>      | (499)   | <b>(390)</b>   | (499)   |
|                                                                                                   | <b>386,648</b>    | 399,138 | <b>285,357</b> | 303,002 |
| Impaired placements                                                                               | <b>390</b>        | 499     | <b>390</b>     | 499     |
| Percentage of impaired placements to total placements with banks and other financial institutions | <b>0.10%</b>      | 0.12%   | <b>0.14%</b>   | 0.16%   |

Placements with banks and other financial institutions include balances arising from reverse repo agreements as follows:

#### Group and Bank

|                           | As at 31 December |        |
|---------------------------|-------------------|--------|
|                           | 2007              | 2006   |
| Bills under reverse repos | <b>193</b>        | 8,165  |
| Bonds under reverse repos |                   |        |
| – Government              | <b>11,924</b>     | 22,069 |
| – Financial institution   | <b>14,026</b>     | 46,378 |
| Total                     | <b>26,143</b>     | 76,612 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 16 Financial assets at fair value through profit or loss

|                                                                         | As at 31 December |         |        |        |
|-------------------------------------------------------------------------|-------------------|---------|--------|--------|
|                                                                         | Group             |         | Bank   |        |
|                                                                         | 2007              | 2006    | 2007   | 2006   |
| <b>Trading assets</b>                                                   |                   |         |        |        |
| Trading debt securities                                                 |                   |         |        |        |
| – Government                                                            | 36,325            | 17,802  | 32,741 | 13,571 |
| – Public sector and quasi-government                                    | 1,452             | 1,032   | 1,267  | –      |
| – Financial institution                                                 | 21,260            | 22,644  | 14,830 | 13,149 |
| – Corporate                                                             | 4,059             | 4,204   | 1,299  | 1,031  |
|                                                                         | 63,096            | 45,682  | 50,137 | 27,751 |
| Trading equity securities                                               | 4,517             | 5,194   | –      | –      |
| Subtotal                                                                | 67,613            | 50,876  | 50,137 | 27,751 |
| <b>Financial assets designated at fair value through profit or loss</b> |                   |         |        |        |
| Debt securities designated at fair value through profit or loss         |                   |         |        |        |
| – Government                                                            | 10,315            | 20,444  | 9,911  | 20,281 |
| – Public sector and quasi-government                                    | 4,593             | 8,559   | 3,747  | 7,877  |
| – Financial institution                                                 | 32,217            | 30,225  | 15,096 | 16,913 |
| – Corporate                                                             | 6,852             | 5,724   | 3,791  | 3,759  |
|                                                                         | 53,977            | 64,952  | 32,545 | 48,830 |
| Equity securities designated at fair value through profit or loss       | 3,075             | –       | –      | –      |
| Subtotal                                                                | 57,052            | 64,952  | 32,545 | 48,830 |
| Total <sup>(1)</sup>                                                    | 124,665           | 115,828 | 82,682 | 76,581 |
| Analysed as:                                                            |                   |         |        |        |
| – Listed in Hong Kong                                                   | 4,525             | 6,087   | 1,472  | 2,441  |
| – Listed outside Hong Kong                                              | 81,095            | 76,353  | 71,026 | 63,507 |
| – Unlisted                                                              | 39,045            | 33,388  | 10,184 | 10,633 |
| Total                                                                   | 124,665           | 115,828 | 82,682 | 76,581 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 16 Financial assets at fair value through profit or loss (Continued)

- (1) As at 31 December 2007, the Group holds bonds issued by the MOF and bills issued by the PBOC included in financial assets at fair value through profit or loss amounting to RMB40,360 million (2006: RMB19,181 million), the related interest rate range on such bonds and bills was 2.34%-9.00% (2006: 1.22%-9.00%).

As at 31 December 2007, the Bank holds bonds issued by the MOF and bills issued by the PBOC included in financial assets at fair value through profit or loss amounting to RMB40,198 million (2006: RMB18,836 million), the related interest rate range on such bonds and bills was 2.34%-7.30% (2006: 1.22%-6.80%).

### 17 Derivative financial instruments

The Group enters into the following foreign currency exchange rate or interest rate related derivative financial instruments for trading, asset and liability management and on behalf of customers.

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or buy or sell a foreign currency or interest rate financial instrument on a future date at an agreed price in the financial market under the administration of the stock exchanges. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In consideration for the assumption of foreign exchange or interest rate risk, the seller receives a premium from the purchaser. Options may be either negotiated over-the-counter ("OTC") between the Group and its counterparty or exchange-traded.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17 Derivative financial instruments (Continued)

The contractual/notional amounts and fair values of derivative instruments held by the Group and the Bank are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

#### Group

|                                                                                         | As at 31 December 2007             |            |             | As at 31 December 2006             |            |             |
|-----------------------------------------------------------------------------------------|------------------------------------|------------|-------------|------------------------------------|------------|-------------|
|                                                                                         | Contractual/<br>notional<br>amount | Fair value |             | Contractual/<br>notional<br>amount | Fair value |             |
|                                                                                         |                                    | Assets     | Liabilities |                                    | Assets     | Liabilities |
| Exchange rate derivatives                                                               |                                    |            |             |                                    |            |             |
| – Currency forwards and swaps, and<br>cross-currency interest rate swaps <sup>(1)</sup> | 1,563,450                          | 37,985     | (17,789)    | 1,027,801                          | 13,392     | (7,906)     |
| – Currency options <sup>(2)</sup>                                                       | 68,004                             | 238        | (362)       | 225,718                            | 5,735      | (419)       |
|                                                                                         |                                    | 38,223     | (18,151)    |                                    | 19,127     | (8,325)     |
| Interest rate derivatives                                                               |                                    |            |             |                                    |            |             |
| – Interest rate swaps                                                                   | 472,634                            | 4,307      | (5,702)     | 369,093                            | 4,236      | (4,832)     |
| – Interest rate options                                                                 | 31,117                             | 55         | (153)       | 90,090                             | 592        | (161)       |
| – Interest rate futures                                                                 | 13,576                             | 24         | (33)        | 14,675                             | 40         | (9)         |
|                                                                                         |                                    | 4,386      | (5,888)     |                                    | 4,868      | (5,002)     |
| Equity derivatives                                                                      | 12,736                             | 1,050      | (719)       | 10,572                             | 453        | (390)       |
| Precious metals and other<br>commodity derivatives                                      | 33,664                             | 2,180      | (2,504)     | 10,520                             | 389        | (606)       |
| Total derivative financial instrument<br>assets/(liabilities)                           |                                    | 45,839     | (27,262)    |                                    | 24,837     | (14,323)    |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17 Derivative financial instruments (Continued)

#### Bank

|                                                                                      | As at 31 December 2007             |            |             | As at 31 December 2006             |            |             |
|--------------------------------------------------------------------------------------|------------------------------------|------------|-------------|------------------------------------|------------|-------------|
|                                                                                      | Contractual/<br>notional<br>amount | Fair value |             | Contractual/<br>notional<br>amount | Fair value |             |
|                                                                                      |                                    | Assets     | Liabilities |                                    | Assets     | Liabilities |
| Exchange rate derivatives                                                            |                                    |            |             |                                    |            |             |
| – Currency forwards and swaps, and cross-currency interest rate swaps <sup>(1)</sup> | 1,194,439                          | 25,512     | (9,660)     | 727,274                            | 6,171      | (4,992)     |
| – Currency options <sup>(2)</sup>                                                    | 57,255                             | 193        | (314)       | 221,109                            | 5,724      | (403)       |
|                                                                                      |                                    | 25,705     | (9,974)     |                                    | 11,895     | (5,395)     |
| Interest rate derivatives                                                            |                                    |            |             |                                    |            |             |
| – Interest rate swaps                                                                | 418,702                            | 3,755      | (4,445)     | 331,111                            | 3,712      | (3,930)     |
| – Interest rate options                                                              | 29,094                             | 53         | (115)       | 88,418                             | 586        | (151)       |
| – Interest rate futures                                                              | 5,869                              | 3          | (2)         | 5,180                              | 1          | (1)         |
|                                                                                      |                                    | 3,811      | (4,562)     |                                    | 4,299      | (4,082)     |
| Precious metals and other commodity derivatives                                      | 21,538                             | 1,455      | (1,465)     | 3,156                              | 169        | (166)       |
| Total derivative financial instruments assets/(liabilities)                          |                                    | 30,971     | (16,001)    |                                    | 16,363     | (9,643)     |

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange forward transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of asset and liability management and funding requirements.

(2) The Bank has exercised all tranches of the Huijin options and sold USD18 billion to Huijin for RMB at the exchange rate as agreed in the foreign currency option agreement. See Note III.4.4. The fair value of the Huijin options, taking into consideration the option premium payable, as at 31 December 2006 amounted to RMB5,180 million.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Loans and advances to customers, net

#### (i) Analysis of loans and advances to customers

|                                       | As at 31 December |           |                  |           |
|---------------------------------------|-------------------|-----------|------------------|-----------|
|                                       | Group             |           | Bank             |           |
|                                       | 2007              | 2006      | 2007             | 2006      |
| Corporate loans and advances          | <b>2,117,977</b>  | 1,849,275 | <b>1,838,869</b> | 1,616,052 |
| Personal loans and advances           | <b>732,584</b>    | 582,744   | <b>591,684</b>   | 448,775   |
| Gross loans and advances              | <b>2,850,561</b>  | 2,432,019 | <b>2,430,553</b> | 2,064,827 |
| Less: Allowance for impairment losses | <b>(96,068)</b>   | (94,293)  | <b>(94,486)</b>  | (92,962)  |
| Loans and advances to customers, net  | <b>2,754,493</b>  | 2,337,726 | <b>2,336,067</b> | 1,971,865 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Loans and advances to customers, net (Continued)

#### (i) Analysis of loans and advances to customers (Continued)

##### Group

|                                 | Loans and advances for which allowance is collectively assessed <sup>(1)</sup> | Identified impaired loans and advances <sup>(2)</sup> |                                              |          | Total     | Identified impaired loans and advances as % of gross total loans and advances |
|---------------------------------|--------------------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------|----------|-----------|-------------------------------------------------------------------------------|
|                                 |                                                                                | for which allowance is collectively assessed          | for which allowance is individually assessed | Subtotal |           |                                                                               |
| <b>As at 31 December 2007</b>   |                                                                                |                                                       |                                              |          |           |                                                                               |
| Gross loans and advances        | 2,760,244                                                                      | 18,596                                                | 71,721                                       | 90,317   | 2,850,561 | 3.17%                                                                         |
| Allowance for impairment losses | (31,897)                                                                       | (12,334)                                              | (51,837)                                     | (64,171) | (96,068)  |                                                                               |
| Net loans and advances          | 2,728,347                                                                      | 6,262                                                 | 19,884                                       | 26,146   | 2,754,493 |                                                                               |
| <b>As at 31 December 2006</b>   |                                                                                |                                                       |                                              |          |           |                                                                               |
| Gross loans and advances        | 2,328,787                                                                      | 21,502                                                | 81,730                                       | 103,232  | 2,432,019 | 4.24%                                                                         |
| Allowance for impairment losses | (27,712)                                                                       | (12,735)                                              | (53,846)                                     | (66,581) | (94,293)  |                                                                               |
| Net loans and advances          | 2,301,075                                                                      | 8,767                                                 | 27,884                                       | 36,651   | 2,337,726 |                                                                               |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Loans and advances to customers, net (Continued)

#### (i) Analysis of loans and advances to customers (Continued)

##### Bank

|                                 | Loans and advances for which allowance is collectively assessed <sup>(1)</sup> | Identified impaired loans and advances <sup>(2)</sup> |                                              |          | Total     | Identified impaired loans and advances as % of gross total loans and advances |
|---------------------------------|--------------------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------|----------|-----------|-------------------------------------------------------------------------------|
|                                 |                                                                                | for which allowance is collectively assessed          | for which allowance is individually assessed | Subtotal |           |                                                                               |
| <b>As at 31 December 2007</b>   |                                                                                |                                                       |                                              |          |           |                                                                               |
| Gross loans and advances        | 2,340,918                                                                      | 18,550                                                | 71,085                                       | 89,635   | 2,430,553 | 3.69%                                                                         |
| Allowance for impairment losses | (30,733)                                                                       | (12,301)                                              | (51,452)                                     | (63,753) | (94,486)  |                                                                               |
| Net loans and advances          | 2,310,185                                                                      | 6,249                                                 | 19,633                                       | 25,882   | 2,336,067 |                                                                               |
| <b>As at 31 December 2006</b>   |                                                                                |                                                       |                                              |          |           |                                                                               |
| Gross loans and advances        | 1,963,822                                                                      | 20,342                                                | 80,663                                       | 101,005  | 2,064,827 | 4.89%                                                                         |
| Allowance for impairment losses | (27,043)                                                                       | (12,688)                                              | (53,231)                                     | (65,919) | (92,962)  |                                                                               |
| Net loans and advances          | 1,936,779                                                                      | 7,654                                                 | 27,432                                       | 35,086   | 1,971,865 |                                                                               |

(1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(2) Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
- collectively (i.e. portfolios of insignificant homogenous loans, which includes insignificant corporate loans and advances and all personal loans which are impaired).

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Loans and advances to customers, net (Continued)

#### (ii) Reconciliation of allowance account for impairment losses on loans and advances to customers

##### Group

|                                                             | 2007      |          |          | 2006      |          |          |
|-------------------------------------------------------------|-----------|----------|----------|-----------|----------|----------|
|                                                             | Corporate | Personal | Total    | Corporate | Personal | Total    |
| As at 1 January                                             | 75,142    | 19,151   | 94,293   | 64,395    | 18,758   | 83,153   |
| New allowances                                              | 21,217    | 860      | 22,077   | 31,966    | 1,076    | 33,042   |
| Releases                                                    | (13,708)  | (117)    | (13,825) | (20,420)  | (280)    | (20,700) |
| Written off                                                 | (6,444)   | (354)    | (6,798)  | (3,438)   | (273)    | (3,711)  |
| Recovery of loans and advances written off in previous year | 1,596     | 75       | 1,671    | 3,483     | 106      | 3,589    |
| Exchange difference                                         | (1,049)   | (17)     | (1,066)  | (443)     | (9)      | (452)    |
| Unwind of discount on allowance                             | (120)     | (164)    | (284)    | (401)     | (227)    | (628)    |
| As at 31 December                                           | 76,634    | 19,434   | 96,068   | 75,142    | 19,151   | 94,293   |

##### Bank

|                                                             | 2007      |          |          | 2006      |          |          |
|-------------------------------------------------------------|-----------|----------|----------|-----------|----------|----------|
|                                                             | Corporate | Personal | Total    | Corporate | Personal | Total    |
| As at 1 January                                             | 74,036    | 18,926   | 92,962   | 61,104    | 18,477   | 79,581   |
| New allowances                                              | 20,363    | 599      | 20,962   | 31,408    | 760      | 32,168   |
| Releases                                                    | (12,129)  | –        | (12,129) | (17,728)  | –        | (17,728) |
| Written off                                                 | (6,299)   | (179)    | (6,478)  | (2,774)   | (90)     | (2,864)  |
| Recovery of loans and advances written off in previous year | 368       | –        | 368      | 1,201     | –        | 1,201    |
| Exchange difference                                         | (942)     | –        | (942)    | (381)     | –        | (381)    |
| Unwind of discount on allowance                             | (102)     | (155)    | (257)    | (318)     | (221)    | (539)    |
| Transfer from overseas operations                           | –         | –        | –        | 1,524     | –        | 1,524    |
| As at 31 December                                           | 75,295    | 19,191   | 94,486   | 74,036    | 18,926   | 92,962   |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Loans and advances to customers, net (Continued)

#### (ii) Reconciliation of allowance account for impairment losses on loans and advances to customers (Continued)

##### Group

|                                                             | 2007                            |                                 |          | 2006                            |                                 |          |
|-------------------------------------------------------------|---------------------------------|---------------------------------|----------|---------------------------------|---------------------------------|----------|
|                                                             | Individually assessed allowance | Collectively assessed allowance | Total    | Individually assessed allowance | Collectively assessed allowance | Total    |
| As at 1 January                                             | 53,846                          | 40,447                          | 94,293   | 45,738                          | 37,415                          | 83,153   |
| New allowances                                              | 13,748                          | 8,329                           | 22,077   | 23,329                          | 9,713                           | 33,042   |
| Releases                                                    | (11,189)                        | (2,636)                         | (13,825) | (14,635)                        | (6,065)                         | (20,700) |
| Written off                                                 | (5,236)                         | (1,562)                         | (6,798)  | (2,852)                         | (859)                           | (3,711)  |
| Recovery of loans and advances written off in previous year | 1,217                           | 454                             | 1,671    | 2,686                           | 903                             | 3,589    |
| Exchange difference                                         | (531)                           | (535)                           | (1,066)  | (230)                           | (222)                           | (452)    |
| Unwind of discount on allowance                             | (18)                            | (266)                           | (284)    | (190)                           | (438)                           | (628)    |
| As at 31 December                                           | 51,837                          | 44,231                          | 96,068   | 53,846                          | 40,447                          | 94,293   |

##### Bank

|                                                             | 2007                            |                                 |          | 2006                            |                                 |          |
|-------------------------------------------------------------|---------------------------------|---------------------------------|----------|---------------------------------|---------------------------------|----------|
|                                                             | Individually assessed allowance | Collectively assessed allowance | Total    | Individually assessed allowance | Collectively assessed allowance | Total    |
| As at 1 January                                             | 53,231                          | 39,731                          | 92,962   | 43,124                          | 36,457                          | 79,581   |
| New allowances                                              | 13,347                          | 7,615                           | 20,962   | 22,676                          | 9,492                           | 32,168   |
| Releases                                                    | (9,567)                         | (2,562)                         | (12,129) | (11,963)                        | (5,765)                         | (17,728) |
| Written off                                                 | (5,069)                         | (1,409)                         | (6,478)  | (2,128)                         | (736)                           | (2,864)  |
| Recovery of loans and advances written off in previous year | –                               | 368                             | 368      | 372                             | 829                             | 1,201    |
| Exchange difference                                         | (490)                           | (452)                           | (942)    | (251)                           | (130)                           | (381)    |
| Unwind of discount on allowance                             | –                               | (257)                           | (257)    | (123)                           | (416)                           | (539)    |
| Transfer from overseas operations                           | –                               | –                               | –        | 1,524                           | –                               | 1,524    |
| As at 31 December                                           | 51,452                          | 43,034                          | 94,486   | 53,231                          | 39,731                          | 92,962   |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Loans and advances to customers, net (Continued)

#### (iii) Analysed by collateral type

|                                        | As at 31 December |           |           |           |
|----------------------------------------|-------------------|-----------|-----------|-----------|
|                                        | Group             |           | Bank      |           |
|                                        | 2007              | 2006      | 2007      | 2006      |
| Unsecured loans                        | 747,923           | 536,293   | 596,181   | 469,297   |
| Guaranteed loans                       | 708,039           | 731,759   | 688,430   | 652,766   |
| Collateralised and other secured loans | 1,394,599         | 1,163,967 | 1,145,942 | 942,764   |
| Gross loans and advances to customers  | 2,850,561         | 2,432,019 | 2,430,553 | 2,064,827 |

#### (iv) Overdue loans and advances to customers are analysed by collateral type

##### Group

|                                        | As at 31 December 2007  |                      |                       |                         |        |
|----------------------------------------|-------------------------|----------------------|-----------------------|-------------------------|--------|
|                                        | Past due up to 3 months | Past due 3-12 months | Past due 12-36 months | Past due over 36 months | Total  |
| Unsecured loans                        | 2,933                   | 1,053                | 1,321                 | 2,959                   | 8,266  |
| Guaranteed loans                       | 3,830                   | 6,254                | 19,630                | 5,993                   | 35,707 |
| Collateralised and other secured loans | 26,644                  | 6,979                | 13,438                | 5,567                   | 52,628 |
| Total                                  | 33,407                  | 14,286               | 34,389                | 14,519                  | 96,601 |

|                                        | As at 31 December 2006  |                      |                       |                         |         |
|----------------------------------------|-------------------------|----------------------|-----------------------|-------------------------|---------|
|                                        | Past due up to 3 months | Past due 3-12 months | Past due 12-36 months | Past due over 36 months | Total   |
| Unsecured loans                        | 4,627                   | 1,526                | 1,519                 | 3,204                   | 10,876  |
| Guaranteed loans                       | 7,686                   | 10,589               | 22,149                | 2,051                   | 42,475  |
| Collateralised and other secured loans | 32,023                  | 12,045               | 18,261                | 2,874                   | 65,203  |
| Total                                  | 44,336                  | 24,160               | 41,929                | 8,129                   | 118,554 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Loans and advances to customers, net (Continued)

(iv) *Overdue loans and advances to customers are analysed by collateral type (Continued)*

#### Bank

|                                           | As at 31 December 2007        |                            |                             |                               |        |
|-------------------------------------------|-------------------------------|----------------------------|-----------------------------|-------------------------------|--------|
|                                           | Past due<br>up to 3<br>months | Past due<br>3-12<br>months | Past due<br>12-36<br>months | Past due<br>over 36<br>months | Total  |
| Unsecured loans                           | 1,920                         | 980                        | 1,274                       | 2,897                         | 7,071  |
| Guaranteed loans                          | 3,737                         | 6,225                      | 19,630                      | 5,993                         | 35,585 |
| Collateralised and other<br>secured loans | 22,044                        | 6,712                      | 13,341                      | 5,271                         | 47,368 |
| Total                                     | 27,701                        | 13,917                     | 34,245                      | 14,161                        | 90,024 |

|                                           | As at 31 December 2006        |                            |                             |                               |         |
|-------------------------------------------|-------------------------------|----------------------------|-----------------------------|-------------------------------|---------|
|                                           | Past due<br>up to 3<br>months | Past due<br>3-12<br>months | Past due<br>12-36<br>months | Past due<br>over 36<br>months | Total   |
| Unsecured loans                           | 4,033                         | 1,325                      | 1,398                       | 3,170                         | 9,926   |
| Guaranteed loans                          | 7,684                         | 10,589                     | 22,149                      | 2,051                         | 42,473  |
| Collateralised and other<br>secured loans | 30,100                        | 11,720                     | 18,087                      | 2,314                         | 62,221  |
| Total                                     | 41,817                        | 23,634                     | 41,634                      | 7,535                         | 114,620 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 Investment securities

|                                                       | As at 31 December |         |                |         |
|-------------------------------------------------------|-------------------|---------|----------------|---------|
|                                                       | Group             |         | Bank           |         |
|                                                       | 2007              | 2006    | 2007           | 2006    |
| Debt securities available for sale (at fair value)    |                   |         |                |         |
| Government                                            | <b>219,913</b>    | 297,129 | <b>206,841</b> | 283,860 |
| Public sector and quasi-government                    | <b>136,569</b>    | 152,822 | <b>127,559</b> | 145,929 |
| Financial institution                                 | <b>226,149</b>    | 230,999 | <b>179,795</b> | 195,235 |
| Corporate                                             | <b>85,113</b>     | 126,358 | <b>53,412</b>  | 81,002  |
|                                                       | <b>667,744</b>    | 807,308 | <b>567,607</b> | 706,026 |
| Equity securities (at fair value) <sup>(1)</sup>      | <b>15,251</b>     | 7,870   | <b>1,280</b>   | 713     |
| Total securities available for sale                   | <b>682,995</b>    | 815,178 | <b>568,887</b> | 706,739 |
| Debt securities held to maturity (at amortised cost): |                   |         |                |         |
| Government                                            | <b>172,481</b>    | 146,502 | <b>170,184</b> | 144,292 |
| Public sector and quasi-government                    | <b>64,178</b>     | 97,025  | <b>44,854</b>  | 75,749  |
| Financial institution                                 | <b>174,338</b>    | 172,666 | <b>67,051</b>  | 62,702  |
| Corporate                                             | <b>35,650</b>     | 44,947  | <b>2,978</b>   | 4,655   |
| Total securities held to maturity                     | <b>446,647</b>    | 461,140 | <b>285,067</b> | 287,398 |

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 Investment securities (Continued)

|                                                                          | As at 31 December |           |           |           |
|--------------------------------------------------------------------------|-------------------|-----------|-----------|-----------|
|                                                                          | Group             |           | Bank      |           |
|                                                                          | 2007              | 2006      | 2007      | 2006      |
| Debt securities classified as loans and receivables (at amortised cost): |                   |           |           |           |
| China Orient Bond <sup>(2)</sup>                                         | 160,000           | 160,000   | 160,000   | 160,000   |
| PBOC Special Bills <sup>(3)</sup>                                        | 73,512            | 91,612    | 73,512    | 91,612    |
| PBOC Target Bills <sup>(4)</sup>                                         | 89,825            | 28,702    | 89,825    | 28,702    |
| Special Purpose Treasury Bond <sup>(5)</sup>                             | 42,500            | 42,500    | 42,500    | 42,500    |
| Long term notes                                                          |                   |           |           |           |
| – Financial institution                                                  | 14,545            | 14,545    | 14,545    | 14,545    |
| Short term bills and notes                                               |                   |           |           |           |
| Public sector and quasi-government                                       | 18,525            | 3,895     | 13,318    | 3,895     |
| Financial institution                                                    | 29,497            | 139,659   | 373       | 98,006    |
| Corporate                                                                | 60                | 6,623     | 60        | 6,546     |
| Certificate Treasury Bonds and others <sup>(6)</sup>                     | 30,156            | 12,800    | 30,156    | 12,800    |
| Total securities classified as loans and receivables                     | 458,620           | 500,336   | 424,289   | 458,606   |
| Total <sup>(7)</sup>                                                     | 1,588,262         | 1,776,654 | 1,278,243 | 1,452,743 |
| Analysed as follows:                                                     |                   |           |           |           |
| Listed in Hong Kong                                                      | 17,465            | 16,561    | 1,922     | 3,336     |
| Listed outside Hong Kong                                                 | 622,553           | 647,154   | 577,409   | 608,198   |
| Unlisted                                                                 | 948,244           | 1,112,939 | 698,912   | 841,209   |
| Total <sup>(7)</sup>                                                     | 1,588,262         | 1,776,654 | 1,278,243 | 1,452,743 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 Investment securities (Continued)

#### Group

|                                        | As at 31 December |              |                |              |
|----------------------------------------|-------------------|--------------|----------------|--------------|
|                                        | 2007              |              | 2006           |              |
|                                        | Carrying value    | Market value | Carrying value | Market value |
| Investment securities held to maturity |                   |              |                |              |
| Listed in Hong Kong                    | 4,591             | 4,613        | 4,596          | 4,563        |
| Listed outside Hong Kong               | 249,242           | 247,331      | 224,219        | 225,162      |

#### Bank

|                                        | As at 31 December |              |                |              |
|----------------------------------------|-------------------|--------------|----------------|--------------|
|                                        | 2007              |              | 2006           |              |
|                                        | Carrying value    | Market value | Carrying value | Market value |
| Investment securities held to maturity |                   |              |                |              |
| Listed in Hong Kong                    | 384               | 384          | 412            | 412          |
| Listed outside Hong Kong               | 229,180           | 227,354      | 199,108        | 200,295      |

- (1) The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2007, a reasonably possible 5 per cent variance in listed equity prices would impact the available for sale reserve by RMB480 million (2006: RMB218 million).
- (2) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond with a par value of RMB160,000 million to the Bank as consideration. The interest rate of the bonds is 2.25% per annum. Pursuant to Caijin [2004] No. 87 "Notice of the MOF regarding Relevant Issues relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank", from 1 January 2005, should China Orient fail to pay in full the interest on the debt securities or repay the principal in full according to the contractual terms of the bond, the MOF shall provide funding support.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 Investment securities (Continued)

- (3) On 30 June 2004, the PBOC issued a Special Bill with a par value of RMB18,100 million in exchange for certain policy-related assets of the Bank. The tenor of the bill is 3 years, with an interest rate of 1.89% per annum. This Special Bill matured on 30 June 2007.

On 30 June 2004, the Bank sold a portfolio of non-performing loans to China Cinda Asset Management Corporation ("Cinda") and received consideration in the form of a Special Bill issued by the PBOC, with a par value of RMB73,430 million. The tenor of the bill is 5 years, with an interest rate of 1.89% per annum.

On 22 June 2006, the PBOC issued special PBOC Bills amounting to RMB82 million in exchange for certain non-performing loans, as previously approved by the State Council. The tenor of the bill is 5 years, with an interest rate of 1.89% per annum.

Without the approval of the PBOC, the special PBOC Bills referred to above are non-transferable and may not be used as collateral for borrowings. The PBOC has the option to settle these bills in whole or in part before their maturity.

- (4) During 2007, the Bank invested in the following PBOC Bills for commercial banks:

| Issue date        | Interest rate |           | Carrying value |
|-------------------|---------------|-----------|----------------|
|                   | Tenor         | per annum |                |
| 09 March 2007     | 3 years       | 3.07%     | 16,000         |
| 02 July 2007      | 1 year        | 3.08%     | 17,825         |
| 13 July 2007      | 3 years       | 3.60%     | 14,000         |
| 17 August 2007    | 3 years       | 3.69%     | 17,000         |
| 07 September 2007 | 3 years       | 3.71%     | 25,000         |
|                   |               |           | 89,825         |

Without the approval of the PBOC, these PBOC Bills are non-transferable and may not be used as collateral for borrowings.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 Investment securities (Continued)

- (5) This represents a Special Purpose Treasury Bond issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon interest rate of 7.2% and its coupon interest rate was restructured to 2.25% per annum from 1 December 2004 in connection with large-scale policy directed financing transactions.

The transactions related to the Special Purpose Treasury Bond described above were accounted for with reference to rates determined by the PRC Government in similar transactions engaged in or directed by the PRC Government, the sole owner of the Bank's equity capital at the time of the transaction. As discussed in Note IV.2, there were no other relevant market prices or yields, reflecting arm's length transactions of a comparable size and tenor available.

- (6) The Group underwrites Certificate Treasury Bonds issued by the MOF and undertakes the role of a distributor of these bonds through its branch network earning commission income on bonds sold. The balance of Certificate Treasury Bonds outstanding at 31 December 2007 amounted to RMB30,156 million (2006: RMB12,800 million) and during the year the total distribution of Certificate Treasury Bonds amounted to RMB20,800 million (2006: RMB25,350 million) and commission income amounted to RMB222 million (2006: RMB269 million).
- (7) As at 31 December 2007, the Group holds bonds issued by the MOF and bills issued by the PBOC included in investment securities amounting to RMB551,984 million (2006: RMB520,646 million), the related interest rate range on such bonds and bills was 1.89%-7.30% (2006: 1.58%-7.30%).

As at 31 December 2007, the Bank holds bonds issued by the MOF and bills issued by the PBOC included in investment securities amounting to RMB550,644 million (2006: RMB519,260 million), the related interest rate range on such bonds and bills was 1.89%-7.30% (2006: 1.58%-7.30%).

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 Investment securities (Continued)

Movements of investment securities are as follows:

#### Group

|                                      | Available<br>for sale | Held to<br>maturity | Loans and<br>receivables | Total       |
|--------------------------------------|-----------------------|---------------------|--------------------------|-------------|
| As at 1 January 2007                 | 815,178               | 461,140             | 500,336                  | 1,776,654   |
| Additions                            | 618,733               | 383,574             | 461,201                  | 1,463,508   |
| Sales and redemptions                | (712,100)             | (384,937)           | (500,586)                | (1,597,623) |
| Accretion, net                       | 3,542                 | 3,242               | 3,455                    | 10,239      |
| Fair value changes                   | (17,745)              | –                   | –                        | (17,745)    |
| Exchange differences                 | (24,613)              | (14,540)            | (5,790)                  | (44,943)    |
| Impairment (charges)/<br>written off | –                     | (1,832)             | 4                        | (1,828)     |
| As at 31 December 2007               | 682,995               | 446,647             | 458,620                  | 1,588,262   |
| As at 1 January 2006                 | 602,221               | 607,459             | 361,851                  | 1,571,531   |
| Additions                            | 821,368               | 308,947             | 505,731                  | 1,636,046   |
| Sales and redemptions                | (603,271)             | (449,771)           | (367,986)                | (1,421,028) |
| Accretion, net                       | 4,360                 | 2,918               | 3,251                    | 10,529      |
| Fair value changes                   | 20                    | –                   | –                        | 20          |
| Exchange differences                 | (9,520)               | (8,413)             | (2,515)                  | (20,448)    |
| Impairment written off               | –                     | –                   | 4                        | 4           |
| As at 31 December 2006               | 815,178               | 461,140             | 500,336                  | 1,776,654   |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 Investment securities (Continued)

#### Bank

|                                      | Available<br>for sale | Held to<br>maturity | Loans and<br>receivables | Total       |
|--------------------------------------|-----------------------|---------------------|--------------------------|-------------|
| As at 1 January 2007                 | 706,739               | 287,398             | 458,606                  | 1,452,743   |
| Additions                            | 504,003               | 289,628             | 398,302                  | 1,191,933   |
| Sales and redemptions                | (603,663)             | (289,955)           | (431,213)                | (1,324,831) |
| Accretion, net                       | 3,114                 | 3,273               | 1,957                    | 8,344       |
| Fair value changes                   | (22,461)              | –                   | –                        | (22,461)    |
| Exchange differences                 | (18,845)              | (5,240)             | (3,367)                  | (27,452)    |
| Impairment (charges)/<br>written off | –                     | (37)                | 4                        | (33)        |
| As at 31 December 2007               | 568,887               | 285,067             | 424,289                  | 1,278,243   |
| As at 1 January 2006                 | 542,142               | 415,143             | 343,910                  | 1,301,195   |
| Additions                            | 710,533               | 248,276             | 423,338                  | 1,382,147   |
| Sales and redemptions                | (539,356)             | (375,327)           | (308,634)                | (1,223,317) |
| Accretion, net                       | 3,975                 | 3,009               | 2,136                    | 9,120       |
| Fair value changes                   | (2,238)               | –                   | –                        | (2,238)     |
| Exchange differences                 | (8,317)               | (3,703)             | (2,148)                  | (14,168)    |
| Impairment written off               | –                     | –                   | 4                        | 4           |
| As at 31 December 2006               | 706,739               | 287,398             | 458,606                  | 1,452,743   |

The Group and the Bank have not reclassified any financial assets measured at amortised cost or fair value during the year (2006: nil).

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 20 Certificates of deposit held

Certificates of deposit held are included within the following balance sheet captions:

|                                                       | As at 31 December |        |       |       |
|-------------------------------------------------------|-------------------|--------|-------|-------|
|                                                       | Group             |        | Bank  |       |
|                                                       | 2007              | 2006   | 2007  | 2006  |
| Financial assets at fair value through profit or loss | 4,349             | 3,813  | 1,419 | 927   |
| Investment securities                                 |                   |        |       |       |
| – available for sale                                  | 6,942             | 8,663  | –     | 75    |
| – held to maturity                                    | 14,122            | 12,681 | –     | –     |
| – loans and receivables                               | 373               | 388    | 373   | 388   |
|                                                       | 21,437            | 21,732 | 373   | 463   |
| Total                                                 | 25,786            | 25,545 | 1,792 | 1,390 |
| Analysed as follows:                                  |                   |        |       |       |
| Listed in Hong Kong                                   | –                 | 492    | –     | –     |
| Listed outside Hong Kong                              | 354               | 31     | –     | –     |
| Unlisted                                              | 25,432            | 25,022 | 1,792 | 1,390 |
|                                                       | 25,786            | 25,545 | 1,792 | 1,390 |
| Market value of listed certificates of deposit held   | 352               | 523    | –     | –     |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 21 Investment in subsidiaries

|                     | As at 31 December |        |
|---------------------|-------------------|--------|
|                     | 2007              | 2006   |
| Investment at cost: |                   |        |
| Unlisted shares     | 49,014            | 45,451 |

Details of the Bank's principal subsidiaries are set out below. These principal subsidiaries are private companies except otherwise stated. All holdings are in the ordinary share capital of the undertaking concerned.

| Name                                                               | Place of incorporation and operation | Date of incorporation/ establishment | Paid-in capital (in millions) | Effective equity held (%) | Principal business            |
|--------------------------------------------------------------------|--------------------------------------|--------------------------------------|-------------------------------|---------------------------|-------------------------------|
| <b>Directly held</b>                                               |                                      |                                      |                               |                           |                               |
| BOC Hong Kong (Group) Limited                                      | Hong Kong                            | 12 September 2001                    | HKD34,806                     | 100.00                    | Holding Company               |
| BOC International Holdings Limited                                 | Hong Kong                            | 10 July 1998                         | HKD3,539                      | 100.00                    | Investment Banking            |
| Bank of China Group Insurance Company Limited                      | Hong Kong                            | 23 July 1992                         | HKD2,769                      | 100.00                    | Insurance Services            |
| Bank of China Group Investment Limited ("BOCGI")                   | Hong Kong                            | 18 May 1993                          | HKD200                        | 100.00                    | Investment Holding            |
| Tai Fung Bank Limited                                              | Macau                                | 1942                                 | MOP1,000                      | 50.31                     | Commercial banking            |
| Bank of China (UK) Limited                                         | United Kingdom                       | 24 September 2007                    | GBP140                        | 100.00                    | Commercial banking            |
| <b>Indirectly held</b>                                             |                                      |                                      |                               |                           |                               |
| BOC Hong Kong (Holdings) Limited ("BOCHK Holdings") <sup>(1)</sup> | Hong Kong                            | 12 September 2001                    | HKD52,864                     | 65.77                     | Holding Company               |
| Bank of China (Hong Kong) Limited <sup>(2)</sup>                   | Hong Kong                            | 16 October 1964                      | HKD43,043                     | 65.77                     | Commercial banking            |
| Nanyang Commercial Bank, Limited <sup>(3)</sup>                    | Hong Kong                            | 2 February 1948                      | HKD600                        | 65.77                     | Commercial banking            |
| Chiyu Banking Corporation Limited <sup>(2), (3)</sup>              | Hong Kong                            | 24 April 1947                        | HKD300                        | 46.36                     | Commercial banking            |
| BOC Credit Card (International) Limited                            | Hong Kong                            | 9 September 1980                     | HKD480                        | 65.77                     | Credit card services          |
| BOC Group Trustee Company, Limited <sup>(3)</sup>                  | Hong Kong                            | 1 December 1997                      | HKD200                        | 76.24                     | Provision of trustee services |
| BOC Aviation Private Limited <sup>(4)</sup>                        | Singapore                            | 25 November 1993                     | USD308                        | 100.00                    | Aircraft leasing              |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 21 Investment in subsidiaries (Continued)

- (1) BOCHK Holdings is listed on the Stock Exchange of Hong Kong Limited.
- (2) Bank of China (Hong Kong) Limited, in which the Group holds a 65.77% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.
- (3) Bank of China (Hong Kong) Limited, Nanyang Commercial Bank Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited, in which the Group holds 65.77%, 65.77%, 46.36% and 100% of their equity interests respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company Limited, respectively.
- (4) The company was formerly known as Singapore Aircraft Leasing Enterprise Pte. Ltd. On 2 July 2007, its name was changed to BOC Aviation Private Limited ("BOC Aviation").
- (5) For the year ended 31 December 2007, the financial statements of all the principal subsidiaries as stated above, except for BOC Aviation, were audited by PricewaterhouseCoopers.

### 22 Investment in associates and joint ventures

#### Group

|                                             | 2007  | 2006  |
|---------------------------------------------|-------|-------|
| As at 1 January                             | 5,931 | 5,061 |
| Investment cost addition                    | 172   | 924   |
| Transfer from available for sale securities | 77    | —     |
| Disposal of investment in associates        | (262) | (59)  |
| Share of results after tax                  | 1,263 | 632   |
| Dividends received                          | (265) | (134) |
| Foreign exchanges and others                | (137) | (493) |
| As at 31 December                           | 6,779 | 5,931 |

#### Bank

|                     | As at 31 December |      |
|---------------------|-------------------|------|
|                     | 2007              | 2006 |
| Investment at cost: |                   |      |
| Unlisted shares     | 19                | 21   |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22 Investment in associates and joint ventures (Continued)

The Group's interests in its principal associates and joint ventures are as follows:

|                                                                    | Place of<br>incorporation/<br>establishment | Effective<br>equity held<br>(%) | Paid-in capital<br>(in millions) | Principal business                                                                 |
|--------------------------------------------------------------------|---------------------------------------------|---------------------------------|----------------------------------|------------------------------------------------------------------------------------|
| Huaneng International Power Development Corporation <sup>(1)</sup> | PRC                                         | 20                              | USD450                           | Power plant operations                                                             |
| BOC International (China) Limited                                  | PRC                                         | 49                              | RMB1,500                         | Securities underwriting, investment advisory, and brokerage services               |
| CJM Insurance Brokers Limited                                      | Hong Kong                                   | 22                              | HKD6                             | Insurance broker                                                                   |
| Joint Electronic Teller Services Limited                           | Hong Kong                                   | 13                              | HKD10                            | Private inter-bank message switching network and automatic teller machine services |
| Dongfeng Peugeot Citroen Auto Finance Company Limited              | PRC                                         | 50                              | RMB500                           | Car loan and financing services                                                    |

- (1) Huaneng International Power Development Corporation is a company holding shares in Huaneng Power International, Inc. whose shares are listed in Hong Kong, Shanghai and New York.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 23 Property and equipment

#### Group

|                                 | Buildings and<br>improvements | Equipment<br>and motor<br>vehicles | Construction<br>in progress | Aircraft | Total    |
|---------------------------------|-------------------------------|------------------------------------|-----------------------------|----------|----------|
| <b>As at 31 December 2007</b>   |                               |                                    |                             |          |          |
| Cost                            | 70,463                        | 25,579                             | 7,253                       | 17,940   | 121,235  |
| Accumulated depreciation        | (18,647)                      | (16,846)                           | –                           | (678)    | (36,171) |
| Allowance for impairment losses | (854)                         | –                                  | (405)                       | –        | (1,259)  |
| Net book amount                 | 50,962                        | 8,733                              | 6,848                       | 17,262   | 83,805   |
| <b>As at 31 December 2006</b>   |                               |                                    |                             |          |          |
| Cost                            | 67,660                        | 32,132                             | 6,973                       | 20,572   | 127,337  |
| Accumulated depreciation        | (15,317)                      | (23,891)                           | –                           | (34)     | (39,242) |
| Allowance for impairment losses | (1,494)                       | –                                  | (401)                       | –        | (1,895)  |
| Net book amount                 | 50,849                        | 8,241                              | 6,572                       | 20,538   | 86,200   |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 23 Property and equipment (Continued)

#### Group

|                                                       | Buildings and<br>improvements | Equipment<br>and motor<br>vehicles | Construction<br>in progress | Aircraft | Total   |
|-------------------------------------------------------|-------------------------------|------------------------------------|-----------------------------|----------|---------|
| <b>Year ended 31 December 2007</b>                    |                               |                                    |                             |          |         |
| Opening net book amount                               | 50,849                        | 8,241                              | 6,572                       | 20,538   | 86,200  |
| Additions                                             | 1,680                         | 4,372                              | 5,289                       | 1,345    | 12,686  |
| Transfer to investment<br>property, net (Note V.24)   | (38)                          | –                                  | –                           | –        | (38)    |
| Reclassification                                      | 3,679                         | 385                                | (4,893)                     | 829      | –       |
| Disposals                                             | (1,934)                       | (1,202)                            | –                           | (3,452)  | (6,588) |
| Depreciation charge                                   | (2,359)                       | (2,885)                            | –                           | (737)    | (5,981) |
| Allowance for impairment losses                       | (7)                           | –                                  | –                           | –        | (7)     |
| Exchange differences                                  | (908)                         | (178)                              | (120)                       | (1,261)  | (2,467) |
| Closing net book amount                               | 50,962                        | 8,733                              | 6,848                       | 17,262   | 83,805  |
| <b>Year ended 31 December 2006</b>                    |                               |                                    |                             |          |         |
| Opening net book amount                               | 50,656                        | 8,431                              | 3,330                       | –        | 62,417  |
| Additions                                             | 1,134                         | 2,793                              | 3,771                       | 211      | 7,909   |
| Acquisition of a subsidiary (Note V.45)               | –                             | –                                  | 1,692                       | 20,209   | 21,901  |
| Transfer from investment<br>property, net (Note V.24) | 180                           | –                                  | –                           | –        | 180     |
| Reclassification                                      | 1,964                         | 124                                | (2,207)                     | 119      | –       |
| Disposals                                             | (571)                         | (44)                               | (10)                        | –        | (625)   |
| Depreciation charge                                   | (2,195)                       | (2,980)                            | –                           | (34)     | (5,209) |
| Write back of/(allowance for)<br>impairment losses    | 22                            | –                                  | (4)                         | –        | 18      |
| Exchange differences                                  | (341)                         | (83)                               | –                           | 33       | (391)   |
| Closing net book amount                               | 50,849                        | 8,241                              | 6,572                       | 20,538   | 86,200  |

As at 31 December 2007, the net book amount of aircraft owned by the Group acquired under finance lease arrangements was RMB579 million (2006: RMB661 million).

As at 31 December 2007, the net book amount of aircraft owned by the Group that have been pledged for loan facilities was RMB16,249 million (2006: RMB19,264 million) (Note V.33).

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 23 Property and equipment (Continued)

#### Bank

|                                                   | Buildings and improvements | Equipment and motor vehicles | Construction in progress | Total    |
|---------------------------------------------------|----------------------------|------------------------------|--------------------------|----------|
| <b>As at 31 December 2007</b>                     |                            |                              |                          |          |
| Cost                                              | 54,339                     | 21,644                       | 5,062                    | 81,045   |
| Accumulated depreciation                          | (14,783)                   | (14,550)                     | –                        | (29,333) |
| Allowance for impairment losses                   | (854)                      | –                            | (405)                    | (1,259)  |
| Net book amount                                   | 38,702                     | 7,094                        | 4,657                    | 50,453   |
| <b>As at 31 December 2006</b>                     |                            |                              |                          |          |
| Cost                                              | 52,276                     | 27,076                       | 5,019                    | 84,371   |
| Accumulated depreciation                          | (12,584)                   | (20,420)                     | –                        | (33,004) |
| Allowance for impairment losses                   | (1,493)                    | –                            | (401)                    | (1,894)  |
| Net book amount                                   | 38,199                     | 6,656                        | 4,618                    | 49,473   |
| <b>Year ended 31 December 2007</b>                |                            |                              |                          |          |
| Opening net book amount                           | 38,199                     | 6,656                        | 4,618                    | 49,473   |
| Additions                                         | 816                        | 3,117                        | 4,107                    | 8,040    |
| Transfer to investment property, net (Note V. 24) | (44)                       | –                            | –                        | (44)     |
| Reclassification                                  | 3,679                      | 385                          | (4,064)                  | –        |
| Disposals                                         | (1,810)                    | (544)                        | –                        | (2,354)  |
| Depreciation charge                               | (2,056)                    | (2,515)                      | –                        | (4,571)  |
| Allowance for impairment losses                   | (7)                        | –                            | –                        | (7)      |
| Exchange differences                              | (75)                       | (5)                          | (4)                      | (84)     |
| Closing net book amount                           | 38,702                     | 7,094                        | 4,657                    | 50,453   |
| <b>Year ended 31 December 2006</b>                |                            |                              |                          |          |
| Opening net book amount                           | 37,744                     | 6,998                        | 3,319                    | 48,061   |
| Additions                                         | 928                        | 2,220                        | 3,391                    | 6,539    |
| Transfer to investment property, net (Note V. 24) | (197)                      | –                            | –                        | (197)    |
| Reclassification                                  | 1,964                      | 124                          | (2,088)                  | –        |
| Disposals                                         | (402)                      | (104)                        | (4)                      | (510)    |
| Depreciation charge                               | (1,859)                    | (2,574)                      | –                        | (4,433)  |
| Write back of impairment losses                   | 14                         | –                            | –                        | 14       |
| Exchange differences                              | 7                          | (8)                          | –                        | (1)      |
| Closing net book amount                           | 38,199                     | 6,656                        | 4,618                    | 49,473   |

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2007, the process of re-registration has not been completed. However, this registration process does not affect the rights of the Bank of China Limited to these assets.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 23 Property and equipment (Continued)

The carrying value of buildings and improvements is analysed based on the remaining terms of the leases as follows:

#### Group

|                                          | As at 31 December |        |
|------------------------------------------|-------------------|--------|
|                                          | 2007              | 2006   |
| Held in Hong Kong                        |                   |        |
| on long-term lease (over 50 years)       | 6,820             | 7,330  |
| on medium-term lease (10-50 years)       | 4,319             | 4,009  |
|                                          | 11,139            | 11,339 |
| Held outside Hong Kong                   |                   |        |
| on long-term lease (over 50 years)       | 3,181             | 3,766  |
| on medium-term lease (10-50 years)       | 35,733            | 35,099 |
| on short-term lease (less than 10 years) | 909               | 645    |
|                                          | 39,823            | 39,510 |
|                                          | 50,962            | 50,849 |

#### Bank

|                                          | As at 31 December |        |
|------------------------------------------|-------------------|--------|
|                                          | 2007              | 2006   |
| Held outside Hong Kong                   |                   |        |
| on long-term lease (over 50 years)       | 3,074             | 3,092  |
| on medium-term lease (10-50 years)       | 35,134            | 34,532 |
| on short-term lease (less than 10 years) | 494               | 575    |
|                                          | 38,702            | 38,199 |

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24 Investment property

|                                                            | Group        |       | Bank         |      |
|------------------------------------------------------------|--------------|-------|--------------|------|
|                                                            | 2007         | 2006  | 2007         | 2006 |
| As at 1 January                                            | <b>8,221</b> | 8,511 | <b>620</b>   | 461  |
| Additions                                                  | <b>426</b>   | 10    | –            | –    |
| Transfer from/(to) property and equipment, net (Note V.23) | <b>38</b>    | (180) | <b>44</b>    | 197  |
| Disposals                                                  | <b>(201)</b> | (452) | –            | –    |
| Fair value changes (Note V.6)                              | <b>2,070</b> | 595   | <b>716</b>   | (48) |
| Exchange differences                                       | <b>(568)</b> | (263) | <b>(18)</b>  | 10   |
| As at 31 December                                          | <b>9,986</b> | 8,221 | <b>1,362</b> | 620  |

Investment properties are included in the consolidated balance sheets at valuation determined on the basis of their open market value as estimated by independent firms of chartered surveyors.

Investment properties are mainly held by BOCHK Holdings, a subsidiary of the Group. The carrying value of investment properties held by BOCHK Holdings as at 31 December 2007 and 2006 amounted to RMB7,546 million and RMB7,516 million respectively. The current year valuation was performed as at 31 December 2007 by Savills Valuation and Professional Service Limited.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24 Investment property (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

|                                             | As at 31 December |       |       |      |
|---------------------------------------------|-------------------|-------|-------|------|
|                                             | Group             |       | Bank  |      |
|                                             | 2007              | 2006  | 2007  | 2006 |
| Held in Hong Kong                           |                   |       |       |      |
| on long-term lease<br>(over 50 years)       | 7,114             | 6,804 | –     | –    |
| on medium-term lease<br>(10-50 years)       | 790               | 548   | –     | –    |
| on short-term lease<br>(less than 10 years) | 45                | 40    | –     | –    |
|                                             | 7,949             | 7,392 | –     | –    |
| Held outside Hong Kong                      |                   |       |       |      |
| on long-term lease<br>(over 50 years)       | 1,151             | 556   | 1,147 | 552  |
| on medium-term lease<br>(10-50 years)       | 668               | 202   | –     | –    |
| on short-term lease<br>(less than 10 years) | 218               | 71    | 215   | 68   |
|                                             | 2,037             | 829   | 1,362 | 620  |
| Total                                       | 9,986             | 8,221 | 1,362 | 620  |

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25 Other assets

|                                     | As at 31 December |        |        |        |
|-------------------------------------|-------------------|--------|--------|--------|
|                                     | Group             |        | Bank   |        |
|                                     | 2007              | 2006   | 2007   | 2006   |
| Interest receivable                 | 31,782            | 24,414 | 26,643 | 20,035 |
| Accounts receivable and prepayments | 29,996            | 18,370 | 8,180  | 5,605  |
| Intangible assets <sup>(1)</sup>    | 2,859             | 3,011  | 1,205  | 1,147  |
| Repossessed assets                  | 2,039             | 1,967  | 999    | 1,736  |
| Land use rights <sup>(2)</sup>      | 3,173             | 1,108  | 3,173  | 1,108  |
| Goodwill                            | 1,752             | 1,878  | –      | –      |
| Others                              | 2,037             | 2,822  | 1,112  | 641    |
| Total                               | 73,638            | 53,570 | 41,312 | 30,272 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25 Other assets (Continued)

(1) *Intangible assets*

#### Group

|                                    | Aircraft firm<br>orders and options | Computer software<br>and others | Total |
|------------------------------------|-------------------------------------|---------------------------------|-------|
| <b>Year ended 31 December 2007</b> |                                     |                                 |       |
| Opening net book amount            | 1,813                               | 1,198                           | 3,011 |
| Additions                          | –                                   | 922                             | 922   |
| Amortisation                       | –                                   | (703)                           | (703) |
| Transfer (out)/in                  | (263)                               | 10                              | (253) |
| Exchange difference                | (118)                               | –                               | (118) |
| Closing net book amount            | 1,432                               | 1,427                           | 2,859 |
| <b>Year ended 31 December 2006</b> |                                     |                                 |       |
| Opening net book amount            | –                                   | 1,383                           | 1,383 |
| Acquisition of a subsidiary        | 1,856                               | –                               | 1,856 |
| Additions                          | –                                   | 329                             | 329   |
| Amortisation                       | –                                   | (520)                           | (520) |
| Transfer (out)/in                  | (47)                                | 6                               | (41)  |
| Exchange difference                | 4                                   | –                               | 4     |
| Closing net book amount            | 1,813                               | 1,198                           | 3,011 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25 Other assets (Continued)

(1) *Intangible assets (Continued)*

**Bank**

*Computer software and others*

|                         | As at 31 December |       |
|-------------------------|-------------------|-------|
|                         | 2007              | 2006  |
| Opening net book amount | 1,147             | 1,329 |
| Additions               | 625               | 329   |
| Amortisation            | (577)             | (520) |
| Transfer in             | 10                | 9     |
| Closing net book amount | 1,205             | 1,147 |

(2) *Land use rights*

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

**Group and Bank**

|                                          | As at 31 December |       |
|------------------------------------------|-------------------|-------|
|                                          | 2007              | 2006  |
| Held outside Hong Kong                   |                   |       |
| on long-term lease (over 50 years)       | 51                | 27    |
| on medium-term lease (10-50 years)       | 3,091             | 1,068 |
| on short-term lease (less than 10 years) | 31                | 13    |
|                                          | 3,173             | 1,108 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 26 Due to banks and other financial institutions

|                                                        | As at 31 December |         |                |         |
|--------------------------------------------------------|-------------------|---------|----------------|---------|
|                                                        | Group             |         | Bank           |         |
|                                                        | 2007              | 2006    | 2007           | 2006    |
| Due to domestic banks and other financial institutions | <b>304,137</b>    | 157,005 | <b>299,895</b> | 153,017 |
| Due to overseas banks and other financial institutions | <b>20,711</b>     | 21,772  | <b>11,936</b>  | 11,359  |
| Total                                                  | <b>324,848</b>    | 178,777 | <b>311,831</b> | 164,376 |

### 27 Due to central banks

|                           | As at 31 December |        |               |        |
|---------------------------|-------------------|--------|---------------|--------|
|                           | Group             |        | Bank          |        |
|                           | 2007              | 2006   | 2007          | 2006   |
| Foreign exchange deposits | <b>49,713</b>     | 41,956 | <b>49,713</b> | 41,956 |
| Others                    | <b>40,772</b>     | 418    | <b>40,741</b> | 393    |
| Total                     | <b>90,485</b>     | 42,374 | <b>90,454</b> | 42,349 |

### 28 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited and Bank of China Macau Branch are note issuing banks for Hong Kong dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits of funds to the Hong Kong and Macau governments respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Limited and Bank of China Macau branch.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 29 Certificates of deposit and placements from banks and other financial institutions

|                                                                 | As at 31 December |         |                |         |
|-----------------------------------------------------------------|-------------------|---------|----------------|---------|
|                                                                 | Group             |         | Bank           |         |
|                                                                 | 2007              | 2006    | 2007           | 2006    |
| Certificates of deposit                                         | <b>3,321</b>      | 4,304   | <b>1,296</b>   | 1,305   |
| Placements from domestic banks and other financial institutions | <b>201,379</b>    | 89,110  | <b>183,054</b> | 81,125  |
| Placements from overseas banks and other financial institutions | <b>43,782</b>     | 53,494  | <b>67,540</b>  | 64,166  |
| Total placements from banks and other financial institutions    | <b>245,161</b>    | 142,604 | <b>250,594</b> | 145,291 |
| Total                                                           | <b>248,482</b>    | 146,908 | <b>251,890</b> | 146,596 |

Included in placements from banks and other financial institutions are amounts received from counterparties under repurchase agreements categorised as follows:

#### Group and Bank

|                  | As at 31 December |        |
|------------------|-------------------|--------|
|                  | 2007              | 2006   |
| Repurchase of:   |                   |        |
| Discounted bills | <b>13</b>         | –      |
| Debt securities  | <b>103,767</b>    | 51,245 |
| Precious metals  | <b>6,984</b>      | –      |
| Total            | <b>110,764</b>    | 51,245 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30 Financial liabilities at fair value through profit or loss

|                                                   | As at 31 December |        |        |        |
|---------------------------------------------------|-------------------|--------|--------|--------|
|                                                   | Group             |        | Bank   |        |
|                                                   | 2007              | 2006   | 2007   | 2006   |
| Trading liabilities                               | 5,371             | 7,504  | 2,102  | 3,943  |
| Financial liabilities<br>designated at fair value |                   |        |        |        |
| Structured deposits                               | 81,284            | 91,221 | 70,653 | 77,498 |
| Total                                             | 86,655            | 98,725 | 72,755 | 81,441 |

Trading liabilities represent the quoted debt securities that the Group intends to buy back in the short term.

Certain structured deposits are matched with derivatives as part of a documented risk management strategy to mitigate market risks, including interest rate and currency risk. An accounting mismatch would arise if the structured deposits were accounted for at amortised cost and the related derivatives were measured at fair value, therefore, structured deposits have been designated at fair value with movements in fair value recorded in the income statement.

There were no significant changes in the Group's or Bank's credit risk and therefore there were no significant gains or losses attributed to changes in credit risk for those financial liabilities designated at fair value in 2007 (2006: nil).

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 31 Due to customers

|                              | As at 31 December |           |                  |           |
|------------------------------|-------------------|-----------|------------------|-----------|
|                              | Group             |           | Bank             |           |
|                              | 2007              | 2006      | 2007             | 2006      |
| Demand deposits              |                   |           |                  |           |
| Corporate customers          | <b>1,174,722</b>  | 979,653   | <b>1,066,740</b> | 883,939   |
| Individual customers         | <b>810,720</b>    | 770,583   | <b>600,219</b>   | 565,893   |
|                              | <b>1,985,442</b>  | 1,750,236 | <b>1,666,959</b> | 1,449,832 |
| Time deposits                |                   |           |                  |           |
| Corporate customers          | <b>694,995</b>    | 549,118   | <b>533,366</b>   | 434,924   |
| Individual customers         | <b>1,545,001</b>  | 1,645,914 | <b>1,251,950</b> | 1,334,994 |
|                              | <b>2,239,996</b>  | 2,195,032 | <b>1,785,316</b> | 1,769,918 |
| Security and margin deposits | <b>174,673</b>    | 145,850   | <b>165,614</b>   | 138,815   |
| Total                        | <b>4,400,111</b>  | 4,091,118 | <b>3,617,889</b> | 3,358,565 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 Bonds issued

|                                                             |                   |                   |               | As at 31 December |        |        |        |
|-------------------------------------------------------------|-------------------|-------------------|---------------|-------------------|--------|--------|--------|
|                                                             |                   |                   |               | Group             |        | Bank   |        |
|                                                             |                   |                   |               | 2007              | 2006   | 2007   | 2006   |
| Issue date                                                  | Maturity date     | Interest rate     |               |                   |        |        |        |
| Subordinated bonds issued:                                  |                   |                   |               |                   |        |        |        |
| 2004 RMB Debt Securities <sup>(1)</sup>                     |                   |                   |               |                   |        |        |        |
| First Tranche                                               | 7 July 2004       | 20 July 2014      | 4.87%         | 14,070            | 14,070 | 14,070 | 14,070 |
| Second Tranche                                              | 22 October 2004   | 16 November 2014  | 4.94%         | 12,000            | 12,000 | 12,000 | 12,000 |
| 2005 RMB Debt Securities <sup>(2)</sup>                     |                   |                   |               |                   |        |        |        |
| First Tranche                                               | 18 February 2005  | 4 March 2015      | 4.83%         | 15,930            | 15,930 | 15,930 | 15,930 |
| Second Tranche (fixed rate)                                 | 18 February 2005  | 4 March 2020      | 5.18%         | 9,000             | 9,000  | 9,000  | 9,000  |
| Second Tranche (floating rate)                              | 18 February 2005  | 4 March 2015      | floating rate | 9,000             | 9,000  | 9,000  | 9,000  |
| Subtotal                                                    |                   |                   |               | 60,000            | 60,000 | 60,000 | 60,000 |
| Other bonds issued:                                         |                   |                   |               |                   |        |        |        |
| 1994 US Dollar Debt Securities                              | 10 March 1994     | 15 March 2014     | 8.25%         | 162               | 173    | 162    | 173    |
| 2007 RMB Debt Securities issued in Hong Kong <sup>(3)</sup> |                   |                   |               |                   |        |        |        |
| Tranche A                                                   | 28 September 2007 | 28 September 2009 | 3.15%         | 1,581             | –      | 2,000  | –      |
| Tranche B                                                   | 28 September 2007 | 28 September 2010 | 3.35%         | 695               | –      | 1,000  | –      |
| Others                                                      |                   |                   |               | 1,953             | –      | –      | –      |
| Subtotal                                                    |                   |                   |               | 4,391             | 173    | 3,162  | 173    |
| Total <sup>(4)</sup>                                        |                   |                   |               | 64,391            | 60,173 | 63,162 | 60,173 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 Bonds issued (Continued)

- (1) Pursuant to Yinfu [2004] No. 35 "Response of the PBOC on the Issuance of Subordinated Bonds by Bank of China" and Yinjianfu [2004] No. 81 "Response of the CBRC on the Issuance of Subordinated Bonds by Bank of China", the Bank issued the following subordinated bonds:

The first tranche of subordinated bonds issued on 7 July 2004 has a maturity of 10 years, with a fixed coupon rate of 4.87%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 20 July 2009. If the Bank does not exercise this option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 2.8%, and shall remain fixed for the remaining term of the bonds.

The second tranche of subordinated bonds issued on 22 October 2004 has a maturity of 10 years, with a fixed coupon rate of 4.94%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 16 November 2009. If the Bank does not exercise this option, the coupon rate for the second 5-year period shall be the original coupon rate plus 3%, and shall be fixed for the remaining term of the bonds.

These RMB denominated bonds are subordinated to all other claims on the assets of the Bank, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds qualify for inclusion as supplementary capital in accordance with the relevant CBRC guidelines.

- (2) The first tranche of subordinated bonds issued on 18 February 2005 has a maturity of 10 years, with a fixed coupon rate of 4.83%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2010. If the Bank does not exercise this option, the annual coupon rate of the bonds for the second 5-year period shall be the original coupon rate plus 3%, and shall remain fixed for the remaining term of the bonds.

The second tranche of subordinated bonds issued on 18 February 2005 comprises a fixed rate portion and a floating rate portion.

The second tranche of fixed rate subordinated bonds issued on 18 February 2005 has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the annual coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3%, and shall remain fixed through the maturity date.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 Bonds issued (Continued)

The second tranche of floating rate subordinated bonds issued on 18 February 2005 has a maturity of 10 years, with a floating rate based on a 7-day domestic money market rate, paid semi-annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2010. If the Bank does not exercise this option, the floating rate for the second 5-year period shall be the original floating rate plus 1%.

These RMB denominated bonds are subordinated to all other claims on the assets of the Bank, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds qualify for inclusion as supplementary capital in accordance with the relevant CBRC guidelines.

- (3) On 28 September 2007, the Bank issued the following Renminbi bonds in Hong Kong:
- The A tranche of bonds issued has a maturity of 2 years, with a fixed coupon rate of 3.15%, paid semi-annually; and
  - The B tranche of bonds issued has a maturity of 3 years, with a fixed coupon rate of 3.35%, paid semi-annually.
- (4) The Group has not had any default of principal, interest or redemption amounts with respect to its bonds issued during the year (2006: nil).

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 33 Other borrowings

|                                                | As at 31 December |        |        |        |
|------------------------------------------------|-------------------|--------|--------|--------|
|                                                | Group             |        | Bank   |        |
|                                                | 2007              | 2006   | 2007   | 2006   |
| Special purpose borrowings <sup>(1)</sup>      |                   |        |        |        |
| Export credit loans                            | 10,646            | 13,955 | 10,646 | 13,955 |
| Foreign government loans                       | 16,186            | 17,577 | 16,186 | 17,577 |
| Other subsidized loans                         | 11,289            | 14,474 | 11,289 | 14,474 |
|                                                | 38,121            | 46,006 | 38,121 | 46,006 |
| Term loans and other borrowings <sup>(2)</sup> | 13,587            | 17,392 | –      | –      |
| Total <sup>(3)</sup>                           | 51,708            | 63,398 | 38,121 | 46,006 |

- (1) Special purpose borrowings are long-term borrowings in multiple currencies from foreign governments and/or banks in the form of export credit loans, foreign government loans and other subsidized loans. These special purpose loans are normally used to finance projects of special commercial purpose in the PRC and the Bank is obliged to repay these loans when they fall due.

As of 31 December 2007, the maturity of special purpose borrowings ranges from within 1 month to 35 years. The interest bearing special purpose borrowings bear floating and fixed interest rates ranging from 0.20% to 7.95% (2006: 0.20% to 9.20%). These terms are consistent with those related to similar development loans from these entities.

- (2) These term loans and other borrowings relate to the financing of the aircraft leasing business of BOC Aviation, a wholly owned subsidiary of the Bank.

As at 31 December 2007, these term loans and other borrowings have a maturity ranging from within 1 month to 11 years and bear floating and fixed interest rates ranging from 5.05% to 7.56% (2006: 5.55% to 7.56%). The term loans and other borrowings of RMB13.4 billion (2006: 16.2 billion) are secured by aircraft of the Group. See Note V.23.

- (3) The Group has not had any default of principal, interest or redemption amounts with respect to the other borrowings during the year (2006: nil).

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 34 Retirement benefit obligations

The Group recognises a liability for the present value of the unfunded obligation relating to retirement benefits payable to certain retired and early retired employees in the consolidated balance sheet. As of 31 December 2007 and 2006, the actuarial liabilities in relation to the retirement benefit obligation for employees who retired prior to 31 December 2003 and early retirement obligation existing at the respective year-end dates were RMB2,234 million (2006: RMB2,129 million) and RMB4,997 million (2006: RMB5,315 million), which were assessed by Hewitt Associates LLC, using the projected unit credit method.

The amounts of retirement benefit costs recognised in the income statement comprise:

#### Group and Bank

|                                           | Year ended 31 December |       |
|-------------------------------------------|------------------------|-------|
|                                           | 2007                   | 2006  |
| Interest cost                             | 250                    | 236   |
| Net actuarial loss recognised in the year | 552                    | 1,155 |
| Total (Note V.8)                          | 802                    | 1,391 |

The movements of the net liabilities recognised in the balance sheets are as follow:

#### Group and Bank

|                                            | 2007    | 2006  |
|--------------------------------------------|---------|-------|
| As at 1 January                            | 7,444   | 7,052 |
| Amounts recognised in the income statement | 802     | 1,391 |
| Benefits paid                              | (1,015) | (999) |
| As at 31 December                          | 7,231   | 7,444 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 34 Retirement benefit obligations (Continued)

Primary assumptions used:

|                                | As at 31 December |       |
|--------------------------------|-------------------|-------|
|                                | 2007              | 2006  |
| Discount rate                  | 4.43%             | 3.60% |
| Pension benefit inflation rate |                   |       |
| – Normal retiree               | 8.0% ~ 4.0%       | 2.0%  |
| – Early retiree                | 4.5% ~ 4.0%       | 2.0%  |
| Medical benefit inflation rate | 5.50%             | 7.12% |
| Retiring age                   |                   |       |
| – Male                         | 60                | 60    |
| – Female                       | 50/55             | 50/55 |

Assumptions regarding future mortality experience are based on China Insurance Industry Experience Mortality Table (published historical statistics in China).

### 35 Share option schemes

#### (1) *Share Appreciation Rights Plan*

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of the grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted during the year ended 31 December 2007 and 2006.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 35 Share option schemes (Continued)

#### (2) *Share Option Scheme and Sharesave Plan*

On 10 July 2002, the equity holders of BOCHK Holdings, approved and adopted two share option schemes, namely, the Share Option Scheme and the Sharesave Plan.

Since the establishment of the Share Option Scheme and the Sharesave Plan, no options were granted during the period from 10 July 2002 to 31 December 2007.

#### (3) *BOCHK Holdings Pre-listing Share Option Scheme*

On 5 July 2002, certain of the Bank's directors, senior management personnel and employees of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOCHK (BVI)"), the immediate holding company of BOCHK Holdings, pursuant to a Pre-listing Share Option Scheme to purchase from BOCHK (BVI) an aggregate of 31,132,600 previously issued and outstanding shares of BOCHK Holdings for HKD8.50 per share. These options, with a ten-year term, vest ratably over four years from 25 July 2002. No further offers to grant any options under the Pre-listing Share Option Scheme will be made. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The Group has taken advantage of the transitional provision of IFRS 2 under which the required recognition and measurements have not been applied to the options granted to employees of the Group on or before 7 November 2002.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 35 Share option schemes (Continued)

#### (3) BOCHK Holdings Pre-listing Share Option Scheme (Continued)

Details of the movement of share options outstanding are as follows:

|                                                     | Directors<br>and key<br>management | Other<br>employees | Others*     | Total<br>number of<br>share options |
|-----------------------------------------------------|------------------------------------|--------------------|-------------|-------------------------------------|
| As at 1 January 2007                                | 6,381,500                          | 6,058,050          | 1,446,000   | 13,885,550                          |
| Transferred                                         | (1,446,000)                        | –                  | 1,446,000   | –                                   |
| Less: Share options<br>exercised during<br>the year | (119,500)                          | (1,969,350)        | (1,446,000) | (3,534,850)                         |
| As at 31 December 2007                              | 4,816,000                          | 4,088,700          | 1,446,000   | 10,350,700                          |
| As at 1 January 2006                                | 6,142,500                          | 10,619,250         | 1,446,000   | 18,207,750                          |
| Transferred                                         | 239,000                            | (239,000)          | –           | –                                   |
| Less: Share options<br>exercised during<br>the year | –                                  | (4,278,700)        | –           | (4,278,700)                         |
| Share options<br>lapsed during<br>the year          | –                                  | (43,500)           | –           | (43,500)                            |
| As at 31 December 2006                              | 6,381,500                          | 6,058,050          | 1,446,000   | 13,885,550                          |

\* These represent share options held by former directors or former employees of BOCHK Holdings.

Regarding the share options exercised during the years ended 31 December 2007 and 2006 the weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD19.38 (equivalent to RMB18.85), and HKD16.50 (equivalent to RMB16.91) respectively.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 36 Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts:

|                                 | As at 31 December |         |        |        |
|---------------------------------|-------------------|---------|--------|--------|
|                                 | Group             |         | Bank   |        |
|                                 | 2007              | 2006    | 2007   | 2006   |
| Deferred income tax assets      | 17,647            | 21,396  | 18,080 | 21,843 |
| Deferred income tax liabilities | (2,894)           | (3,029) | (44)   | (32)   |
|                                 | 14,753            | 18,367  | 18,036 | 21,811 |

The movements of the deferred income tax asset and liability account are as follows:

|                                        | Year ended 31 December |        |         |        |
|----------------------------------------|------------------------|--------|---------|--------|
|                                        | Group                  |        | Bank    |        |
|                                        | 2007                   | 2006   | 2007    | 2006   |
| As at 1 January                        | 18,367                 | 18,368 | 21,811  | 20,366 |
| (Charged)/credited to income statement | (4,368)                | 91     | (4,246) | 807    |
| Credited to available for sale reserve | 569                    | 622    | 465     | 632    |
| Acquisition of a subsidiary            | –                      | (786)  | –       | –      |
| Exchange differences                   | 185                    | 72     | 6       | 6      |
| As at 31 December                      | 14,753                 | 18,367 | 18,036  | 21,811 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 36 Deferred income taxes (Continued)

Deferred income tax assets and liabilities, before offsetting qualifying amounts, are attributable to the following items:

|                                                                                                                   | As at 31 December |         |         |         |
|-------------------------------------------------------------------------------------------------------------------|-------------------|---------|---------|---------|
|                                                                                                                   | Group             |         | Bank    |         |
|                                                                                                                   | 2007              | 2006    | 2007    | 2006    |
| <b>Deferred income tax assets</b>                                                                                 |                   |         |         |         |
| Asset impairment allowances                                                                                       | 17,840            | 20,205  | 17,668  | 20,103  |
| Fair value changes of financial assets at fair value through profit or loss, and derivative financial instruments | 3,854             | 2,914   | 3,854   | 2,914   |
| Fair value changes of available for sale securities credited to equity                                            | 2,030             | 568     | 1,897   | 544     |
| Statutory asset revaluation surplus                                                                               | 1,493             | 2,539   | 1,493   | 2,539   |
| Pension and other benefit costs                                                                                   | 1,278             | 821     | 1,278   | 821     |
| Other temporary differences                                                                                       | 414               | 699     | 298     | 91      |
|                                                                                                                   | 26,909            | 27,746  | 26,488  | 27,012  |
| <b>Deferred income tax liabilities</b>                                                                            |                   |         |         |         |
| Fair value changes of financial assets at fair value through profit or loss, and derivative financial instruments | (7,532)           | (5,124) | (7,532) | (5,124) |
| Fair value changes of available for sale securities charged to equity                                             | (893)             | –       | (888)   | –       |
| Depreciation of property and equipment                                                                            | (1,093)           | (1,688) | (32)    | (69)    |
| Revaluation of property and investment property                                                                   | (2,089)           | (1,928) | –       | –       |
| Other temporary differences                                                                                       | (549)             | (639)   | –       | (8)     |
|                                                                                                                   | (12,156)          | (9,379) | (8,452) | (5,201) |
|                                                                                                                   | 14,753            | 18,367  | 18,036  | 21,811  |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 36 Deferred income taxes (Continued)

The deferred income tax (charge)/credit in the income statement comprises the following temporary differences:

#### Group

|                                                                                                                   | Year ended 31 December |         |
|-------------------------------------------------------------------------------------------------------------------|------------------------|---------|
|                                                                                                                   | 2007                   | 2006    |
| Asset impairment allowances                                                                                       | (2,365)                | 2,461   |
| Fair value changes of financial assets at fair value through profit or loss, and derivative financial instruments | (1,468)                | (1,825) |
| Statutory asset revaluation surplus                                                                               | (1,046)                | (101)   |
| Pension and other benefit costs                                                                                   | 457                    | 243     |
| Revaluation of property and investment property                                                                   | (161)                  | (18)    |
| Other temporary differences                                                                                       | 215                    | (669)   |
| Total                                                                                                             | (4,368)                | 91      |

### 37 Other liabilities

|                                                  | As at 31 December |         |         |         |
|--------------------------------------------------|-------------------|---------|---------|---------|
|                                                  | Group             |         | Bank    |         |
|                                                  | 2007              | 2006    | 2007    | 2006    |
| Items in the process of clearance and settlement | 83,042            | 65,510  | 68,436  | 50,877  |
| Interest payable                                 | 37,869            | 33,834  | 35,632  | 31,747  |
| Salary and welfare payable                       | 10,130            | 9,052   | 7,957   | 7,652   |
| Payable to the MOF <sup>(1)</sup>                | 4,340             | 8,680   | 4,340   | 8,680   |
| Allowance for litigation losses <sup>(2)</sup>   | 1,614             | 1,985   | 1,449   | 1,783   |
| Insurance liabilities, net <sup>(3)</sup>        | 23,293            | 16,825  | –       | –       |
| Others                                           | 22,555            | 17,570  | 10,870  | 11,788  |
| Total                                            | 182,843           | 153,456 | 128,684 | 112,527 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 37 Other liabilities (Continued)

(1) Financial restructuring arrangements

As at 31 December 2007, the Group had a liability of RMB4,340 million (2006: RMB8,680 million) to MOF in respect of the excess of the appraised value of the net assets of the Bank as at 31 December 2003 over the amount of the share capital of the Bank as at the date. This liability is non-interest bearing and is to be paid before 31 December 2008.

(2) Movements of allowance for litigation losses are as follows:

|                                      | Group |       | Bank  |       |
|--------------------------------------|-------|-------|-------|-------|
|                                      | 2007  | 2006  | 2007  | 2006  |
| As at 1 January                      | 1,985 | 1,516 | 1,783 | 1,516 |
| Allowance for the year<br>(Note V.7) | 199   | 897   | 191   | 692   |
| Utilised during the year             | (570) | (428) | (525) | (425) |
| As at 31 December<br>(Note V.41)     | 1,614 | 1,985 | 1,449 | 1,783 |

(3) Insurance liabilities, net

**Group**

|                               | As at 31 December |        |
|-------------------------------|-------------------|--------|
|                               | 2007              | 2006   |
| Long term insurance contracts | 21,066            | 14,625 |
| General insurance contracts   | 2,227             | 2,200  |
| Total                         | 23,293            | 16,825 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 38 Share capital and capital reserve

#### Group

|                                                                    | Number of<br>ordinary<br>shares<br>(in millions) | Ordinary<br>shares | Capital<br>reserve | Treasury<br>shares | Total   |
|--------------------------------------------------------------------|--------------------------------------------------|--------------------|--------------------|--------------------|---------|
| As at 1 January 2007                                               | 253,789                                          | 253,839            | 66,617             | (216)              | 320,240 |
| Net change in treasury shares <sup>(1)</sup>                       | 39                                               | –                  | –                  | 171                | 171     |
| Others                                                             | –                                                | –                  | (25)               | –                  | (25)    |
| As at 31 December 2007                                             | 253,828                                          | 253,839            | 66,592             | (45)               | 320,386 |
| As at 1 January 2006                                               | 209,427                                          | 209,427            | (5,954)            | –                  | 203,473 |
| Issue of ordinary shares<br>(net of issuance costs) <sup>(2)</sup> | 44,412                                           | 44,412             | 72,567             | –                  | 116,979 |
| Net change in treasury shares <sup>(1)</sup>                       | (50)                                             | –                  | –                  | (216)              | (216)   |
| Others                                                             | –                                                | –                  | 4                  | –                  | 4       |
| As at 31 December 2006                                             | 253,789                                          | 253,839            | 66,617             | (216)              | 320,240 |

#### Bank

|                                                                    | Number of<br>ordinary<br>shares<br>(in millions) | Ordinary<br>shares | Capital<br>reserve | Treasury<br>shares | Total   |
|--------------------------------------------------------------------|--------------------------------------------------|--------------------|--------------------|--------------------|---------|
| As at 1 January 2007                                               | 253,839                                          | 253,839            | 66,166             | –                  | 320,005 |
| Others                                                             | –                                                | –                  | (4)                | –                  | (4)     |
| As at 31 December 2007                                             | 253,839                                          | 253,839            | 66,162             | –                  | 320,001 |
| As at 1 January 2006                                               | 209,427                                          | 209,427            | (6,054)            | –                  | 203,373 |
| Issue of ordinary shares<br>(net of issuance costs) <sup>(2)</sup> | 44,412                                           | 44,412             | 72,219             | –                  | 116,631 |
| Others                                                             | –                                                | –                  | 1                  | –                  | 1       |
| As at 31 December 2006                                             | 253,839                                          | 253,839            | 66,166             | –                  | 320,005 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 38 Share capital and capital reserve (Continued)

As at 31 December 2007, the Bank's share capital is as follows:

|                                                                      | Number of shares |
|----------------------------------------------------------------------|------------------|
| Domestic listed A shares, par value RMB1.00 per share <sup>(3)</sup> | 177,818,910,740  |
| Overseas listed H shares, par value RMB1.00 per share <sup>(3)</sup> | 76,020,251,269   |
| Total                                                                | 253,839,162,009  |

- (1) As at 31 December 2007, a wholly owned subsidiary of the Group held certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to reserves. The total number of treasury shares as at 31 December 2007 was 11 million (2006: 50 million).
- (2) In 2006, the Bank issued 8,514,415,652 shares to the National Council for Social Security Fund, 29,403,878,000 shares to Hong Kong and overseas investors and 6,493,506,000 shares to the domestic investors.
- (3) All A shares and H shares rank pari passu with the same rights and benefits.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 39 Statutory reserves, general and regulatory reserves and undistributed profits

#### Group

|                                                                   | Statutory<br>reserves | General and<br>regulatory<br>reserves | Undistributed<br>profits | Total    |
|-------------------------------------------------------------------|-----------------------|---------------------------------------|--------------------------|----------|
| As at 1 January 2007                                              | 10,380                | 13,934                                | 38,425                   | 62,739   |
| Net profit                                                        | –                     | –                                     | 56,248                   | 56,248   |
| Appropriation to statutory<br>reserves <sup>(1)</sup>             | 5,068                 | –                                     | (5,068)                  | –        |
| Appropriation to general<br>and regulatory reserve <sup>(2)</sup> | –                     | 10,977                                | (10,977)                 | –        |
| Dividends <sup>(3)</sup>                                          | –                     | –                                     | (10,154)                 | (10,154) |
| Others                                                            | –                     | –                                     | 6                        | 6        |
| As at 31 December 2007                                            | 15,448                | 24,911                                | 68,480                   | 108,839  |
| As at 1 January 2006                                              | 5,987                 | 5,109                                 | 10,188                   | 21,284   |
| Net profit                                                        | –                     | –                                     | 42,830                   | 42,830   |
| Appropriation to statutory<br>reserves <sup>(1)</sup>             | 4,393                 | –                                     | (4,393)                  | –        |
| Appropriation to general<br>and regulatory reserve <sup>(2)</sup> | –                     | 8,828                                 | (8,828)                  | –        |
| Dividends <sup>(3)</sup>                                          | –                     | –                                     | (1,375)                  | (1,375)  |
| Others                                                            | –                     | (3)                                   | 3                        | –        |
| As at 31 December 2006                                            | 10,380                | 13,934                                | 38,425                   | 62,739   |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 39 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

#### Bank

|                                                                   | Statutory<br>reserves | General and<br>regulatory<br>reserves | Undistributed<br>profits | Total    |
|-------------------------------------------------------------------|-----------------------|---------------------------------------|--------------------------|----------|
| As at 1 January 2007                                              | 9,714                 | 11,393                                | 14,385                   | 35,492   |
| Net profit                                                        | –                     | –                                     | 46,269                   | 46,269   |
| Appropriation to statutory<br>reserves <sup>(1)</sup>             | 4,634                 | –                                     | (4,634)                  | –        |
| Appropriation to general<br>and regulatory reserve <sup>(2)</sup> | –                     | 10,632                                | (10,632)                 | –        |
| Dividends <sup>(3)</sup>                                          | –                     | –                                     | (10,154)                 | (10,154) |
| As at 31 December 2007                                            | 14,348                | 22,025                                | 35,234                   | 71,607   |
| As at 1 January 2006                                              | 5,465                 | 2,618                                 | (8,709)                  | (626)    |
| Net profit                                                        | –                     | –                                     | 37,493                   | 37,493   |
| Appropriation to statutory<br>reserves <sup>(1)</sup>             | 4,249                 | –                                     | (4,249)                  | –        |
| Appropriation to general<br>and regulatory reserve <sup>(2)</sup> | –                     | 8,775                                 | (8,775)                  | –        |
| Dividends <sup>(3)</sup>                                          | –                     | –                                     | (1,375)                  | (1,375)  |
| As at 31 December 2006                                            | 9,714                 | 11,393                                | 14,385                   | 35,492   |

(1) Statutory reserves

Under relevant PRC Laws, the Bank is required to transfer 10% of its net profit, as determined under Chinese Accounting Standards (CAS), to a non-distributable Statutory surplus reserve. Appropriation to the Statutory surplus reserve may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The Statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of Statutory surplus reserve after such capitalisation is not less than 25% of the share capital.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 39 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

#### (1) Statutory reserves (Continued)

In addition, some overseas branches and subsidiaries are required to transfer certain percentages of their net profit to the Statutory surplus reserve as stipulated by local banking authorities.

In accordance with a resolution of the Board of Directors dated 25 March 2008, the Bank appropriated 10% of the net profit for the year ended 31 December 2007 as reported in the PRC statutory financial statements to the Statutory surplus reserves, amounting to RMB4,626 million (2006: RMB4,249 million).

#### (2) General and regulatory reserves

Pursuant to Caijin [2005] No. 49 “Measures on General Provision for Bad and Doubtful Debts for Financial Institutions” issued by MOF in addition to the specific allowance for impairment losses. The Bank is required to establish and maintain a general reserve within Equity holders’ equity, through the appropriation of income to address unidentified potential impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by this policy. The Bank intends to achieve the required reserve level by the end of 2008.

In accordance with a resolution dated 25 March 2008 and on the basis of the Bank’s profit for the year ended 31 December 2007, the Board of Directors of the Bank approved the appropriation of RMB10,626 million (2006: RMB8,764 million) to the general reserves for the year ended 31 December 2007. The total amount of general reserves maintained as at 31 December 2007 has achieved 0.7% of the aggregate amount of risk assets (2006: 0.4%).

The Regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited, a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2007 and 2006, the reserve amount set aside by BOC Hong Kong (Group) Limited was RMB2,875 million and RMB2,533 million respectively.

#### (3) Dividends

A dividend of RMB10,154 million in respect of 2006 profits was approved by the equity holders of the Bank at the Annual General Meeting held on 14 June 2007.

A dividend of RMB0.10 per share in respect of 2007 profits, amounting to a total dividend of RMB25,384 million is to be proposed for approval at the Annual General Meeting to be held on 19 June 2008. These financial statements do not reflect this dividend payable in liabilities.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 40 Reserve for fair value changes of available for sale securities

|                                                                         | As at 31 December |       |          |         |
|-------------------------------------------------------------------------|-------------------|-------|----------|---------|
|                                                                         | Group             |       | Bank     |         |
|                                                                         | 2007              | 2006  | 2007     | 2006    |
| As at 1 January                                                         | 2,009             | 1,899 | (1,038)  | 280     |
| Net changes in fair value <sup>(1)</sup>                                | (17,585)          | (1)   | (22,461) | (2,237) |
| Net impairment charges transferred to income statement                  | 10,368            | –     | 10,271   | –       |
| Net fair value changes transferred to income statement on derecognition | 3,166             | (508) | 7,059    | 287     |
| Deferred income taxes                                                   | 536               | 619   | 465      | 632     |
| As at 31 December                                                       | (1,506)           | 2,009 | (5,704)  | (1,038) |

- (1) The net changes in fair value of available for sale securities are mainly a result of changes in the fair value of RMB debt securities due to movements in the interest rates, changes in the fair value of equity investments and changes in the fair value of foreign currency securities.

### 41 Contingent liabilities and commitments

#### (1) Legal proceedings

As at 31 December 2007, the Group was involved in certain lawsuits as defendants arising from its normal business operations. As at 31 December 2007, provisions of RMB1,614 million (2006: RMB1,985 million) were made based on court judgments or the advice of counsel (See Note V.37). After consulting legal professionals, management of the Group believes that the ultimate outcome of these lawsuits will not have a material impact on the financial position or operations of the Group.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 41 Contingent liabilities and commitments (Continued)

#### (2) Assets pledged

Assets pledged as collateral for repurchase, short positions and precious metals swaps agreements with other banks and financial institutions are set forth in the tables below. As at 31 December 2007, the Group and the Bank had such repurchase, short positions and precious metals swaps agreements amounting to RMB114,742 million (2006: RMB54,806 million) and RMB111,473 million (2006: RMB51,245 million) respectively. All such agreements mature within twelve months from inception.

|                 | As at 31 December |        |         |        |
|-----------------|-------------------|--------|---------|--------|
|                 | Group             |        | Bank    |        |
|                 | 2007              | 2006   | 2007    | 2006   |
| Precious metals | 7,982             | —      | 7,982   | —      |
| Bills           | 714               | —      | 714     | —      |
| Debt securities | 107,046           | 55,212 | 103,454 | 51,632 |
| Total           | 115,742           | 55,212 | 112,150 | 51,632 |

#### (3) Collateral accepted

The Group accepts cash collateral and accepts security collateral that it is permitted to sell or re-pledge in connection with its reverse repurchase agreements and securities lending transactions. As at 31 December 2007, the fair value of cash collateral and security collateral accepted by the Group and the Bank amounted to RMB33,876 million (2006: RMB77,657 million). As at 31 December 2007, both the Group and the Bank had an obligation to return security collateral that it has sold with a fair value of RMB1,890 million (2006: RMB3,728 million).

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 41 Contingent liabilities and commitments (Continued)

#### (4) Capital commitments

|                                   | As at 31 December |        |       |       |
|-----------------------------------|-------------------|--------|-------|-------|
|                                   | Group             |        | Bank  |       |
|                                   | 2007              | 2006   | 2007  | 2006  |
| Property and equipment            |                   |        |       |       |
| Contracted but not provided for   | 43,384            | 37,925 | 622   | 2,454 |
| Authorised but not contracted for | 1,260             | 1,536  | 1,232 | 1,531 |
| Intangible assets                 |                   |        |       |       |
| Contracted but not provided for   | 1,011             | 816    | 914   | 756   |
| Authorised but not contracted for | 255               | –      | 119   | –     |
| Total                             | 45,910            | 40,277 | 2,887 | 4,741 |

#### (5) Operating leases

Under the irrevocable operating lease contracts, the minimum rental payments that should be paid by the Group and the Bank in the future are summarised as follows:

|                    | As at 31 December |       |       |       |
|--------------------|-------------------|-------|-------|-------|
|                    | Group             |       | Bank  |       |
|                    | 2007              | 2006  | 2007  | 2006  |
| Within one year    | 1,852             | 1,604 | 1,467 | 1,286 |
| One to two years   | 1,473             | 1,281 | 1,213 | 1,069 |
| Two to three years | 1,101             | 969   | 991   | 863   |
| Above three years  | 3,033             | 2,832 | 3,000 | 2,808 |
| Total              | 7,459             | 6,686 | 6,671 | 6,026 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 41 Contingent liabilities and commitments (Continued)

#### (6) Certificate Treasury Bond redemption commitments

The Bank is entrusted by the MOF to underwrite certain Certificate Treasury Bonds. The investors of Certificate Treasury Bonds have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificate Treasury Bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2007, the principal value of the bonds amounts to RMB61,439 million (2006: RMB84,500 million). The original maturities of these bonds vary from 3 to 5 years and management expects the amount of redemption before the maturity dates of those bonds through the Bank will not be material.

The MOF will not provide funding for the early redemption of these Certificate Treasury Bonds on a back-to-back basis but will pay interest and repay the principal at maturity.

#### (7) Credit commitments

|                                               | As at 31 December |           |           |         |
|-----------------------------------------------|-------------------|-----------|-----------|---------|
|                                               | Group             |           | Bank      |         |
|                                               | 2007              | 2006      | 2007      | 2006    |
| Loan commitments <sup>(i)</sup>               |                   |           |           |         |
| with an original maturity of under one year   | 228,484           | 212,179   | 101,186   | 98,392  |
| with an original maturity of one year or over | 337,515           | 258,392   | 279,408   | 211,520 |
| Acceptances                                   | 214,758           | 217,093   | 207,987   | 212,163 |
| Letters of guarantee issued                   | 423,771           | 290,205   | 424,343   | 286,050 |
| Letters of credit issued                      | 130,334           | 109,083   | 109,783   | 93,613  |
| Others                                        | 685               | 870       | 568       | 490     |
| Total                                         | 1,335,547         | 1,087,822 | 1,123,275 | 902,228 |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 41 Contingent liabilities and commitments (Continued)

#### (7) Credit commitments (Continued)

- (i) Loan commitments represent general credit facility limits for our corporate customers. These credit facilities may be drawn in the form of cash advances or the issuance of letters of credit, acceptances or letters of guarantee.

Credit risk weighted amounts of contingent liabilities and commitments

#### Group

|                                        | As at 31 December |         |
|----------------------------------------|-------------------|---------|
|                                        | 2007              | 2006    |
| Contingent liabilities and commitments | <b>484,879</b>    | 413,678 |

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

The credit risk weighted amounts stated above have not taken into account the effects of netting arrangements.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 42 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

#### Group

|                                                        | As at 31 December |         |
|--------------------------------------------------------|-------------------|---------|
|                                                        | 2007              | 2006    |
| Cash and due from banks                                | 70,249            | 38,805  |
| Balances with central banks                            | 156,707           | 101,776 |
| Placements with banks and other financial institutions | 282,837           | 305,618 |
| Short term bills and notes                             | 19,144            | 73,745  |
| Total                                                  | 528,937           | 519,944 |

### 43 Related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or other entities. The Group is subject to the control of the State Council of the PRC Government through Huijin.

#### (1) Transactions with the parent company and other companies controlled by the parent company

##### (a) Transactions with the parent company

Huijin became the equity holder of the Bank from 30 December 2003. As of December 31 2007, Huijin owned a 67.49% equity interest in the Bank.

#### Huijin deposit

|                                   | 2007      | 2006      |
|-----------------------------------|-----------|-----------|
| As at 1 January                   | 22,060    | 38,869    |
| Deposits received during the year | 99,619    | 288,128   |
| Deposits repaid during the year   | (100,087) | (304,937) |
| As at 31 December                 | 21,592    | 22,060    |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 43 Related party transactions (Continued)

(1) *Transactions with the parent company and other companies controlled by the parent company (Continued)*

(b) *Transactions with other companies controlled by the parent company*

Huijin also has controlling equity interests in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of its business. These include trading assets, investment securities and money market transactions.

The related interest rate range and the outstanding balances with these companies as of 31 December 2007 and 2006 are as follows:

|                                                                                 | 2007            | 2006    |
|---------------------------------------------------------------------------------|-----------------|---------|
| Balances at the end of the year:                                                |                 |         |
| Financial assets at fair value through profit or loss and investment securities | <b>2,742</b>    | 1,762   |
| Due from banks and other financial institutions                                 | <b>332</b>      | 121     |
| Placements with banks and other financial institutions                          | <b>1,669</b>    | 1,662   |
| Due to banks and other financial institutions                                   | <b>(5,159)</b>  | (1,971) |
| Placements from banks and other financial institutions                          | <b>(20,638)</b> | (106)   |

|                                                                                 | 2007               | 2006        |
|---------------------------------------------------------------------------------|--------------------|-------------|
| Interest rate ranges at the end of the year:                                    |                    |             |
| Financial assets at fair value through profit or loss and investment securities | <b>1.00%-7.16%</b> | 3.15%-6.54% |
| Due from banks and other financial institutions                                 | <b>0.72%-5.33%</b> | 0.00%-5.40% |
| Placements with banks and other financial institutions                          | <b>1.00%-7.04%</b> | 2.40%-6.05% |
| Due to banks and other financial institutions                                   | <b>0.00%-3.45%</b> | 0.00%-3.00% |
| Placements from banks and other financial institutions                          | <b>0.01%-6.07%</b> | 0.99%-4.25% |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 43 Related party transactions (Continued)

#### (2) Transactions with government agencies, authorities and other state controlled entities

The Bank is subject to the control of the State Council of the PRC Government through Huijin, which also directly and indirectly controls a significant number of entities through its government authorities, agencies and affiliates. The Group enters into extensive banking transactions with government authorities, agencies and affiliates and other state controlled entities in the normal course of business and commercial terms.

Transactions conducted with government agencies, authorities and other state controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Certificate Treasury Bonds issued by government agencies through the Group's branch network, foreign exchange and interest rate derivative transactions, lending, provision of credit and guarantees and deposit taking.

The details of transactions and balances with government agencies, authorities and other state controlled entities conducted in the ordinary course of business are set out below, other than those disclosed elsewhere in this financial statements.

|                                                                                 | 2007      | 2006      |
|---------------------------------------------------------------------------------|-----------|-----------|
| Balances at the end of the year:                                                |           |           |
| Due from banks and other financial institutions                                 | 1,995     | 3,499     |
| Placements with banks and other financial institutions                          | 44,270    | 42,963    |
| Financial assets at fair value through profit or loss and investment securities | 355,225   | 349,173   |
| Loans and advances to customers <sup>(a)(c)</sup>                               | 593,487   | 576,653   |
| Due to banks and other financial institutions                                   | (219,191) | (124,466) |
| Placements from banks and other financial institutions                          | (166,020) | (104,486) |
| Due to customers <sup>(b)(c)</sup>                                              | (537,307) | (464,088) |

|                                                                                 | As at 31 December |          |
|---------------------------------------------------------------------------------|-------------------|----------|
|                                                                                 | 2007              | 2006     |
| Allowance for impairment losses:                                                |                   |          |
| Placements with banks and other financial institutions                          | (390)             | (499)    |
| Financial assets at fair value through profit or loss and investment securities | (148)             | (152)    |
| Individually assessed loans and advances <sup>(a)</sup>                         | (10,176)          | (11,988) |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 43 Related party transactions (Continued)

#### (2) *Transactions with government agencies, authorities and other state controlled entities (Continued)*

|                                                                                    | 2007                | 2006         |
|------------------------------------------------------------------------------------|---------------------|--------------|
| Interest rate ranges at the end of the year:                                       |                     |              |
| Due from banks and other financial institutions                                    | <b>0.72%-9.75%</b>  | 0.00%-11.00% |
| Placements with banks and other financial institutions                             | <b>0.30%-10.20%</b> | 0.07%-7.40%  |
| Financial assets at fair value through profit or loss<br>and investment securities | <b>1.00%-8.25%</b>  | 0.48%-8.25%  |
| Loans and advances to customers <sup>(a)</sup>                                     | <b>0.20%-18.00%</b> | 0.20%-18.24% |
| Due to banks and other financial institutions                                      | <b>0.00%-6.00%</b>  | 0.00%-4.82%  |
| Placements from banks and other financial institutions                             | <b>0.01%-8.58%</b>  | 0.01%-7.60%  |
| Due to customers <sup>(b)</sup>                                                    | <b>0.00%-7.85%</b>  | 0.00%-8.40%  |

- (a) The disclosures above are in relation to related party transactions with the Group's 3,000 largest outstanding corporate loans to individual customers. Given that these large loans accounted for the majority of the Group's total corporate loan balances, management is of the opinion that this disclosure demonstrates the potential effect on the Group's lending to other state controlled entities.
- (b) The disclosures above are in relation to related party transactions with the Group's 4,000 largest corporate deposits. Given that these deposits accounted for a significant portion of the Group's total corporate deposit balances, management is of the opinion that this disclosure demonstrates the potential effect on the Group's deposits from other state controlled entities.
- (c) The maturity analysis set out in Note III.5.2 gives an overview of the average turnover of the loan portfolio and deposits which provides a basis for assessing the average turnover of the loans and advances to related parties and deposits from related parties.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 43 Related party transactions (Continued)

#### (3) Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The outstanding balances with associates and joint ventures as of the respective year end dates are stated below:

|                                                        | 2007     | 2006    |
|--------------------------------------------------------|----------|---------|
| Balances as at the end of the year:                    |          |         |
| Loans and advances                                     | 908      | 814     |
| Deposits                                               | (11,367) | (3,289) |
| Placements with banks and other financial institutions | 520      | –       |
| Placements from banks and other financial institutions | (2)      | –       |

#### (4) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During 2007 and 2006, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2007 and 2006 is detailed as follows:

|                                | Year ended 31 December |      |
|--------------------------------|------------------------|------|
|                                | 2007                   | 2006 |
| Short-term employment benefits | 31                     | 29   |
| Post-employment benefits       | 1                      | 1    |
| Total                          | 32                     | 30   |

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 44 Balances with subsidiaries

Included in the following captions of the Bank's balance sheets are balances with subsidiaries:

|                                                        | As at 31 December |          |
|--------------------------------------------------------|-------------------|----------|
|                                                        | 2007              | 2006     |
| Due from banks                                         | 557               | 3,234    |
| Placements with other banks and financial institutions | 44,136            | 36,673   |
| Due to other banks                                     | (7,322)           | (4,111)  |
| Placements from other banks and financial institutions | (27,871)          | (11,647) |

### 45 Acquisition of subsidiaries

On 15 December 2006, Bank of China Group Investment Limited, a wholly owned subsidiary of the Bank, acquired 100% of the share capital of BOC Aviation (formerly known as Singapore Aircraft Leasing Enterprise Pte. Ltd) for cash consideration of USD978 million (RMB7,627 million equivalent).

The operating income of the acquired company was not significant to the Group for the year ended 31 December 2006.

## V NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 45 Acquisition of subsidiaries (Continued)

The details of the fair value of the assets and liabilities acquired and goodwill arising as at 15 December 2006 are as follows:

|                                                        | Fair value | Acquiree's<br>carrying<br>amount |
|--------------------------------------------------------|------------|----------------------------------|
| Cash and cash equivalents                              | 2,254      | 2,254                            |
| Property and equipment                                 | 21,901     | 21,693                           |
| Intangible assets                                      | 1,856      | –                                |
| Other assets                                           | 428        | 428                              |
| Deferred income tax liabilities                        | (777)      | (260)                            |
| Other liabilities                                      | (19,910)   | (19,910)                         |
| Net assets acquired                                    | 5,752      | 4,205                            |
| Goodwill                                               | 1,875      |                                  |
| Total purchase consideration paid by cash              | 7,627      |                                  |
| Less: Cash and cash equivalents in subsidiary acquired | (2,254)    |                                  |
| Net cash outflow on acquisition                        | 5,373      |                                  |

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise. Fair value of assets and liabilities acquired were based on discounted cash flow models.

There was no provision required in connection with this acquisition.

# Unaudited Supplementary Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

## 1 Liquidity ratios

|                                                                         | As at 31 December |        |
|-------------------------------------------------------------------------|-------------------|--------|
|                                                                         | 2007              | 2006   |
| RMB current assets to RMB current liabilities                           | <b>32.58%</b>     | 37.65% |
| Foreign currency current assets to foreign currency current liabilities | <b>75.91%</b>     | 64.14% |

Liquidity ratio is calculated in accordance with the relevant provisions of PBOC and CBRC. Financial data are based on the Chinese Accounting Standards 2006. Data for the year 2006 are not adjusted retrospectively.

## 2 Currency concentrations

### Group

|                               | Equivalent in millions of Renminbi |                  |                  |                    |
|-------------------------------|------------------------------------|------------------|------------------|--------------------|
|                               | USD                                | HKD              | Others           | Total              |
| <b>As at 31 December 2007</b> |                                    |                  |                  |                    |
| Spot assets                   | <b>1,206,954</b>                   | <b>702,629</b>   | <b>299,503</b>   | <b>2,209,086</b>   |
| Spot liabilities              | <b>(664,232)</b>                   | <b>(715,603)</b> | <b>(281,562)</b> | <b>(1,661,397)</b> |
| Forward purchases             | <b>502,008</b>                     | <b>140,720</b>   | <b>203,885</b>   | <b>846,613</b>     |
| Forward sales                 | <b>(1,046,006)</b>                 | <b>(42,170)</b>  | <b>(211,771)</b> | <b>(1,299,947)</b> |
| Net options position*         | <b>4,212</b>                       | <b>(816)</b>     | <b>(3,487)</b>   | <b>(91)</b>        |
| Net long position             | <b>2,936</b>                       | <b>84,760</b>    | <b>6,568</b>     | <b>94,264</b>      |
| Net structural position       | <b>20,410</b>                      | <b>24,446</b>    | <b>4,329</b>     | <b>49,185</b>      |
| <b>As at 31 December 2006</b> |                                    |                  |                  |                    |
| Spot assets                   | 1,293,462                          | 673,839          | 323,070          | 2,290,371          |
| Spot liabilities              | (698,037)                          | (692,564)        | (281,209)        | (1,671,810)        |
| Forward purchases             | 354,019                            | 132,513          | 144,966          | 631,498            |
| Forward sales                 | (694,752)                          | (47,811)         | (182,891)        | (925,454)          |
| Net options position*         | (133,930)                          | (1,446)          | (1,456)          | (136,832)          |
| Net long position             | 120,762                            | 64,531           | 2,480            | 187,773            |
| Net structural position       | 23,300                             | 23,173           | 4,072            | 50,545             |

Included in the spot assets and liabilities and net long position above are those positions related to the Group's overseas subsidiaries and branches. Such positions are excluded from the net structural position above.

## 2 Currency concentrations (Continued)

On the basis that the positions are excluded from the spot assets, spot liabilities and net long position, and are included in the net structural position, the positions would be as follows. All exchange differences arising from the translation of the net structural position shown below are recognised under the "Currency translation differences" as a separate component of equity, and therefore do not impact the Group's profit or loss.

|                               | Equivalent in millions of Renminbi |                |                |                |
|-------------------------------|------------------------------------|----------------|----------------|----------------|
|                               | USD                                | HKD            | Others         | Total          |
| <b>As at 31 December 2007</b> |                                    |                |                |                |
| Net long/(short) position     | <b>21,939</b>                      | <b>3,822</b>   | <b>(5,371)</b> | <b>20,390</b>  |
| Net structural position**     | <b>1,407</b>                       | <b>105,384</b> | <b>16,268</b>  | <b>123,059</b> |
| <b>As at 31 December 2006</b> |                                    |                |                |                |
| Net long/(short) position     | 142,546                            | (9,691)        | (8,317)        | 124,538        |
| Net structural position       | 1,516                              | 97,395         | 14,869         | 113,780        |

\* The net option position is calculated using the delta equivalent approach as set out in the requirements of the banking return of the Hong Kong Monetary Authority.

\*\* This includes RMB position held by foreign operations.

## 3 Segmental information

### (1) Impaired loans by geographical area

|                          | As at 31 December 2007 |                    |                      |
|--------------------------|------------------------|--------------------|----------------------|
|                          | Impaired loans         | Specific provision | Collective provision |
| Chinese Mainland         | <b>89,437</b>          | <b>51,349</b>      | <b>12,241</b>        |
| Hong Kong and Macau      | <b>695</b>             | <b>393</b>         | <b>60</b>            |
| Other overseas locations | <b>185</b>             | <b>95</b>          | <b>33</b>            |
|                          | <b>90,317</b>          | <b>51,837</b>      | <b>12,334</b>        |

|                          | As at 31 December 2006 |                    |                      |
|--------------------------|------------------------|--------------------|----------------------|
|                          | Impaired loans         | Specific provision | Collective provision |
| Chinese Mainland         | 100,716                | 53,118             | 12,611               |
| Hong Kong and Macau      | 2,334                  | 669                | 89                   |
| Other overseas locations | 182                    | 59                 | 35                   |
|                          | 103,232                | 53,846             | 12,735               |

### 3 Segmental information (Continued)

#### (2) Overdue loans by geographical area

For the purposes of the table below, loans and advances to customers are considered overdue if either principal or interest payment is overdue.

|                                                                                                                                 | As at 31 December |          |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------|----------|
|                                                                                                                                 | 2007              | 2006     |
| Chinese Mainland                                                                                                                | <b>88,956</b>     | 114,003  |
| Hong Kong and Macau                                                                                                             | <b>7,409</b>      | 4,360    |
| Other overseas locations                                                                                                        | <b>236</b>        | 191      |
|                                                                                                                                 | <b>96,601</b>     | 118,554  |
| Less: gross loans and advances to customers which have been overdue for less than 3 months                                      | <b>(33,407)</b>   | (44,336) |
|                                                                                                                                 | <b>63,194</b>     | 74,218   |
| Impairment allowance – individually assessed for loans and advances to customers which have been overdue for more than 3 months | <b>(38,119)</b>   | (36,492) |

Collateral held against loans and advances to customers which have been overdue for more than 3 months mainly include cash deposit and mortgages over properties.

### 4 Cross-border claims

The Group is principally engaged in business operations within Chinese Mainland, and regards all claims on third parties outside Chinese Mainland as cross-border claims.

Cross-border claims include balances with central banks, placements with banks and other financial institutions, government certificates of indebtedness for bank notes issued, financial assets at fair value through profit or loss, loans and advances to customers and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made 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.

## 4 Cross-border claims (Continued)

|                                         | Banks and<br>other financial<br>institutions | Public<br>sector<br>entities | Others  | Total     |
|-----------------------------------------|----------------------------------------------|------------------------------|---------|-----------|
| <b>As at 31 December 2007</b>           |                                              |                              |         |           |
| Asia Pacific excluding Chinese Mainland |                                              |                              |         |           |
| – Hong Kong                             | 33,364                                       | 21,063                       | 365,654 | 420,081   |
| – Other Asia Pacific locations          | 125,787                                      | 46,095                       | 65,030  | 236,912   |
|                                         | 159,151                                      | 67,158                       | 430,684 | 656,993   |
| North and South America                 | 172,011                                      | 200,586                      | 147,870 | 520,467   |
| Europe                                  | 373,463                                      | 4,315                        | 42,022  | 419,800   |
| Middle East and Africa                  | 1,689                                        | 329                          | 3,632   | 5,650     |
|                                         | 706,314                                      | 272,388                      | 624,208 | 1,602,910 |
| <b>As at 31 December 2006</b>           |                                              |                              |         |           |
| Asia Pacific excluding Chinese Mainland |                                              |                              |         |           |
| – Hong Kong                             | 22,622                                       | 22,438                       | 351,754 | 396,814   |
| – Other Asia Pacific locations          | 122,713                                      | 60,160                       | 58,340  | 241,213   |
|                                         | 145,335                                      | 82,598                       | 410,094 | 638,027   |
| North and South America                 | 270,758                                      | 239,871                      | 168,179 | 678,808   |
| Europe                                  | 357,164                                      | 74,259                       | 62,525  | 493,948   |
| Middle East and Africa                  | 1,936                                        | 314                          | 3,137   | 5,387     |
|                                         | 775,193                                      | 397,042                      | 643,935 | 1,816,170 |

## 5 Gross amount of overdue loans and advances to customers

For the purpose of the table below, loans and advances to customers are considered overdue if either principal or interest payment is overdue.

|                                                                    | As at 31 December |        |
|--------------------------------------------------------------------|-------------------|--------|
|                                                                    | 2007              | 2006   |
| Gross loans and advances to customers which have been overdue for: |                   |        |
| – between 3 and 6 months                                           | <b>4,760</b>      | 8,957  |
| – between 6 and 12 months                                          | <b>9,526</b>      | 15,203 |
| – over 12 months                                                   | <b>48,908</b>     | 50,058 |
|                                                                    | <b>63,194</b>     | 74,218 |
| Percentage:                                                        |                   |        |
| – between 3 and 6 months                                           | <b>0.17%</b>      | 0.37%  |
| – between 6 and 12 months                                          | <b>0.33%</b>      | 0.63%  |
| – over 12 months                                                   | <b>1.72%</b>      | 2.06%  |
|                                                                    | <b>2.22%</b>      | 3.06%  |

## 6 Gross amount of overdue placements with banks and other financial institutions

The gross amount of overdue placements with banks and other financial institutions as at 31 December 2007 and 2006 is not considered material.

# Supplementary Information – Financial Statements

## Prepared in Accordance with CAS

(Amount in millions of Renminbi, unless otherwise stated)

### 1 CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

|                                                                                                                                    | 2007           | 2006     |
|------------------------------------------------------------------------------------------------------------------------------------|----------------|----------|
| Interest income                                                                                                                    | 261,871        | 215,334  |
| Interest expense                                                                                                                   | (109,126)      | (93,963) |
| <b>Net interest income</b>                                                                                                         | <b>152,745</b> | 121,371  |
| Fee and commission income                                                                                                          | 31,554         | 17,139   |
| Fee and commission expense                                                                                                         | (4,066)        | (2,816)  |
| <b>Net fee and commission income</b>                                                                                               | <b>27,488</b>  | 14,323   |
| Net trading losses                                                                                                                 | (662)          | (1,544)  |
| Net (losses)/gains on investment securities                                                                                        | (15,526)       | 1,132    |
| Other operating income                                                                                                             | 16,624         | 10,792   |
| <b>Operating income</b>                                                                                                            | <b>180,669</b> | 146,074  |
| Operating expenses                                                                                                                 | (84,210)       | (67,778) |
| Impairment losses on loans and advances                                                                                            | (8,252)        | (12,342) |
| <b>Operating profit</b>                                                                                                            | <b>88,207</b>  | 65,954   |
| Share of results of associates and joint ventures                                                                                  | 1,263          | 632      |
| Non-operating income, net                                                                                                          | 485            | 1,044    |
| <b>Profit before income tax</b>                                                                                                    | <b>89,955</b>  | 67,630   |
| Income tax expense                                                                                                                 | (27,938)       | (19,572) |
| <b>Profit for the year</b>                                                                                                         | <b>62,017</b>  | 48,058   |
| <b>Attribute to:</b>                                                                                                               |                |          |
| Equity holders of the Bank                                                                                                         | 56,229         | 42,624   |
| Minority interest                                                                                                                  | 5,788          | 5,434    |
|                                                                                                                                    | <b>62,017</b>  | 48,058   |
| Earnings per share for profit attributable to the equity holders of the Bank during the year (Expressed in RMB per ordinary share) |                |          |
| – Basic and diluted                                                                                                                | 0.22           | 0.18     |

## 2 CONSOLIDATED BALANCE SHEET

As at 31 December 2007

|                                                               | As at 31 December |           |
|---------------------------------------------------------------|-------------------|-----------|
|                                                               | 2007              | 2006      |
| <b>ASSETS</b>                                                 |                   |           |
| Cash and due from banks                                       | <b>71,221</b>     | 39,812    |
| Balances with central banks                                   | <b>751,344</b>    | 379,631   |
| Placements with banks and other financial institutions        | <b>386,648</b>    | 399,138   |
| Government certificates of indebtedness for bank notes issued | <b>32,478</b>     | 36,626    |
| Precious metals                                               | <b>44,412</b>     | 42,083    |
| Financial assets at fair value through profit or loss         | <b>124,665</b>    | 115,828   |
| Derivative financial instruments                              | <b>45,839</b>     | 24,837    |
| Loans and advances to customers, net                          | <b>2,754,493</b>  | 2,337,726 |
| Investment securities                                         |                   |           |
| – available for sale                                          | <b>682,995</b>    | 815,178   |
| – held to maturity                                            | <b>446,647</b>    | 461,140   |
| – loans and receivables                                       | <b>458,620</b>    | 500,336   |
| Investment in associates and joint ventures                   | <b>6,779</b>      | 5,931     |
| Property and equipment                                        | <b>81,108</b>     | 81,823    |
| Investment property                                           | <b>9,986</b>      | 8,221     |
| Deferred income tax assets                                    | <b>16,202</b>     | 19,244    |
| Other assets                                                  | <b>82,116</b>     | 64,471    |
| <b>Total assets</b>                                           | <b>5,995,553</b>  | 5,332,025 |

## 2 CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2007

|                                                                                    | As at 31 December |                  |
|------------------------------------------------------------------------------------|-------------------|------------------|
|                                                                                    | 2007              | 2006             |
| <b>LIABILITIES</b>                                                                 |                   |                  |
| Due to banks and other financial institutions                                      | 324,848           | 178,777          |
| Due to central banks                                                               | 90,485            | 42,374           |
| Bank notes in circulation                                                          | 32,605            | 36,823           |
| Certificates of deposit and placements from banks and other financial institutions | 248,482           | 146,908          |
| Financial liabilities at fair value through profit or loss                         | 86,655            | 98,725           |
| Derivative financial instruments                                                   | 27,262            | 14,323           |
| Due to customers                                                                   | 4,400,111         | 4,091,118        |
| Bonds issued                                                                       | 64,391            | 60,173           |
| Other borrowings                                                                   | 51,708            | 63,398           |
| Current tax liabilities                                                            | 21,045            | 18,149           |
| Retirement benefit obligations                                                     | 7,231             | 7,444            |
| Deferred income tax liabilities                                                    | 2,894             | 3,029            |
| Other liabilities                                                                  | 182,843           | 153,459          |
| <b>Total liabilities</b>                                                           | <b>5,540,560</b>  | <b>4,914,700</b> |
| <b>EQUITY</b>                                                                      |                   |                  |
| <b>Capital and reserves attributable to equity holders of the Bank</b>             |                   |                  |
| Share capital                                                                      | 253,839           | 253,839          |
| Capital reserve                                                                    | 76,524            | 76,549           |
| Statutory reserves                                                                 | 15,448            | 10,380           |
| General and regulatory reserves                                                    | 24,911            | 13,934           |
| Undistributed profits                                                              | 65,223            | 35,186           |
| Reserve for fair value changes of available for sale securities                    | (2,229)           | 1,303            |
| Currency translation differences                                                   | (8,905)           | (3,689)          |
| Treasury shares                                                                    | (45)              | (216)            |
|                                                                                    | <b>424,766</b>    | <b>387,286</b>   |
| <b>Minority interest</b>                                                           | <b>30,227</b>     | <b>30,039</b>    |
| <b>Total equity</b>                                                                | <b>454,993</b>    | <b>417,325</b>   |
| <b>Total equity and liabilities</b>                                                | <b>5,995,553</b>  | <b>5,332,025</b> |

### 3 RECONCILIATION OF DIFFERENCES BETWEEN CAS AND IFRS FINANCIAL INFORMATION

|                                                                                                               | Equity            |         | Net profit attributed to equity holders of the Bank |        |
|---------------------------------------------------------------------------------------------------------------|-------------------|---------|-----------------------------------------------------|--------|
|                                                                                                               | As at 31 December |         | For the year ended 31 December                      |        |
|                                                                                                               | 2007              | 2006    | 2007                                                | 2006   |
| CAS figures                                                                                                   | <b>454,993</b>    | 417,325 | <b>56,229</b>                                       | 42,624 |
| Adjustments for accounting standard differences:                                                              |                   |         |                                                     |        |
| – Reversal of asset revaluation surplus and corresponding depreciation/amortisation and others <sup>(1)</sup> | <b>(5,781)</b>    | (6,521) | <b>742</b>                                          | 307    |
| – Deferred tax impact <sup>(2)</sup>                                                                          | <b>1,445</b>      | 2,152   | <b>(723)</b>                                        | (101)  |
| Subtotal                                                                                                      | <b>(4,336)</b>    | (4,369) | <b>19</b>                                           | 206    |
| IFRS figures                                                                                                  | <b>450,657</b>    | 412,956 | <b>56,248</b>                                       | 42,830 |

**(1) Reversal of asset revaluation surplus and corresponding depreciation/amortisation**

Under CAS, the Group recorded an asset revaluation adjustment of RMB10,432 million as of 31 December 2003, related principally to land use right, in connection with the Joint Stock Reform Plan. The revalued land use right will be amortised over their remaining useful lives. Under IFRS, relevant asset revaluation surplus and corresponding depreciation/amortisation recognised under CAS should be reversed.

**(2) Deferred tax impact**

As described above in Note 1, there are differences between the carrying value of relevant assets under CAS and under IFRS. Under IFRS, the tax base of relevant assets is the revalued amount, which resulted in the recognition of deferred tax assets accordingly.

# Documents Available for Inspection

- I. The original Financial Statements signed by the Bank's Chairman, President, Vice President responsible for finance and General Manager of the Accounting Department
- II. The original auditor's report signed by the accounting firm
- III. The originals of all documents and announcements published by the Bank on *China Securities*, *Shanghai Securities* and *Securities Times* during the reporting period
- IV. The Articles of Association of the Bank

# Reference for Shareholders

## Financial Calendar for 2008

|                                      |                                                    |
|--------------------------------------|----------------------------------------------------|
| Announcement of 2007 annual results  | 26 March 2008                                      |
| Annual report of 2007                | to be mailed to H-share holders in late April 2008 |
| Annual General Meeting of 2007       | to be held on 19 June 2008                         |
| Announcement of 2008 interim results | to be announced not later than 31 August 2008      |

## Annual General Meeting

The Bank has scheduled to hold the Annual General Meeting of 2007 at Central Garden Hotel, No. 18 Gaoliangqiaoxiejie, Xizhimenwai Ave., Haidian District, Beijing, and Island Ballroom, Island Shangri-La, Hong Kong, Level 5, Pacific Place, Supreme Court Road, Central, Hong Kong at 3 p.m. Thursday on 19 June 2008.

## Dividends

The Board has recommended a final dividend of RMB0.10 per share (before tax) subject to the approval of shareholders at the Annual General Meeting of 2007.

## Share Information

### Listing

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange on 1 June and 5 July 2006 respectively.

### Ordinary Shares

Issued shares: 253,839,162,009 shares

### Market Value

As of the last trading day in 2007 (28 December 2007 for A Share and 31 December 2007 for H Share), the Bank's market value was RMB1,444.458 billion (based on the closing price of A Shares on 28 December 2007 and closing price of H Shares on 31 December 2007, and exchange rate 100HKD = 93.638 RMB as published by SAFE on 28 December 2007).

### Share Price

|                                                |          |
|------------------------------------------------|----------|
| Closing price of H Shares on 31 December 2007: | HKD 3.78 |
| Closing price of A Shares on 28 December 2007: | RMB 6.61 |
| Highest price of H Shares in 2007:             | HKD 5.27 |
| Lowest price of H Shares in 2007:              | HKD 3.25 |
| Highest price of A Shares in 2007:             | RMB 7.58 |
| Lowest price of A Shares in 2007:              | RMB 4.32 |

## Stock Codes

**Stock name:** Bank of China

### H Shares:

|                          |         |
|--------------------------|---------|
| Hong Kong Stock Exchange | 3988    |
| Reuters                  | 3988.HK |
| Bloomberg                | 3988 HK |

### A Shares:

|                         |           |
|-------------------------|-----------|
| Shanghai Stock Exchange | 601988    |
| Reuters                 | 601988.SS |
| Bloomberg               | 601988 CH |

## Shareholder Enquiry

If a shareholder intends to enquire share transfer, changes of name or address, loss of share certificate and other information concerning the shares held, he/she may write to the Bank at the following address:

### H Shares:

Computershare Hong Kong Investor Services Limited  
 Rooms 1806-1807, 18/F, Hopewell Center, 183 Queen's Road East, Wan Chai, Hong Kong  
 Telephone: (852) 2862 8555  
 Fax: (852) 2865 0990  
 E-mail: [hkinfo@computershare.com.hk](mailto:hkinfo@computershare.com.hk)

### A Shares:

Shanghai Branch of China Securities Depository and Clearing Corporation Limited  
 36F, China Insurance Building, 166 East Lujiazui Road, Pudong New Area, Shanghai  
 Telephone: (86) 021-3887 4800

## Credit Rating (Long Term, Foreign Currency)

|                                          |                      |
|------------------------------------------|----------------------|
| Fitch Ratings:                           | A                    |
| Moody's Investors Services:              | A1                   |
| Rating and Investment Information, Inc.: | A                    |
| Standard & Poor's:                       | A-                   |
| Dagong Global Credit Rating Co., Ltd.:   | AAA (local currency) |

## Index Constituent

Hang Seng Index (with effect from 4 December 2006)  
Hang Seng China H-Financial Index (launched on 27 November 2006)  
Hang Seng China Enterprises Index  
Hang Seng Composite Index (HSCI) Series  
Hang Seng Freefloat Index (HSFI) Series  
MSCI China Index Series  
Shanghai Stock Exchange Index Series  
FTSE/Xinhua China 25 Index  
FTSE/Xinhua Hong Kong Index  
FTSE Index Series

## Investor Enquiry

For H-Share investors, please contact:

Investor Relation Team (Hong Kong) of Bank of China Limited  
52/F, Bank of China Tower, 1 Garden Road, Hong Kong  
Telephone: (852) 2846 2700  
Fax: (852) 2810 5830  
E-mail: [bocir@bank-of-china.com](mailto:bocir@bank-of-china.com)

For A-Share investors, please contact:

Investor Relation Team (Beijing) of Bank of China Limited  
9/F, Bank of China Building, 1 Fuxingmen Nei Dajie, Beijing, China  
Telephone: (8610) 6659 2638  
Fax: (8610) 6659 4568  
E-mail: [bocir@bank-of-china.com](mailto:bocir@bank-of-china.com)

## Other Information

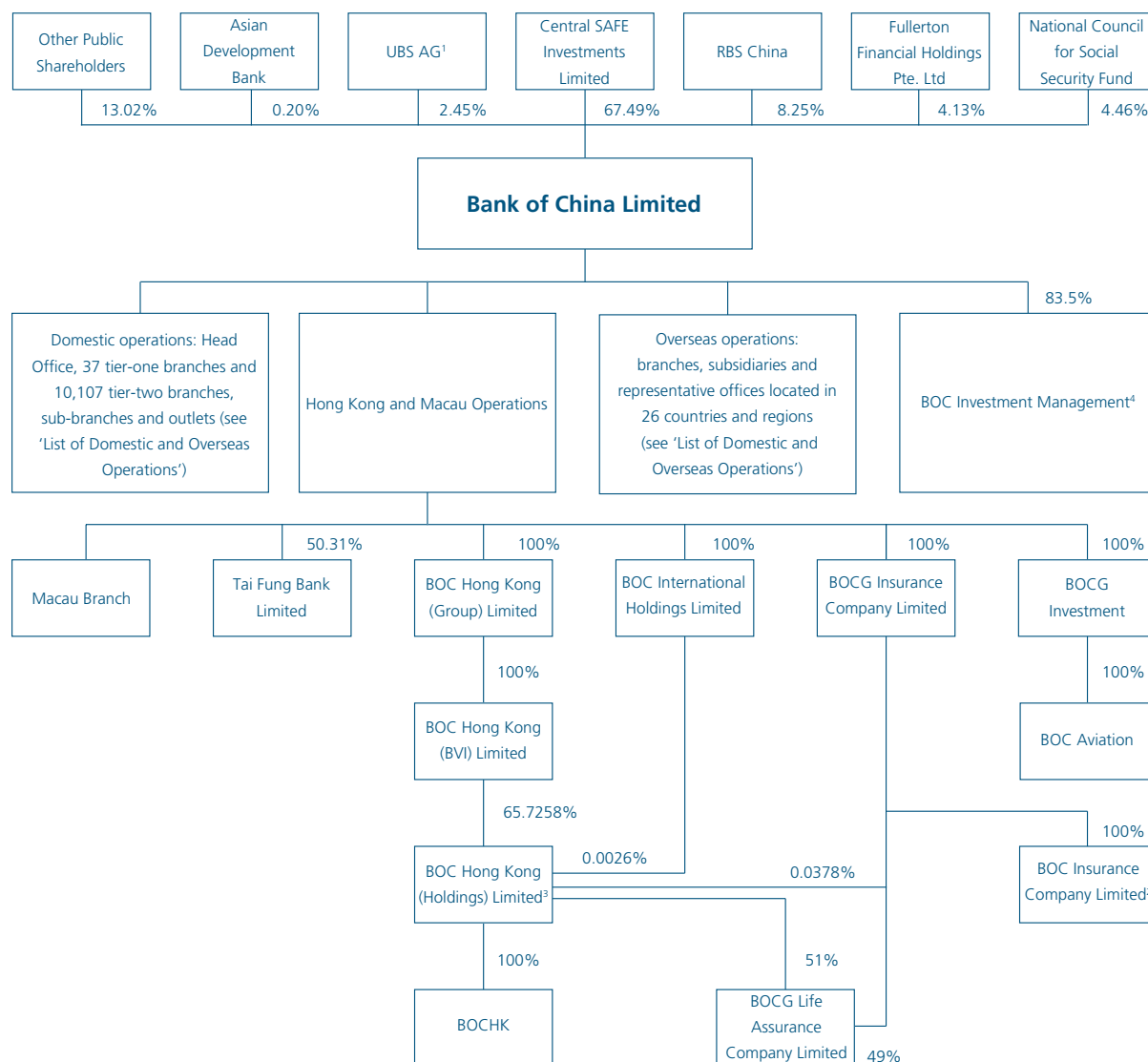
You may obtain a copy of the annual report prepared in accordance with International Financial Reporting Standards by writing to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong), and the annual report prepared in accordance with Chinese Accounting Standards 2006 from the Bank's business places.

The English and Chinese versions of the annual report for 2007 are available on the following websites: [www.boc.cn](http://www.boc.cn), [www.sse.com.cn](http://www.sse.com.cn) and [www.hkexnews.hk](http://www.hkexnews.hk).

If you have any queries about how to obtain copies of the annual report or how to access the document on the Bank's website, please dial the Bank's hotlines at (852) 2862 8633 or (8610) 6659 6688.

# Organisational Chart

The organisational chart of the Group is as follows:



Notes:

1. UBS AG also holds 1,382,542,891 shares of short position, representing 0.54% of the Bank's total issued share capital.
2. Incorporated in the PRC
3. Listed on the Hong Kong Stock Exchange
4. The Bank acquired the 67% and 16.5% stakes in BOCIM held by BOC International (China) Limited and BOC International Holdings Limited respectively on 8 January 2008. BOCIM is a company jointly held by the Bank and Black Rock Inc.

# List of Domestic and Overseas Operations

## MAJOR DOMESTIC OPERATIONS

### HEAD OFFICE

1 FUXINGMEN NEI DAJIE,  
BEIJING,  
CHINA  
POST CODE: 100818  
Subbranches and outlets: 1  
Number of employees: 4,118  
ASSETS SCALE (RMB MILLION): 2,208,962

### BEIJING BRANCH

2 CHAOYANGMEN NEI DAJIE,  
DONGCHENG DISTRICT,  
BEIJING,  
CHINA  
POST CODE: 100010  
Subbranches and outlets: 234  
Number of employees: 7,177  
ASSETS SCALE (RMB MILLION): 343,819

### TIANJIN BRANCH

80 JIEFANG NORTH ROAD,  
HEPING DISTRICT,  
TIANJIN,  
CHINA  
POST CODE: 300040  
Subbranches and outlets: 195  
Number of employees: 4,050  
ASSETS SCALE (RMB MILLION): 90,003

### HEBEI BRANCH

80 XINHUA ROAD,  
SHIJIAZHUANG,  
HEBEI PROV.,  
CHINA  
POST CODE: 050000  
Subbranches and outlets: 527  
Number of employees: 10,152  
ASSETS SCALE (RMB MILLION): 152,710

### SHANXI BRANCH

288 YINGZE DAJIE,  
TAIYUAN,  
SHANXI PROV.,  
CHINA  
POST CODE: 030001  
Subbranches and outlets: 318  
Number of employees: 8,348  
ASSETS SCALE (RMB MILLION): 102,476

### INNER MONGOLIA BRANCH

12 XINHUA DAJIE,  
XIN CHENG DISTRICT,  
HUHHOT,  
INNER MONGOLIA AUTONOMOUS REGION,  
CHINA  
POST CODE: 010010  
Subbranches and outlets: 241  
Number of employees: 4,108  
ASSETS SCALE (RMB MILLION): 58,638

### LIAONING BRANCH

9 ZHOUGSHAN SQUARE,  
ZHONGSHAN DISTRICT,  
DALIAN,  
LIAONING PROV.,  
CHINA  
POST CODE: 116001  
Subbranches and outlets: 455  
Number of employees: 10,711  
ASSETS SCALE (RMB MILLION): 170,990

### JILIN BRANCH

699 XI AN DA LU,  
CHANGCHUN,  
JILIN PROV.,  
CHINA  
POST CODE: 130061  
Subbranches and outlets: 201  
Number of employees: 5,372  
ASSETS SCALE (RMB MILLION): 55,187

### HEILONGJIANG BRANCH

19 HONGJUN STREET,  
NANGANG DISTRICT,  
HARBIN,  
HEILONGJIANG PROV.,  
CHINA  
POST CODE: 150001  
Subbranches and outlets: 239  
Number of employees: 5,969  
ASSETS SCALE (RMB MILLION): 86,128

### SHANGHAI BRANCH

200 MID. YINCHENG RD.,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
POST CODE: 200121  
Subbranches and outlets: 201  
Number of employees: 5,780  
ASSETS SCALE (RMB MILLION): 356,382

### JIANGSU BRANCH

148 ZHONG SHAN NAN LU,  
NANJING,  
JIANGSU PROV.,  
CHINA  
POST CODE: 210005  
Subbranches and outlets: 927  
Number of employees: 17,383  
ASSETS SCALE (RMB MILLION): 388,908

### ZHEJIANG BRANCH

321 FENG QI ROAD,  
HANGZHOU,  
ZHEJIANG PROV.,  
CHINA  
POST CODE: 310003  
Subbranches and outlets: 671  
Number of employees: 13,913  
ASSETS SCALE (RMB MILLION): 288,286

### ANHUI BRANCH

313 MID-CHANGJIANG ROAD,  
HEFEI,  
ANHUI PROV.,  
CHINA  
POST CODE: 230061  
Subbranches and outlets: 362  
Number of employees: 6,184  
ASSETS SCALE (RMB MILLION): 85,159

### FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,  
FUZHOU,  
FUJIAN PROV.,  
CHINA  
POST CODE: 350003  
Subbranches and outlets: 370  
Number of employees: 7,415  
ASSETS SCALE (RMB MILLION): 116,060

### JIANGXI BRANCH

1 ZHANQIAN WEST ROAD,  
NANCHANG,  
JIANGXI PROV.,  
CHINA  
POST CODE: 330002  
Subbranches and outlets: 306  
Number of employees: 6,022  
ASSETS SCALE (RMB MILLION): 66,569

### SHANDONG BRANCH

59 XIANGGANG ZHONG LU,  
QINGDAO,  
SHANDONG PROV.,  
CHINA  
POST CODE: 266071  
Subbranches and outlets: 601  
Number of employees: 13,247  
ASSETS SCALE (RMB MILLION): 251,516

### HENAN BRANCH

40 HUA YUAN ROAD,  
ZHENGZHOU,  
HENAN PROV.,  
CHINA  
POST CODE: 450008  
Subbranches and outlets: 515  
Number of employees: 10,691  
ASSETS SCALE (RMB MILLION): 133,844

### HUBEI BRANCH

65 HUANGSHI ROAD,  
WUHAN,  
HUBEI PROV.,  
CHINA  
POST CODE: 430013  
Subbranches and outlets: 396  
Number of employees: 8,456  
ASSETS SCALE (RMB MILLION): 102,623

**HUNAN BRANCH**

593 FURONG ROAD(M),  
CHANGSHA,  
HUNAN PROV.,  
CHINA  
POST CODE: 410005  
Subbranches and outlets: 400  
Number of employees: 7,461  
ASSETS SCALE (RMB MILLION): 86,817

**GUANGDONG BRANCH**

197 DONGFENG XI LU,  
GUANGZHOU,  
GUANGDONG PROV.,  
CHINA  
POST CODE: 510180  
Subbranches and outlets: 963  
Number of employees: 20,352  
ASSETS SCALE (RMB MILLION): 577,746

**GUANGXI BRANCH**

39 GUCHENG ROAD,  
NANNING,  
GUANGXI ZHUANG AUTONOMOUS REGION,  
CHINA  
POST CODE: 530022  
Subbranches and outlets: 244  
Number of employees: 4,363  
ASSETS SCALE (RMB MILLION): 52,209

**HAINAN BRANCH**

33 DATONG ROAD,  
HAIKOU,  
HAINAN PROV.,  
CHINA  
POST CODE: 570102  
Subbranches and outlets: 89  
Number of employees: 1,948  
ASSETS SCALE (RMB MILLION): 37,045

**SICHUAN BRANCH**

35 MIDDLE RENMIN ROAD (2 DUAN),  
CHENGDU,  
SICHUAN PROV.,  
CHINA  
POST CODE: 610015  
Subbranches and outlets: 460  
Number of employees: 7,753  
ASSETS SCALE (RMB MILLION): 125,200

**GUIZHOU BRANCH**

30 DUSI ROAD,  
GUIYANG,  
GUIZHOU PROV.,  
CHINA  
POST CODE: 550002  
Subbranches and outlets: 102  
Number of employees: 1,995  
ASSETS SCALE (RMB MILLION): 22,619

**YUNNAN BRANCH**

515 BEIJING ROAD,  
KUNMING,  
YUNNAN PROV.,  
CHINA  
POST CODE: 650051  
Subbranches and outlets: 137  
Number of employees: 2,810  
ASSETS SCALE (RMB MILLION): 55,205

**TIBET BRANCH**

7 LINKUO XI LU,  
LHASA,  
TIBET AUTONOMOUS REGION,  
CHINA  
POST CODE: 850000  
Subbranches and outlets: 20  
Number of employees: 563  
ASSETS SCALE (RMB MILLION): 10,802

**SHAANXI BRANCH**

38 JUHUA YUAN DONG DAJIE,  
XI'AN,  
SHAANXI PROV.,  
CHINA  
POST CODE: 710001  
Subbranches and outlets: 260  
Number of employees: 4,552  
ASSETS SCALE (RMB MILLION): 93,588

**GANSU BRANCH**

525 TIANSHUI SOUTH ROAD,  
LANZHOU,  
GANSU PROV.,  
CHINA  
POST CODE: 730000  
Subbranches and outlets: 149  
Number of employees: 2,053  
ASSETS SCALE (RMB MILLION): 32,464

**QINGHAI BRANCH**

218 DONGGUAN STREET,  
XINING,  
QINGHAI PROV.,  
CHINA  
POST CODE: 810000  
Subbranches and outlets: 42  
Number of employees: 776  
ASSETS SCALE (RMB MILLION): 11,016

**NINGXIA BRANCH**

170 JIEFANG XI STREET,  
YINCHUAN,  
NINGXIA HUI AUTONOMOUS REGION,  
CHINA  
POST CODE: 750001  
Subbranches and outlets: 65  
Number of employees: 1,062  
ASSETS SCALE (RMB MILLION): 11,589

**XINJIANG BRANCH**

BANK OF CHINA BUILDING,  
2 DONGFENG ROAD,  
URUMQI,  
XINJIANG UYIGUR AUTONOMOUS REGION,  
CHINA  
POST CODE: 830002  
Subbranches and outlets: 159  
Number of employees: 3,022  
ASSETS SCALE (RMB MILLION): 43,646

**CHONGQING BRANCH**

218 ZHONG SHAN 1 ROAD,  
YU ZHONG DISTRICT,  
CHONGQING,  
CHINA  
POST CODE: 400013  
Subbranches and outlets: 179  
Number of employees: 3,022  
ASSETS SCALE (RMB MILLION): 51,889

**SHENZHEN BRANCH**

INTERNATIONAL FINANCE BUILDING,  
2022 JIANSHE ROAD,  
LUOHU DISTRICT,  
SHENZHEN,  
GUANGDONG PROV.,  
CHINA  
POST CODE: 518005  
Subbranches and outlets: 116  
Number of employees: 4,506  
ASSETS SCALE (RMB MILLION): 236,495

## MAJOR HONG KONG AND MACAU OPERATIONS

### BOC HONG KONG (GROUP) LIMITED

1 GARDEN ROAD,  
HONG KONG  
Subbranches and outlets: 362  
Number of employees: 13,259  
ASSETS SCALE (RMB MILLION): 987,515

### BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BOC OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
Subbranches and outlets: 28  
Number of employees: 682  
ASSETS SCALE (RMB MILLION): 34,792

### BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,  
1 GARDEN,  
HONG KONG  
Subbranches and outlets: 148  
Number of employees: 3,834  
ASSETS SCALE (RMB MILLION): 47,379

### BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,  
71 DES VOEUX ROAD CENTRAL,  
HONG KONG  
Subbranches and outlets: 45  
Number of employees: 1,293  
ASSETS SCALE (RMB MILLION): 5,488

### MACAU BRANCH

BANK OF CHINA BUILDING,  
AVENIDA DOUTOR MARIO SOARES,  
MACAU  
Subbranches and outlets: 25  
Number of employees: 1,111  
ASSETS SCALE (RMB MILLION): 63,586

## MAJOR OVERSEAS OPERATIONS

### ASIA-PACIFIC AREA

#### JSC AB <BANK OF CHINA KAZAKHSTAN>

201, STR. GOGOL,  
050026, ALMATY,  
REPUBLIC OF KAZAKHSTAN  
Subbranches and outlets: 2  
Number of employees: 62  
ASSETS SCALE (RMB MILLION): 439

#### SINGAPORE BRANCH

4 BATTERY ROAD,  
BANK OF CHINA BUILDING,  
SINGAPORE 049908  
Subbranches and outlets: 7  
Number of employees: 291  
ASSETS SCALE (RMB MILLION): 26,583

#### TOKYO BRANCH

BOC BLDG.  
3-4-1 AKASAKA, MINATO-KU,  
TOKYO, 107-0053 JAPAN  
Subbranches and outlets: 4  
Number of employees: 114  
ASSETS SCALE (RMB MILLION): 32,591

#### SEOUL BRANCH

1/2F, YOUNG POONG BLDG.,  
33 SEOULIN-DONG, CHONGRO-GU  
SEOUL 110-752, KOREA  
Subbranches and outlets: 3  
Number of employees: 74  
ASSETS SCALE (RMB MILLION): 9,395

### BANGKOK BRANCH

179/4 BANGKOK CITY TOWER,  
SOUTH SATHORN RD.,  
TUNGMAHAMEX,  
SATHORN DISTRICT,  
BANGKOK 10120, THAILAND  
Subbranches and outlets: 1  
Number of employees: 45  
ASSETS SCALE (RMB MILLION): 1,172

### BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE, & 1st FLOOR,  
PLAZA OSK, 25 JALAN AMPANG,  
50450 KUALA LUMPUR,  
MALAYSIA  
Subbranches and outlets: 1  
Number of employees: 72  
ASSETS SCALE (RMB MILLION): 2,436

### HO CHI MINH CITY BRANCH

19/F., SUN WAH TOWER,  
115 NGUYEN HUE, BLVD., DISTRICT 1,  
HO CHI MINH CITY,  
VIETNAM  
Subbranches and outlets: 1  
Number of employees: 24  
ASSETS SCALE (RMB MILLION): 485

### MANILA BRANCH

G/F. & 36/F. PHILAMLIFE TOWER,  
8767 PASEO DE ROXAS,  
MAKATI CITY, MANILA  
PHILIPPINES  
Subbranches and outlets: 1  
Number of employees: 37  
ASSETS SCALE (RMB MILLION): 635

### JAKARTA BRANCH

TAMARA CENTER SUITE 101&201  
JALAN JEND. SUDIRMAN KAV.24  
JAKARTA 12920, INDONESIA  
Subbranches and outlets: 1  
Number of employees: 39  
ASSETS SCALE (RMB MILLION): 1,288

### SYDNEY BRANCH

39-41 YORK STREET,  
SYDNEY NSW 2000,  
AUSTRALIA  
Subbranches and outlets: 4  
Number of employees: 117  
ASSETS SCALE (RMB MILLION): 8,986

### BANK OF CHINA (AUSTRALIA) LIMITED

39-41 YORK STREET,  
SYDNEY NSW 2000, AUSTRALIA  
Subbranches and outlets: 1  
Number of employees: 3  
ASSETS SCALE (RMB MILLION): 2,758

### BAHRAIN REPRESENTATIVE OFFICE

OFFICE 152, AL JASRAH TOWER,  
DIPLOMATIC AREA BUILDING 95,  
ROAD 1702, BLOCK 317,  
MANAMA KINGDOM OF BAHRAIN  
Subbranches and outlets: 1  
Number of employees: 3

**EUROPE****LONDON BRANCH**

90 CANNON STREET,  
LONDON EC4N 6HA, U.K.  
Subbranches and outlets: 1  
Number of employees: 51  
ASSETS SCALE (RMB MILLION): 51,355

**BANK OF CHINA (UK) LIMITED**

90 CANNON STREET,  
LONDON EC4N 6HA, U.K.  
Subbranches and outlets: 5  
Number of employees: 155  
ASSETS SCALE (RMB MILLION): 13,776

**PARIS BRANCH**

23-25 AVENUE DE LA  
GRANDE ARMEE, 75116, PARIS,  
FRANCE  
Subbranches and outlets: 2  
Number of employees: 57  
ASSETS SCALE (RMB MILLION): 11,670

**FRANKFURT BRANCH**

BOCKENHEIMER LANDSTR. 39,  
D-60325 FRANKFURT AM MAIN,  
GERMANY  
Subbranches and outlets: 2  
Number of employees: 45  
ASSETS SCALE (RMB MILLION): 19,411

**LUXEMBOURG BRANCH**

37/39 BOULEVARD PRINCE  
HENRI L-1724, LUXEMBOURG  
P.O.BOX 114 L-2011,  
LUXEMBOURG  
Subbranches and outlets: 1  
Number of employees: –  
ASSETS SCALE (RMB MILLION): 6,992

**BANK OF CHINA (LUXEMBOURG) S.A.**

37/39 BOULEVARD PRINCE  
HENRI L-1724, LUXEMBOURG  
P.O.BOX 114 L-2011,  
LUXEMBOURG  
Subbranches and outlets: 2  
Number of employees: 41  
ASSETS SCALE (RMB MILLION): 197

**MILAN BRANCH**

VIA SANTA MARGHERITA,  
NO.14/16 20121  
MILANO, ITALY  
Subbranches and outlets: 1  
Number of employees: 26  
ASSETS SCALE (RMB MILLION): 5,292

**BANK OF CHINA (HUNGARY) CLOSE LTD.**

BANK CENTER, 7 SZABADSAG TER,  
1054 BUDAPEST, HUNGARY  
Subbranches and outlets: 1  
Number of employees: 24  
ASSETS SCALE (RMB MILLION): 486

**BANK OF CHINA (ELUOSI)**

6/F, MOSBUSINESS CENTER,  
No. 72, PROSPECT MIRA,  
129110 MOSCOW, RUSSIA  
Subbranches and outlets: 1  
Number of employees: 41  
ASSETS SCALE (RMB MILLION): 943

**AMERICA****NEW YORK BRANCH**

410 MADISON AVENUE  
NEW YORK, NY10017, USA  
Subbranches and outlets: 3  
Number of employees: 282  
ASSETS SCALE (RMB MILLION): 26,741

**BANK OF CHINA (CANADA)**

THE EXCHANGE TOWER,  
130 KING STREET WEST,  
SUITE 2730, P.O.BOX 356,  
TORONTO, ONTARIO,  
CANADA M5X1E1  
Subbranches and outlets: 4  
Number of employees: 95  
ASSETS SCALE (RMB MILLION): 2,300

**GRAND CAYMAN BRANCH**

GRAND PAVILION COMMERCIAL  
CENTER, 802 WEST BAY ROAD,  
P.O.BOX 30995,  
GRAND CAYMAN KY1-1204  
Subbranches and outlets: 1  
Number of employees: 5  
ASSETS SCALE (RMB MILLION): 8,876

**PANAMA BRANCH**

P.O. BOX 0823-01030,  
CALLE MANUEL,  
M.ICAZA NO.14,PANAMA,  
REPUBLIC OF PANAMA  
Subbranches and outlets: 1  
Number of employees: 15  
ASSETS SCALE (RMB MILLION): 277

**SAO PAULO REPRESENTATIVE OFFICE**

AVENIDA PAULISTA,  
1337-21 ANDAR, CJ.212,  
01311-200 SAO PAULO,  
S.P.BRASIL  
Subbranches and outlets: 1  
Number of employees: 3

**AFRICA****BANK OF CHINA (ZAMBIA) LIMITED**

AMANDRA HOUSE,  
BEN BELLA ROAD,  
LUSAKA,  
ZAMBIA,P.O.BOX 34550  
Subbranches and outlets: 1  
Number of employees: 15  
ASSETS SCALE (RMB MILLION): 838

**JOHANNESBURG BRANCH**

4/F., SOUTH TOWER,  
NELSON MANDELA SQUARE,  
SANDOWN, SANDTON,  
SOUTH AFRICA,  
P.O.BOX 782616 SANDTON,  
2146 RSA  
Subbranches and outlets: 1  
Number of employees: 23  
ASSETS SCALE (RMB MILLION): 987

# Definitions

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

|                                   |                                                                                                                                                                  |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Our Bank/the Bank/the Group/we/us | Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited                     |
| Articles of Association           | the performing Articles of Association of the Bank                                                                                                               |
| Asia Financial Holdings Pte. Ltd  | a wholly-owned subsidiary of Temasek Holdings (Private) Limited, now known as Fullerton Financial Holdings Pte. Ltd                                              |
| Basis Point                       | Refer to 0.01 percentage point                                                                                                                                   |
| BOC Aviation                      | BOC Aviation Private Limited (formerly known as Singapore Aircraft Leasing Enterprise Pte. Ltd)                                                                  |
| BOC Insurance                     | Bank of China Insurance Company Limited                                                                                                                          |
| BOCG Insurance                    | Bank of China Group Insurance Company Limited                                                                                                                    |
| BOCG Investment                   | Bank of China Group Investment Limited                                                                                                                           |
| BOCG Life                         | BOC Group Life Assurance Company Limited                                                                                                                         |
| BOCHK                             | Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK Holdings  |
| BOCHK (BVI)                       | BOC Hong Kong (BVI) Limited                                                                                                                                      |
| BOCHK Group                       | BOC Hong Kong (Group) Limited                                                                                                                                    |
| BOCHK Holdings                    | BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong and the ordinary shares of which are listed on the Hong Kong Stock Exchange |
| BOCI                              | BOC International Holdings Limited                                                                                                                               |
| BOCI China                        | BOC International (China) Limited                                                                                                                                |
| BOCI Group                        | BOCI and its subsidiaries and associated companies                                                                                                               |
| BOCI-Prudential                   | BOCI-Prudential Asset Management Limited                                                                                                                         |
| CBRC                              | China Banking Regulatory Commission                                                                                                                              |
| Central and Southern China        | The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan                                 |

|                            |                                                                                                                                                               |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| China Orient               | China Orient Asset Management Corporation                                                                                                                     |
| CSRC                       | China Securities Regulatory Commission                                                                                                                        |
| Eastern China              | The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong                          |
| Hong Kong Listing Rules    | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited                                                                      |
| Hong Kong Stock Exchange   | The Stock Exchange of Hong Kong Limited                                                                                                                       |
| Huijin                     | Central SAFE Investments Limited                                                                                                                              |
| Nanyang                    | Nanyang Commercial Bank Limited                                                                                                                               |
| NCSSF                      | National Council for Social Security Fund, PRC                                                                                                                |
| Northeastern China         | The area including, for the purpose of this report, the branches of Heilongjiang, Jilin and Liaoning                                                          |
| Northern China             | The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and the Head Office                       |
| PBOC                       | People's Bank of China, PRC                                                                                                                                   |
| PRC Commercial Banking Law | the Commercial Banking Law of the People's Republic of China                                                                                                  |
| PRC Company Law            | the Company Law of the People's Republic of China                                                                                                             |
| RBS China                  | RBS China Investments S.à.r.l.                                                                                                                                |
| RBS Group                  | The Royal Bank of Scotland Group plc                                                                                                                          |
| RMB or Renminbi            | Renminbi, the lawful currency of the People's Republic of China                                                                                               |
| SAT                        | State Administration of Taxation, PRC                                                                                                                         |
| SFO                        | Securities and Futures Ordinance of the laws of HKSAR                                                                                                         |
| SHIBOR                     | Shanghai Inter-Bank Offered Rate                                                                                                                              |
| SSE                        | the Shanghai Stock Exchange                                                                                                                                   |
| UBS                        | UBS AG                                                                                                                                                        |
| Western China              | The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang |

## Definitions

### Notes to Financial Highlights:

1. The results of operations and related financial ratios for the year 2003 were adjusted to exclude the net gain of RMB7.40 billion on the disposal of BOCHK Holdings' shares.
2. Non-interest income = net fee and commission income + net trading (losses)/gains + net (losses)/gains on investment securities + other operating income
3. Operating income = net interest income + non-interest income
4. Investment securities include securities available for sale, securities held to maturity, securities classified as loans and receivables and financial assets at fair value through profit or loss.
5. Dividend per share = total dividend ÷ number of ordinary shares in issue at the year-end
6. Net assets per share = capital and reserves attributable to the equity holders of the Bank at the year-end ÷ number of ordinary shares in issue at the year-end
7. Return on average total assets = profit for the year ÷ average total assets. Average total assets = (total assets at the beginning of the year + total assets at the year-end) ÷ 2
8. Return on average equity = Profit attributable to the equity holders of the Bank ÷ average owner's equity. Average owner's equity = (owner's equity, excluding minority interest, at the beginning of the year + owner's equity, excluding minority interest, at the year-end) ÷ 2. As the total owner's equity (excluding minority interest) was less than zero as at 1 January 2003, the ratio for the year 2003 is computed using total equity (excluding minority interest) as at 31 December 2003.
9. Net interest spread = average yield of interest-earning assets – average cost of interest-bearing liabilities. Average yield of interest-earning assets = interest income ÷ average balance of interest-earning assets. Average cost of interest-bearing liabilities = interest expense ÷ average balance of interest-bearing liabilities. Average balances are average daily balances derived from the Bank's management accounts (unaudited).
10. Net interest margin = net interest income ÷ average balance of interest-earning assets. Average balance is average daily balance derived from the Bank's management accounts (unaudited).
11. Loan to deposit ratio = balance of loans at the year-end ÷ balance of due to customers at the year-end
12. Non-interest income to operating income = non-interest income ÷ operating income
13. Cost to income ratio = operating expenses ÷ operating income
14. Identified impaired loans to gross loans = identified impaired loans at the year-end ÷ gross loans at the year-end
15. Allowance for loan impairment losses to identified impaired loans = allowance for loan impairment losses at the year-end ÷ identified impaired loans at the year-end
16. Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at the year-end) ÷ 2
17. Number of employees of the Group includes temporary and contract staff.





北京2008年奥运会银行合作伙伴  
OFFICIAL BANKING PARTNER OF THE BEIJING 2008 OLYMPIC GAMES



## Bank of China Limited

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