中国银行
BANK OF CHINA

Bank of China Limited

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

Stock Code: 3988

Delivering Growth and Excellence

Annual Report 2008

Bank of China was formally established in February 1912 following the approval of Dr. 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 financial industry during a period of turmoil in the country's history, Bank of China was committed to serving the public and developing the nation's financial industry. It made significant achievements 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. While maintaining a strong entrepreneurial spirit, the Bank contributed substantially to the development of the country's foreign trade and the national economy.

In 1994, Bank of China was transformed from a specialised foreign exchange and foreign trade bank into a state-owned commercial bank. Following being selected as a pilot bank for the joint stock reform campaign of state-owned commercial banks in 2003, Bank of China Limited was incorporated in August 2004. It was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first A and H dual listed Chinese commercial bank.

Bank of China Limited is one of China's largest state-controlled commercial banks. It provides a comprehensive range of financial services to customers worldwide. The Bank is involved in commercial banking including corporate banking, personal banking and financial markets business. It is also engaged in investment banking through BOCI, one of its wholly-owned subsidiaries. Its insurance business is run through BOCG Insurance and its subsidiaries and associate companies. The fund management business is undertaken through the Bank's shareholding in BOCIM and the direct investment and investment management business through BOCG Investment, a wholly-owned subsidiary. In 2006, the Bank acquired Singapore Aircraft Leasing Enterprise, a leader in this field in Asia, and renamed it BOC Aviation Private Limited. The Bank thus became the first Chinese bank to be involved in the global aircraft leasing sector. In terms of tier one capital, it ranked 10th among the world's top 1,000 banks by *The Banker* magazine in 2008.

With a history of nearly 100 years in China's financial industry, Bank of China is well-known for business innovation as well as an emphasis on prudence in its operations. It is widely recognised by its peers and customers in international settlement, foreign exchange and trade finance, among other services. Bank of China is the most internationalised bank in China and the forerunner in recruiting international experts and introducing modern business management concepts into its operations with a view to becoming a leading international bank.

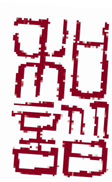
As the sole banking partner of the Beijing 2008 Olympic Games and Paralympic Games, Bank of China provided exclusive onsite financial services at all Olympic venues and designated service outlets. The staff of Bank of China, in a spirit of patriotism and in the pursuit of excellence and quality and efficient professional services, successfully met the challenges encountered to provide outstanding Olympic services and, in doing so, enhanced the corporate image and social value of the Bank.


Integrity


Performance


Responsibility


Innovation


Harmony

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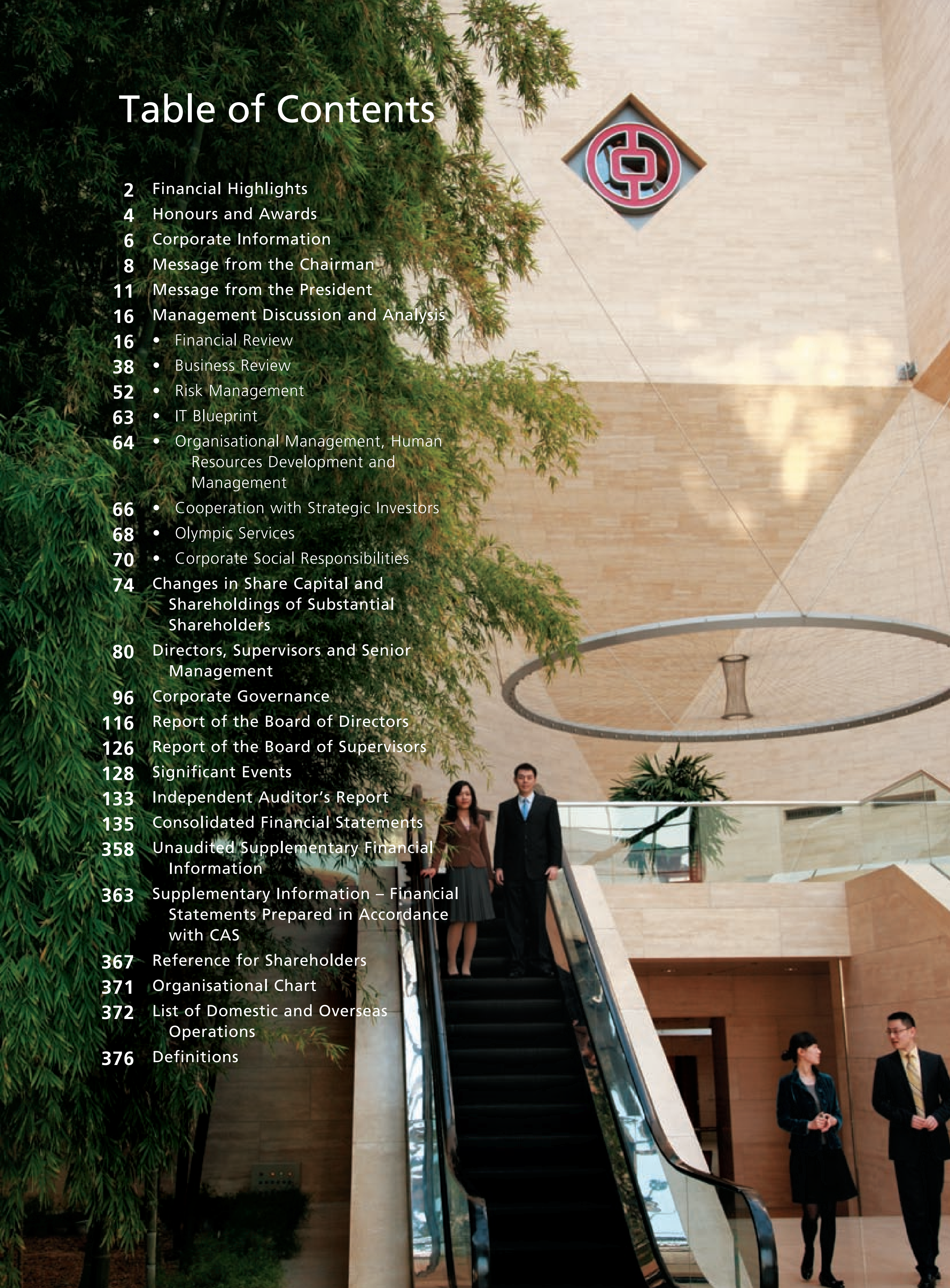


Financial Highlights

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

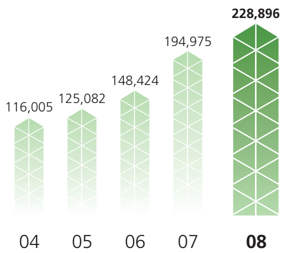
Unit: RMB million

	Note	2008	2007	2006	2005	2004
Results of operations						
Net interest income		**162,936**	152,745	121,371	101,008	88,435
Non-interest income	1	**65,960**	42,230	27,053	24,074	27,570
Operating income	2	**228,896**	194,975	148,424	125,082	116,005
Operating expenses		**(97,412)**	(85,278)	(68,902)	(59,551)	(54,180)
Impairment losses on assets		**(45,031)**	(20,263)	(12,217)	(11,895)	(24,703)
Operating profit		**86,453**	89,434	67,305	53,636	37,122
Profit before income tax		**87,179**	90,697	67,937	53,811	37,263
Profit for the year		**65,894**	62,036	48,264	31,558	27,065
Profit attributable to the equity holders of the Bank		**64,360**	56,248	42,830	25,921	22,301
Total dividend		**32,999**	25,384	10,154	14,112	14,200
Balance sheet items						
Total assets		**6,951,680**	5,991,217	5,327,653	4,740,048	4,265,221
Loans, net		**3,189,652**	2,754,493	2,337,726	2,152,112	2,072,919
Investment securities	3	**1,646,208**	1,712,927	1,892,482	1,683,313	1,321,646
Total liabilities		**6,461,793**	5,540,560	4,914,697	4,484,529	4,037,314
Due to customers		**5,102,111**	4,400,111	4,091,118	3,699,464	3,338,448
Capital and reserves attributable to the equity holders of the Bank		**464,258**	420,430	382,917	226,419	200,755
Share capital		**253,839**	253,839	253,839	209,427	186,390
Per share						
Earnings per share for profit attributable to the equity holders of the Bank (basic and diluted, RMB)		**0.25**	0.22	0.18	0.14	0.12
Dividend per share (before tax, RMB)	4	**0.13**	0.10	0.04	0.07	0.08
Net assets per share (RMB)	5	**1.83**	1.66	1.51	1.08	1.08
Key financial ratios						
Return on average total assets (%)	6	**1.02**	1.10	0.96	0.70	0.66
Return on average equity (%)	7	**14.55**	14.00	14.06	12.14	11.22
Net interest spread (%)	8	**2.45**	2.59	2.28	2.21	2.14
Net interest margin (%)	9	**2.63**	2.76	2.45	2.33	2.24
Loan to deposit ratio (%)	10	**64.60**	64.78	59.45	60.42	64.33
Non-interest income to operating income (%)	11	**28.82**	21.66	18.23	19.25	23.77
Cost to income (%)	12	**37.59**	39.26	42.07	43.07	42.41
Cost to income (calculated under domestic regulations, %)	13	**33.55**	35.59	38.60	40.63	41.30
Capital adequacy ratios						
Core capital adequacy ratio (%)		**10.81**	10.67	11.44	8.08	8.48
Capital adequacy ratio (%)		**13.43**	13.34	13.59	10.42	10.04
Asset quality						
Identified impaired loans to gross loans (%)	14	**2.76**	3.17	4.24	4.90	5.51
Allowance for loan impairment losses to identified impaired loans (%)	15	**117.18**	106.37	91.34	75.92	63.16
Non-performing loans to gross loans (%)	16	**2.65**	3.12	4.04	4.62	5.13
Allowance for loan impairment losses to non-performing loans (%)	17	**121.72**	108.18	96.00	80.55	67.88
Credit cost (%)	18	**0.55**	0.31	0.53	0.52	1.11
Human resources & Organisations						
Number of employees of the Group	19	**249,278**	237,379	232,632	229,742	238,672
Number of employees in the Chinese Mainland		**222,829**	215,334	212,428	211,305	220,999
Number of branches and outlets of the Group		**10,789**	10,834	11,241	11,646	11,909
Number of branches and outlets in the Chinese Mainland		**9,983**	10,145	10,598	11,018	11,306
Exchange rate						
USD/RMB year-end middle rate		**6.8346**	7.3046	7.8087	8.0702	8.2765
EUR/RMB year-end middle rate		**9.6590**	10.6669	10.2665	9.5797	11.2627
HKD/RMB year-end middle rate		**0.8819**	0.9364	1.0047	1.0403	1.0637

Please refer to "Definitions – Notes to Financial Highlights" in this report for notes.

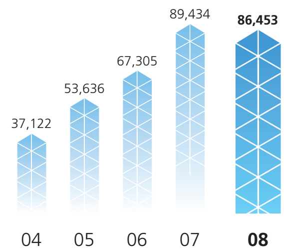
Operating income

RMB Million



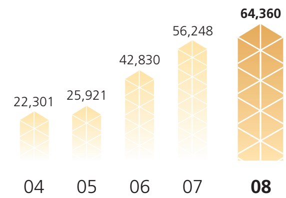
Operating profit

RMB Million



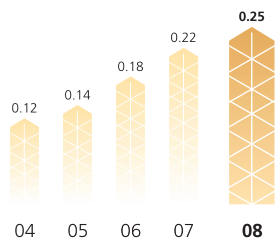
Profit attributable to the equity holders of the Bank

RMB Million



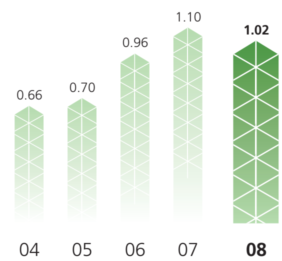
EPS (basic and diluted)

RMB



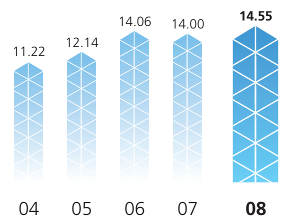
ROA

%



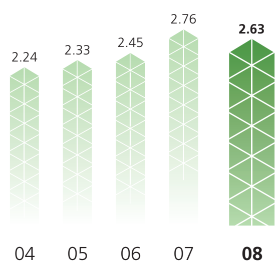
ROE

%



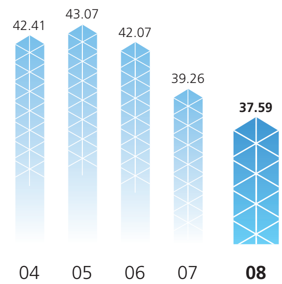
Net interest margin

%



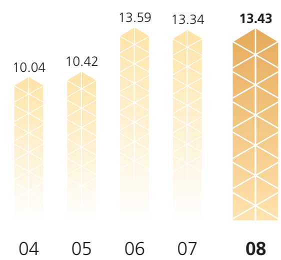
Cost to income

%



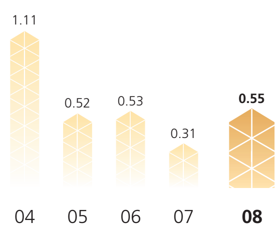
Capital adequacy ratio

%



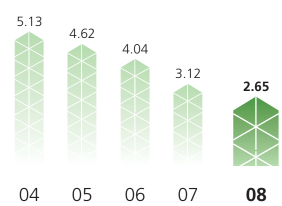
Credit cost

%



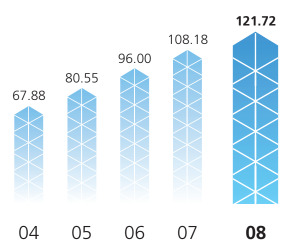
Non-performing loans to gross loans

%



Allowance for loan impairment losses to non-performing loans

%



Honours and Awards

The Banker

Ranked 10th among the top 1,000 banks in the globe

Global Finance

Best Foreign Exchange Banks 2008 (China)
Best Treasury and Cash Management Banks 2008 (China)

The Asset

2008 Best Trade Finance Bank (China)

FinanceAsia

Best Trade Finance Bank
Best Foreign Exchange Bank
Best Dividend Commitment Bank
Asia's Best Companies – Best Dividend Policy

Asia Banker

Excellent Real Estate Mortgage Loan Award (Asia-Pacific)

Asiamoney

Best FX Provider

Euromoney – 2008 Liquid Real Estate Awards

China's Best Commercial Bank
China's Best Treasury Investment Bank
Best Commercial Bank in Hong Kong

Euromoney – 2008 Best Wealth Management Awards

China's Best FX Service Bank

Trade Finance

Best Local Trade Bank in China

Financial News

Best Customer Service Centre of Financial Institutions

Economic Observer

Bank with the Strongest International Competitiveness in China

Best FX Service Bank in China

21st Century Economic Review

Best Wealth Management Brand among Asia's 10 Best Banks

Universum

Ranked 4th in 2008 Ideal Employer voted by Chinese University Graduates

China Children and Teenagers' Fund

Best Care for Children Institution

People.com

Social Responsibilities Award

Chinese Red Cross Foundation & *China News Week*

Most Responsible Enterprise Award in Commemoration of China's 30-Year Reform and Opening-up

The Bank's 2007 Annual Report is awarded by

LACP – 2007 Vision Awards – Asian Banks – Gold Award

ARC – Best Cover Design – Silver Award

HKMA – Honorary Mention for Best Annual Reports Awards

2007 China IR Awards

Best IR Webpage

Best Disclosure

Social Responsibility Contribution Award

Top 100 IR Management Award among A-Share Companies

Corporate Information

Registered Name in Chinese

中國銀行股份有限公司(“中國銀行”)

Registered Name in English

BANK OF CHINA LIMITED (“Bank of China”)

Legal Representative and Chairman

XIAO Gang

Vice Chairman and President

LI Lihui

Secretary to the Board of Directors

ZHANG Bingxun

Office Address:
No.1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86)10-6659 2638
Facsimile: (86)10-6659 4568
E-mail: bocir@bank-of-china.com

Company Secretary

Cheung Ying YEUNG

Qualified Accountant

LEUNG Frances Kim Lan

Listing Affairs Representative

LUO Nan

Office Address:
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Telephone: (86)10-6659 2638
Facsimile: (86)10-6659 4568
E-mail: bocir@bank-of-china.com

Registered Address of Head Office

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Office Address

No.1 Fuxingmen Nei Dajie, Beijing, China, 100818
Telephone: (86)10-6659 6688
Facsimile: (86)10-6659 3777
Website: http://www.boc.cn
E-mail: bocir@bank-of-china.com

Place of Business in Hong Kong

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

Selected Newspapers for Information Disclosure (A Share)

China Securities, Shanghai Securities,
Securities Times.

Website Designated by CSRC to Publish the Annual Report

http://www.sse.com.cn

Website Designated by The Stock Exchange of Hong Kong Limited to Publish the Annual Report

http://www.hkexnews.hk

Places where the Annual Report can be Obtained

Major business locations

Domestic Legal Advisor

King & Wood PRC Lawyers

Hong Kong Legal Advisor

Baker & McKenzie

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

100000000001349

Financial Institution Licence Serial Number

B0003H111000001

Tax Registration Certificate Number

Jingshuizhengzi 110102100001342

Organisation Code

10000134-2

Stock Information

A Share

Shanghai Stock Exchange
Stock Name: Bank of China
Stock Code: 601988

H Share

The Stock Exchange of Hong Kong Limited
Stock Name: Bank of China
Stock Code: 3988

Message from the Chairman

The Group achieved a profit attributable to shareholders of the Bank for the year of RMB64.36 billion, a year-on-year increase of 14.42%. Earnings per share (EPS) also recorded an increase of RMB0.03 to RMB0.25. Moreover, the ratio of identified impaired loans to gross loans decreased from 3.17% to 2.76%.

I am delighted to report to all our shareholders and the public our 2008 business results. The Group achieved a profit attributable to shareholders of the Bank for the year of RMB64.36 billion, a year-on-year increase of 14.42%. Earnings per share (EPS) also recorded an increase of RMB0.03 to RMB0.25. Moreover, the ratio of identified impaired loans to gross loans decreased from 3.17% to 2.76%. At the same time, our total market capitalisation reached RMB669.997 billion at the end of 2008, making Bank of China the sixth largest listed bank in the world. The Board of Directors has proposed a cash dividend of RMB0.13 per share for 2008 for approval at the Annual General Meeting on 18 June 2009.

2008 saw great transformation and turbulence in the operating environment for banks. The global financial crisis, triggered by the U.S. subprime crisis, worsened as the year progressed. The impact of this crisis also proliferated quickly from the developed countries to the emerging markets and developing countries, and from the financial sector to the real economy, greatly affecting the global economy. While China's economy maintained stable growth, it is facing heightened challenges as a result of natural disasters and the global financial crisis.

The Bank responded with a scientific approach that revolved around our strategic goal of becoming a leading international bank. We accelerated the transformation of our service model and optimised our business structure. We also continued to strengthen our risk management and internal control. Moreover, we enhanced our infrastructure and product innovation to increase our overall profitability and competitiveness, and to ensure rapid and sustained growth of all major lines of business.

We improved our market share and key operating indicators for our corporate banking business. We also made significant breakthroughs in the marketing of key projects and further improved the quality of our customer base. In personal banking business, we accelerated the development of a new service model and profitability model that focus on middle and high-end customers. This delivered a rapid increase in both the number of target customers and the corresponding financial assets. In our financial markets business, the Bank maintained its leading position in various areas, including spot and forward foreign exchange and domestic gold transactions. In addition, the Bank made progress in its integration of domestic and overseas operations and further expanded its platform for diversified operations.

As the sole banking partner of the Beijing Olympic Games and Paralympic Games, employees of the Bank provided excellent financial services during the Games with zero error and zero customer complaint. Their dedication, professionalism and performance were widely acclaimed by both domestic and foreign customers. As a result, our franchise and international reputation and our competitive advantage were further enhanced, improving the foundation for our future growth and development.

As well as generating outstanding financial results, the Bank also continued to improve its corporate governance with clear accountability, authority and proper checks and balances. There were improvements in our decision-making, execution and supervision mechanisms. The Bank convened its Annual General Meeting through video-conference in two different locations for the first time in its history. The *Work Rules of Independent Directors of Bank of China Limited* was established and our information disclosure was enhanced.

We understand the underlying drivers of the disposal of shareholdings by our strategic investors, UBS AG and RBS Group, on 31 December 2008 and 14 January 2009 respectively. In the past three years, the Bank was involved with our strategic investors in 87 projects covering more than 40 areas, including corporate governance, risk management, corporate banking and personal banking. The scope and extent of cooperation were beyond the core agreements, and the results exceeded our original expectations. These initiatives had a positive impact on our corporate governance, business growth and enhanced our competitiveness.

Looking ahead to 2009, the global financial crisis may continue to worsen, and cause the global economy to remain sluggish, adding greater downward pressure. In response to the current situation, the government unveiled a series of key measures to expand domestic demand, promote restructuring and maintain growth. These are expected to promote China's continued rapid and stable development. From an overall perspective, the key strategic opportunities for the development of the banking industry in China are not expected to fundamentally change. The opportunities faced by the banks still outnumber challenges in 2009.

In view of the opportunities and challenges, the Bank will continue its strategic development plan by taking a systematic approach to capitalise on opportunities while facing challenges. We will focus on expansion of our scale and accelerate the restructuring of our Bank's service and growth models. Moreover, we will further enhance our risk management and internal control while further developing our overseas businesses and promoting infrastructure development and innovation. It is also our plan to strengthen our business structure and continue the reform of our human resources management. We will build on our franchise and improve our corporate culture so as to enhance our competitiveness, profitability and the sustainability of development. Our efforts will facilitate the development of the Bank's various lines of business and enable the Bank to continue to achieve milestones in line with the Bank's successful development in the last one hundred years.

On a final note, I would like to express my deep appreciation to the members of the Board of Directors and the Board of Supervisors for their significant contributions. I also wish to express my gratitude to our shareholders and the public for their kind support, and to the management and staff across the globe for their diligence. It is due to their dedicated efforts that Bank of China has sustained growth in a year characterised by challenges.

Xiao Gang
Chairman
24 March 2009

Message from the President

By taking a scientific outlook and adhering to the strategic directions set by our Board of Directors, we were able to fulfil our duties and achieve continuous business growth despite adversities in the business environment.

2008 was an unusual year. The global financial crisis, severe earthquakes in China and the much-awaited Beijing Olympic Games had tested the management to an unprecedented level. By taking a scientific outlook and adhering to the strategic directions set by our Board of Directors, we were able to fulfil our duties and achieve continuous business growth despite adversities in the business environment.

In accordance with International Financial Reporting Standards, as at the end of 2008, the Group's total assets, liabilities and equity attributable to the shareholders of the Bank amounted to RMB6,951.68 billion, RMB6,461.793 billion and RMB464.258 billion, representing a year-on-year increase of 16.03%, 16.63% and 10.42% respectively. The Group achieved a profit after tax of RMB65.894 billion in the year, an increase of 6.22% from 2007, and a profit attributable to the shareholders of the Bank of RMB64.36 billion, up by 14.42%. Earnings per share reached RMB0.25, an increase of RMB0.03 compared with the prior year.

During 2008, the Bank maintained its growth in profit after tax, primarily due to a steady increase in operating income, the tight control of operating costs and the decrease in the effective tax rate.

The year saw a significant increase in interest-bearing assets which resulted in a steady rise in net interest income. During the year, the Group achieved net interest income of RMB162.936 billion, up 6.67% from 2007, mainly as a result of the growth in RMB-denominated loans and deposits of RMB386.335 billion and RMB721.453 billion, or 19.63% and 22.27% respectively. This increased our market share correspondingly.

The fee-based business of the Bank grew significantly, increasing the non-interest income to RMB65.96 billion or 56.19% from 2007. Net fee and commission income reached RMB39.947 billion, representing an increase of 12.42%. Moreover, our international settlement and export factoring business topped the global banking sector in terms of business volume. Non-interest income contributed 28.82% of total operating income, an increase of 7.16 percentage points from the prior year. This had helped optimise our revenue structure.

During the year, we strengthened our budget management which enabled us to control operating costs more effectively. The rise in operating expenses during the year was lower than that of operating income by 3.17 percentage points. The cost to income ratio was also controlled at 37.59%, down by 1.67 percentage points compared with the previous year, demonstrating a significant improvement in operating efficiency. In addition, the Group's effective tax rate fell to 24.42% from 31.60%.

The Bank continued to improve its risk management processes and enhance the quality of its assets with the ratio of identified impaired loans to gross loans declining by 0.41 percentage point to 2.76%. The ratio of allowance for loan impairment losses to identified impaired loans was 117.18%, an increase of 10.81 percentage points.

The Bank delivered outstanding service to the Beijing Olympic Games and Paralympic Games in 2008. During the Games, Bank of China, as the sole banking partner of the Games, provided exclusive financial services at all the Olympic venues and designated locations. The Bank also completed the distribution of three million Olympic tickets. All employees of the Bank helped contribute to this success and fulfillment of our promise to deliver excellence in service.

During the year, the Bank continued its infrastructure development and reforms in human resources management, including improvements in position management, performance appraisal and remuneration management and the execution of the talent development plan.

We also accelerated our integration of the Bank's business operating structures with the establishment of global units for corporate banking, personal banking, financial markets and operation service. Improvements were made to the overall geographic coverage in the domestic market and the transformation of retail outlets. Our information technology infrastructure was also enhanced.

2009 will be a year of strategic opportunities for the banking sector. However, banks are also expected to encounter major challenges from "uncertainties, imbalance, high risks and low returns". We will proactively meet these challenges with a view to seizing opportunities. We will continue to manage our risks while seeking performance and efficiency. Moreover, we plan to accelerate innovation to increase our market share. In this respect, Bank of China will capitalise on the government's policy of "expanding domestic demand, promoting restructuring and maintaining growth" by fully implementing our strategic development plan to expand our business and accelerate the refinement of our business structures. In addition, we plan to strengthen our comprehensive risk management and increase our process integration. We will also promote new service models, and enhance our infrastructure. We will continue to build on our franchise to ensure rapid and sustainable development and growth for all our lines of business, better enabling us to achieve our goal of becoming a leading international bank.

On behalf of the management of the Bank, I would like to take this opportunity to express our sincere gratitude to the Board of Directors and the Board of Supervisors for the guidance and support. I also wish to thank our shareholders and the public for their trust and support, and our colleagues for their diligence and commitment. I believe, with our concerted efforts and hard work, Bank of China will continue its success in the future.

Li Lihui
President
24 March 2009

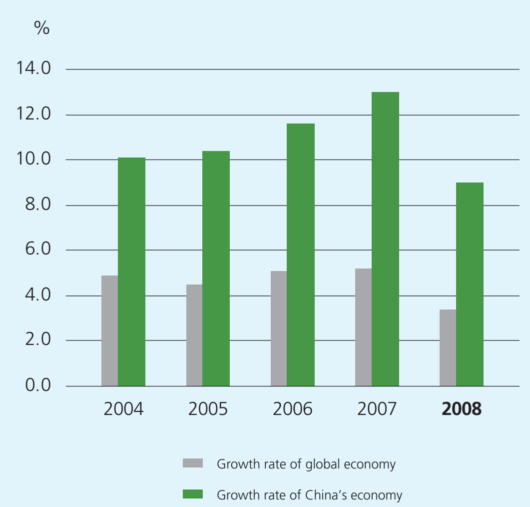
Global Vision

Management Discussion and Analysis — Financial Review

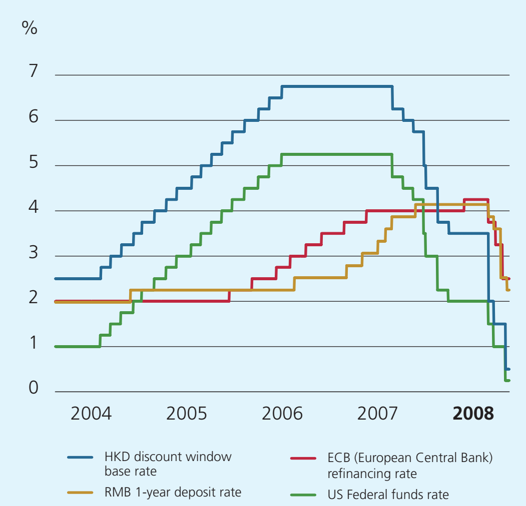
Economic and Financial Environment

In 2008, the global economy experienced the most severe set of challenges since the 1930s. Due to the impact of the global financial crisis, major economies, such as the US, Euro zone and Japan, suffered economic downturns, meanwhile emerging economies and developing countries were faced with an economic slowdown. According to a report from the International Monetary Fund, the global economic growth rate dropped from 5.2% in 2007 to 3.4% in 2008. China's overall economy continued to grow, despite suffering the adverse effects of severe natural disasters and the global financial crisis. Gross Domestic Product (GDP) growth dropped from 13.0% in 2007 to 9.0%, while the Consumer Price Index (CPI) increased by 5.9%. Growth in foreign trade volume fell to 17.8%, although the foreign trade surplus reached a new high of USD295.47 billion. Total fixed asset investment, however, increased by 25.5%, and total retail sales of consumer goods rose by 21.6%.

Growth of Global and China's Economy from 2004 to 2008



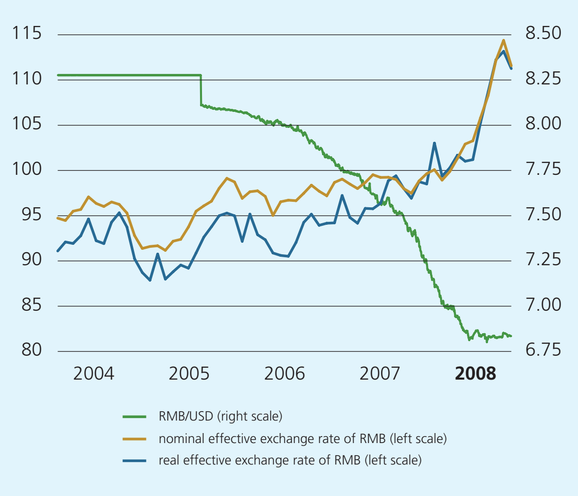
Changes of Interest Rates of Major Countries/ Regions from 2004 to 2008



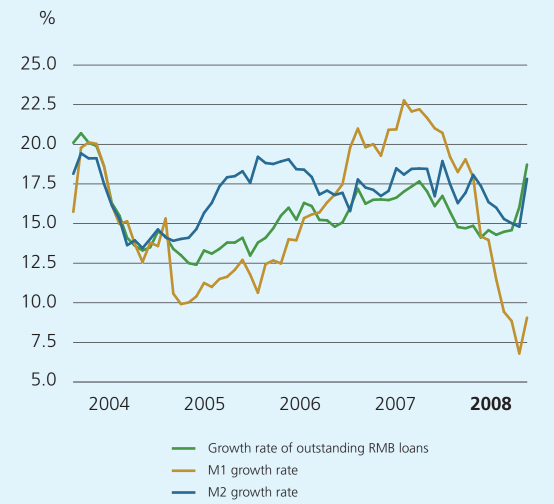
The global financial crisis, triggered by the US subprime crisis, worsened in 2008, causing turbulence in the international financial markets. Globally, the prices of primary commodities such as energy, metal ore and grain, fluctuated sharply, and financial markets suffered a serious liquidity squeeze, leading to radical adjustments in capital markets. Yields in the international debt market also declined sharply and movements in the foreign exchange markets were complex, for example, the US Dollar strengthened rapidly after reaching historical lows. The Yen continued its appreciation, while major European currencies initially appreciated before depreciating. The banking sectors in Europe and the US suffered huge losses while small and medium-sized economies were plunged into serious systematic financial crisis. In response to the crisis, governments around the world increased their intervention through macro-economic policies and unveiled massive bailout plans. In addition, the US Federal Reserve made a series of drastic interest rate cuts, with other countries and regions also taking similar actions.

In 2008, China timely adjusted its domestic macro-economic policies to ensure the continued stable operation of the overall financial market. In the first half of the year, the PBOC increased the mandatory reserve ratio five times in order to increase the withdrawal of currency from circulation. In the second half of the year, the central government started to pursue a proactive fiscal and a moderate monetary policy. The PBOC initiated a series of cuts to the benchmark interest rates of RMB deposits and loans and the statutory reserve requirement of financial institutions. The exchange rate of RMB against US Dollar stabilised after an initial appreciation, with an overall appreciation of 6.88% in 2008. The effective exchange rate of the RMB against a basket of currencies continued to appreciate with an increase of 12.66% for the year. Broad money supply (M2) grew by 17.82%, while RMB deposits and loans of financial institutions increased by 19.73% and 18.76% respectively. Following radical adjustments in

Movement of RMB Exchange Rates from 2004 to 2008



Growth of Chinese Money and loans from 2004 to 2008



capital markets, the Shanghai composite index dropped 65.39%, leading to a decline of 62.90% in market capitalisation. However, the debt markets remained healthy, and contributed to a year-on-year increase of 31.20% in the market value, reaching RMB16.07 trillion at the end of 2008.

During the year, the reforms in China's banking industry continued with enhancement in the professionalism and effectiveness of financial supervision. The regulatory authorities took a series of measures to stimulate China's economy and banking development, including timely adjustment of credit management policies for the commercial real estate industry, acceleration of Basel II implementation, and active response to China's natural disasters and global financial crisis, and etc.

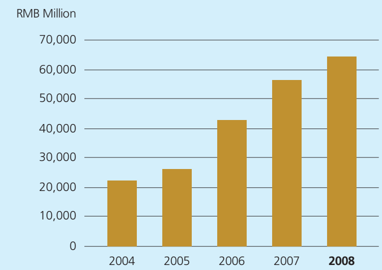
Overall, China's economy maintained steady and rapid growth in 2008. Commercial banks actively responded to severe natural disasters and the global financial crisis, while also improving the management of operations. In addition, commercial banks continued to quicken the pace of globalisation despite the financial crisis, and made strong advances in operating performance.

Looking forward to 2009, China's economic development still faces significant uncertainties. The impact of the current global financial crisis will continue to worsen and further affect the global real economy. As part of its response to the global financial crisis, China will focus on expanding domestic demand and accelerate development transformation and structural reforms. China will intensify its financial support to economic development, and maintain stable and rapid economic development. Against a backdrop of various opportunities and challenges, we will continue to focus on the scientific outlook on development and seize opportunities to meet challenges so as to promote the rapid and sustainable development of the Bank.

Summary of Financial Position and Results of Operations of the Group for 2008

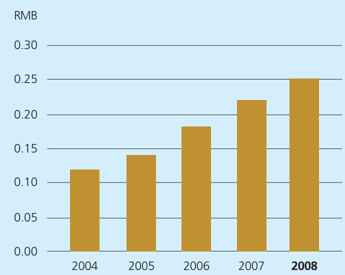
Profit attributable to the equity holders of the Bank

Profit attributable to the equity holders of the Bank amounted to RMB64.360 billion, an increase of RMB8.112 billion or 14.42%. The improvement in profit for the year was attributable to continuous growth in operating income, and a decrease of the cost to income ratio and income tax rate.



Earnings per share

In 2008, both basic and diluted earnings per share attributable to the Bank's equity holders were RMB0.25, an increase of RMB0.03 compared with the prior year. The Bank's earnings per share has shown steady growth since 2004.

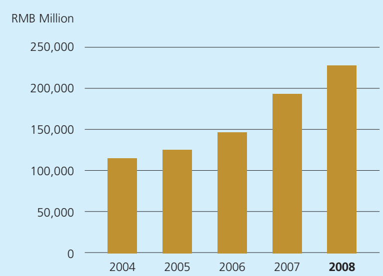


ROA & ROE

In 2008, the Group's return on average total assets was 1.02%, a decrease of 0.08 percentage point compared with the prior year. Return on average equity was 14.55%, an increase of 0.55 percentage point compared with the prior year.

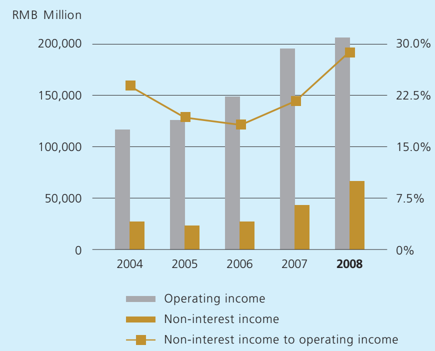
Revenue growth

The Group achieved operating income of RMB228.896 billion, an increase of RMB33.921 billion or 17.40% compared with the prior year. This increase was primarily due to an increase in net interest income, driven by steady growth in the average balance of interest-earning assets and a robust growth in non-interest income. Please refer to the "Net Interest Income and Net Interest Margin" and "Non-interest Income" sections for more detailed information.



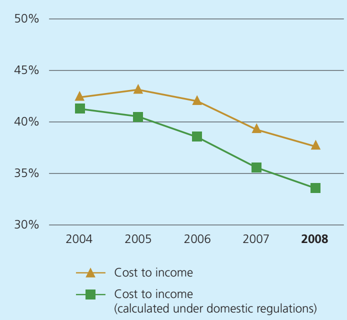
Non-interest income to operating income ratio

The Group recognised non-interest income of RMB65.960 billion in 2008, an increase of RMB23.730 billion or 56.19% compared with the prior year, mainly attributable to the rapid increase in fee and commission income and net trading income. The ratio of non-interest income to operating income was 28.82%, an increase of 7.16 percentage points compared with the prior year. Please refer to the "Non-interest income" section for more detailed information.



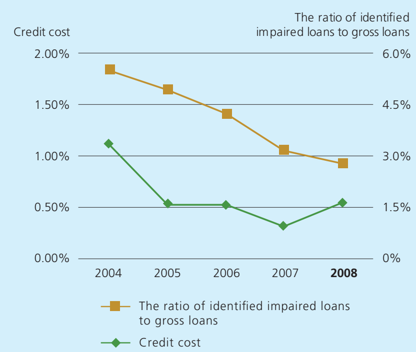
Cost to income ratio

The Group has recorded a cost to income ratio of 37.59%, a decrease of 1.67 percentage points from the prior year. The cost to income ratio calculated under domestic regulations was 33.55%, a decrease of 2.04 percentage points from the prior year. The decrease was mainly attributable to improved budget management and cost control within the Group, and the lower increase in operating expenses compared with that of operating income, representing a significant improvement in operating efficiency. Please refer to the "Operating Expense" section for more detailed information.



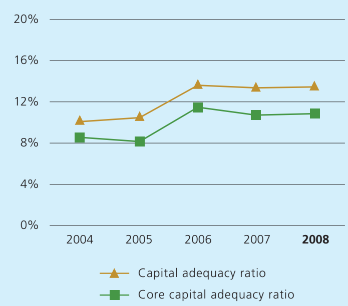
Asset quality

At the end of 2008, the ratio of identified impaired loans to gross loans was 2.76%, a decrease of 0.41 percentage point compared with the prior year-end. The ratio of allowance for loan impairment losses to identified impaired loans was 117.18%, up by 10.81 percentage points from the prior year-end. The ratio of non-performing loans to gross loans was 2.65%, a decrease of 0.47 percentage point compared with the prior year-end, and the ratio of allowance for loan impairment losses to non-performing loans was 121.72%, up by 13.54 percentage points from the prior year-end. In 2008, the credit cost of the Group was 0.55%, up by 0.24 percentage point from the prior year. Please refer to the "Risk management" section for more detailed information.



Capital adequacy ratio

At the end of 2008, the Group's capital adequacy ratio was 13.43% and its core capital adequacy ratio was 10.81%, slightly higher compared with those at the prior year-end.



Income Statement Analysis

In 2008, in accordance with the scientific outlook on development, the Bank endeavored to overcome the negative impacts of the international financial crisis and the severe natural disasters in China to maintain continuous and rapid growth across all business lines to improve operating performance. The Group realised a profit before impairment losses on assets of RMB132.210 billion, an increase of RMB21.250 billion or 19.15% compared with the prior year. Profit attributable to the equity holders of the Bank was RMB64.360 billion, an increase of RMB8.112 billion or 14.42% compared with the prior year. The improvement was mainly attributable to:

(1) An increase in net interest income, driven by steady growth in the average balance of interest-earning assets;

(2) Robust growth in non-interest income, in line with the rapid development of fee-based business, resulting in an increasing proportion of non-interest income to operating income;

(3) Effective control of operating cost and a decrease of cost to income ratio; and

(4) A decrease of the corporate income tax rate.

The principal components of the Group's income statement are set out below:

Unit: RMB million

Items	2008	2007	2006	2005	2004
Net interest income	**162,936**	152,745	121,371	101,008	88,435
Non-interest income	**65,960**	42,230	27,053	24,074	27,570
Including: net fee and commission income	**39,947**	35,535	20,566	14,388	12,322
Operating income	**228,896**	194,975	148,424	125,082	116,005
Operating expenses	**(97,412)**	(85,278)	(68,902)	(59,551)	(54,180)
Impairment losses on assets	**(45,031)**	(20,263)	(12,217)	(11,895)	(24,703)
Operating profit	**86,453**	89,434	67,305	53,636	37,122
Profit before income tax	**87,179**	90,697	67,937	53,811	37,263
Income tax expense	**(21,285)**	(28,661)	(19,673)	(22,253)	(10,198)
Profit for the year	**65,894**	62,036	48,264	31,558	27,065
Profit attributable to the equity holders of the Bank	**64,360**	56,248	42,830	25,921	22,301

Net Interest Income and Net Interest Margin

In 2008, the Group earned a net interest income of RMB162.936 billion, an increase of RMB10.191 billion or 6.67% 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[1] and average interest rates of major interest-earning assets and interest-bearing liabilities of the Group and its domestic RMB and foreign currency businesses are summarised in the following table:

[1] 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	2008 Average balance	2008 Average interest rate	2007 Average balance	2007 Average interest rate	Change Average balance	Change Average interest rate
Group						
Interest-earning assets						
Loans	**3,185,227**	**6.12%**	2,665,549	5.94%	519,678	18 BPs
Investment debt securities[1]	**1,649,727**	**3.63%**	1,897,204	3.87%	(247,477)	(24) BPs
Balances with central banks[2]	**965,065**	**1.91%**	456,955	1.67%	508,110	24 BPs
Due from banks and other financial institutions	**391,235**	**3.50%**	507,167	4.40%	(115,932)	(90) BPs
Total	**6,191,254**	**4.63%**	5,526,875	4.74%	664,379	(11) BPs
Interest-bearing liabilities						
Due to customers[3]	**4,830,665**	**2.16%**	4,374,893	2.04%	455,772	12 BPs
Due to banks and other financial institutions[4]	**738,623**	**1.97%**	577,058	2.53%	161,565	(56) BPs
Other borrowed funds[5]	**117,582**	**4.24%**	123,503	4.35%	(5,921)	(11) BPs
Total	**5,686,870**	**2.18%**	5,075,454	2.15%	611,416	3 BPs
Net interest margin		**2.63%**		2.76%		(13) BPs
Domestic RMB businesses						
Interest-earning assets						
Loans	**2,148,649**	**7.01%**	1,872,598	6.06%	276,051	95 BPs
Investment debt securities	**986,710**	**3.28%**	967,693	2.81%	19,017	47 BPs
Balances with central banks	**802,371**	**2.09%**	403,662	1.75%	398,709	34 BPs
Due from banks and other financial institutions	**107,102**	**3.80%**	111,475	3.23%	(4,373)	57 BPs
Total	**4,044,832**	**5.04%**	3,355,428	4.51%	689,404	53 BPs
Interest-bearing liabilities						
Due to customers	**3,657,761**	**2.30%**	3,079,357	1.68%	578,404	62 BPs
Due to banks and other financial institutions	**364,608**	**2.06%**	319,964	1.89%	44,644	17 BPs
Other borrowed funds	**63,828**	**4.82%**	60,781	4.69%	3,047	13 BPs
Total	**4,086,197**	**2.32%**	3,460,102	1.75%	626,095	57 BPs
Net interest margin		**2.70%**		2.70%		–
Domestic foreign currency businesses				Unit: USD million, except percentages		
Interest-earning assets						
Loans	**54,660**	**5.07%**	41,776	5.57%	12,884	(50) BPs
Investment debt securities	**47,399**	**4.13%**	72,607	4.97%	(25,208)	(84) BPs
Due from banks and other financial institutions[6]	**49,513**	**2.96%**	38,009	4.23%	11,504	(127) BPs
Total	**151,572**	**4.09%**	152,392	4.95%	(820)	(86) BPs
Interest-bearing liabilities						
Due to customers	**47,405**	**1.97%**	56,908	2.30%	(9,503)	(33) BPs
Due to banks and other financial institutions	**35,355**	**1.99%**	27,103	2.86%	8,252	(87) BPs
Other borrowed funds	**4,942**	**3.64%**	5,773	3.67%	(831)	(3) BPs
Total	**87,702**	**2.07%**	89,784	2.56%	(2,082)	(49) BPs
Net interest margin		**2.89%**		3.44%		(55) BPs

Notes:

1. Investment debt securities include available for sale debt securities, held to maturity debt securities, debt securities classified as loans and receivables, trading debt securities and debt securities designated at fair value.
2. Balance with central banks includes the mandatory reserve fund, the surplus reserve fund, balance under reverse repo agreements and other deposits.
3. Due to customers includes structured deposits.
4. Due to banks and other financial institutions includes due to central banks, certificates of deposit and placements from banks and other financial institutions.
5. Other borrowed funds include bonds issued and other borrowings.
6. This item includes balances with central banks.

The impact of volume and interest rate changes on the consolidated interest income and expense of the Group, domestic RMB businesses and domestic foreign currency businesses is summarised in the following table:

Unit: RMB million

Items	2008	2007	Change	Analysis of net interest income variances[1] Volume	Interest rate
Group					
Interest income					
Loans	**194,916**	158,390	36,526	30,869	5,657
Investment debt securities	**59,915**	73,500	(13,585)	(9,577)	(4,008)
Balances with central banks	**18,388**	7,645	10,743	8,485	2,258
Due from banks and other financial institutions	**13,708**	22,336	(8,628)	(5,101)	(3,527)
Total	**286,927**	261,871	25,056	24,676	380
Interest expense					
Due to customers	**104,429**	89,170	15,259	9,298	5,961
Due to banks and other financial institutions	**14,580**	14,584	(4)	4,088	(4,092)
Other borrowed funds	**4,982**	5,372	(390)	(258)	(132)
Total	**123,991**	109,126	14,865	13,128	1,737
Net interest income	**162,936**	152,745	10,191	11,548	(1,357)
Domestic RMB businesses					
Interest income					
Loans	**150,652**	113,492	37,160	16,729	20,431
Investment debt securities	**32,382**	27,205	5,177	534	4,643
Balances with central banks	**16,786**	7,060	9,726	6,977	2,749
Due from banks and other financial institutions	**4,067**	3,604	463	(141)	604
Total	**203,887**	151,361	52,526	24,099	28,427
Interest expense					
Due to customers	**84,210**	51,745	32,465	9,717	22,748
Due to banks and other financial institutions	**7,527**	6,039	1,488	844	644
Other borrowed funds	**3,076**	2,849	227	143	84
Total	**94,813**	60,633	34,180	10,704	23,476
Net interest income	**109,074**	90,728	18,346	13,395	4,951
Domestic foreign currency businesses					Unit: USD million
Interest income					
Loans	**2,772**	2,326	446	718	(272)
Investment debt securities	**1,959**	3,610	(1,651)	(1,253)	(398)
Due from banks and other financial institutions[2]	**1,466**	1,608	(142)	487	(629)
Total	**6,197**	7,544	(1,347)	(48)	(1,299)
Interest expense					
Due to customers	**935**	1,311	(376)	(219)	(157)
Due to banks and other financial institutions	**703**	775	(72)	236	(308)
Other borrowed funds	**180**	212	(32)	(30)	(2)
Total	**1,818**	2,298	(480)	(13)	(467)
Net interest income	**4,379**	5,246	(867)	(35)	(832)

Notes:

1. The impact of changes in volume on interest income and expense is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact of changes in interest rate on interest income and expenses is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. The impact relating to the combined changes in both volume and rate has been classified as changes in interest rates.

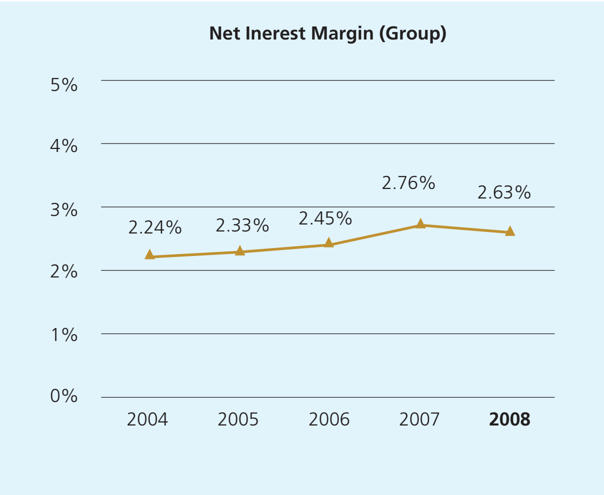
2. This item includes balances with central banks.

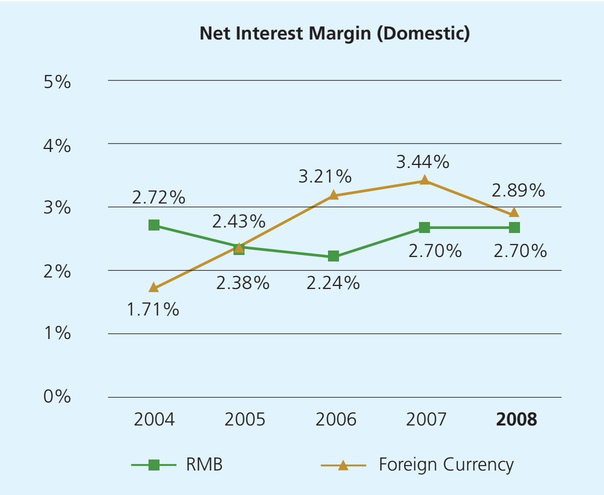
The average balances and average interest rates of domestic loans and due to customers, classified by business type, are summarised in the following table:

Unit: RMB million, except percentages

Items	2008 Average balance	2008 Average interest rate	2007 Average balance	2007 Average interest rate	Change Average balance	Change Average interest rate
Domestic RMB businesses						
Loans						
Corporate loans	**1,428,475**	**7.08%**	1,221,641	6.24%	206,834	84 BPs
Personal loans	**625,625**	**6.92%**	517,800	6.19%	107,825	73 BPs
Trade bills	**94,549**	**6.49%**	133,157	3.88%	(38,608)	261 BPs
Total	**2,148,649**	**7.01%**	1,872,598	6.06%	276,051	95 BPs
Including:						
Medium and long term loans	**1,325,841**	**7.09%**	1,087,754	6.36%	238,087	73 BPs
1-Year Short term loans and others	**822,808**	**6.89%**	784,844	5.65%	37,964	124 BPs
Due to customers						
Corporate demand deposits	**1,014,362**	**0.97%**	888,047	0.99%	126,315	(2) BPs
Corporate time deposits	**571,402**	**3.44%**	400,606	2.49%	170,796	95 BPs
Personal demand deposits	**536,358**	**0.63%**	511,661	0.76%	24,697	(13) BPs
Personal time deposits	**1,282,272**	**3.48%**	1,116,130	2.34%	166,142	114 BPs
Other	**253,367**	**2.64%**	162,913	1.83%	90,454	81 BPs
Total	**3,657,761**	**2.30%**	3,079,357	1.68%	578,404	62 BPs
Domestic foreign currency businesses				Unit: USD million, except percentages		
Loans	**54,660**	**5.07%**	41,776	5.57%	12,884	(50) BPs
Due to customers						
Corporate demand deposits	**14,480**	**1.00%**	12,767	1.10%	1,713	(10) BPs
Corporate time deposits	**6,216**	**3.51%**	4,180	4.04%	2,036	(53) BPs
Personal demand deposits	**7,414**	**0.63%**	8,207	0.65%	(793)	(2) BPs
Personal time deposits	**15,341**	**2.30%**	19,101	2.19%	(3,760)	11 BPs
Other	**3,954**	**4.35%**	12,653	4.18%	(8,699)	17 BPs
Total	**47,405**	**1.97%**	56,908	2.30%	(9,503)	(33) BPs

In 2008, the Group's net interest margin (NIM) decreased by 13 basis points to 2.63%, as compared with the prior year. The domestic RMB NIM remained stable at 2.70%, consistent with the prior year. The domestic foreign currency NIM was 2.89%, a decrease of 55 basis points, as compared with the prior year.





The movement in NIM was mainly attributable to the following:

(1) Significant decrease in RMB benchmark and market interest rates. Since September 2008, the PBOC made successive cuts to interest rate, the rates of 1-year RMB deposits and 1-year RMB loans decreased by 1.89 and 2.16 percentage points respectively, the interest spread shrank from 3.33% at the beginning of the year to 3.06% at the year end. Interest rates of the statutory reserve requirement and excess reserve were both lowered by 0.27 percentage point to 1.62% and 0.72% respectively. The market interest rates also declined sharply. As at the end of 2008, the yield of 1-year PBOC bills was 1.13% and 1-year SHIBOR was 2.36%, down by 2.91 and 2.22 percentage points respectively from the beginning of the year.

(2) Successive adjustments in mandatory reserve funds with the PBOC. In 2008, the RMB reserve requirement ratio applicable to the Bank rose from 14.5% at the beginning of the year to 17.5% and was reduced to 15.5% in the fourth quarter, giving an annualised average of approximately 16.35%, which is 5 percentage points higher than the average for the prior year. The proportion of the average balance with central banks to the average balance of interest-earning assets increased from 8.27% in the prior year to 15.59%.

(3) An increase in the average cost of interest-bearing liabilities. As a result of the significant adjustments in the domestic capital markets, there was a substantial trend of shifting savings from demand deposits to time deposits. By the end of 2008, domestic RMB-denominated time deposits represented 52.14% of total RMB-denominated deposits, up by 3.26 percentage points from the prior year-end.

(4) Significant interest rate cuts in major global economies. The benchmark interest rate for certain countries reached historical lows. The US Federal funds rate decreased from 4.25% at the beginning of the year to range of 0% to 0.25%, the ECB refinancing rate decreased by 1.50 percentage points to 1.5%, while the Bank of England decreased its benchmark rate by 3.25 percentage points to 2.0%. Market interest rate for major foreign currencies fell also as a result. As at the end of 2008, the rate of 1-year US Dollar LIBOR was 2.0038% and 1-year Euro LIBOR was 3.0588%, down by 2.22 and 1.69 percentage points respectively from the prior year-end. The domestic interest rate of small-amount deposits in foreign currencies remained largely unchanged[2] for the year, resulting in the decrease of average interest rates for foreign currency interest-bearing liabilities lower than that of foreign currency interest-earning assets.

The Bank focused on improving its NIM and actively undertook the following measures in order to respond to changes in domestic and global economic situations:

(1) The Group intensified its efforts to improve its asset structure and increase the proportion of high-yield interest-earning assets. In 2008, the proportion of loans to average interest-earning assets was 51.45%, an increase of 3.22 percentage points as compared with the prior year.

(2) In response to the foreign currency liquidity position in the domestic market, the Bank adjusted its price quotation for its domestic foreign currency credit business to a more appropriate level, therefore was able to mitigate the impact of falling interest rates of US Dollar and other major currencies to a certain extent.

Non-interest Income

Unit: RMB million

Items	2008	2007	2006	2005	2004
Net fee and commission income	**39,947**	35,535	20,566	14,388	12,322
Net trading gains/(losses)	**5,045**	(8,709)	(7,787)	(858)	5,117
Net gains/(losses) on investment securities	**2,009**	(3,263)	1,178	(606)	529
Other operating income	**18,959**	18,667	13,096	11,150	9,602
Total	**65,960**	42,230	27,053	24,074	27,570

[2] Since 21 December 2008, the Bank decreased the interest rate of small-amount deposits in foreign currencies. 1-year USD interest rate of time deposits decreased by 2.05 percentage points from 3.00% to 0.95%.

The Group reported non-interest income of RMB65.960 billion in 2008, an increase of RMB23.730 billion or 56.19%. This represented 28.82% of operating income, an increase of 7.16 percentage points compared with the prior year. The main components of non-interest income are as follows:

Net Fee and Commission Income

Unit: RMB million

Items	2008	2007	2006	2005	2004
Group					
Spread income from foreign exchange business	**9,360**	8,047	6,243	5,141	3,765
Agency commissions	**8,440**	14,383	4,621	2,735	2,690
Settlement and clearing fees	**7,912**	4,849	3,848	2,941	2,626
Credit commitment fees	**6,411**	3,590	3,064	2,693	2,367
Bank card fees	**4,828**	3,721	2,937	2,340	1,840
Other	**6,761**	5,011	2,669	1,989	1,865
Fee and commission income	**43,712**	39,601	23,382	17,839	15,153
Fee and commission expense	**(3,765)**	(4,066)	(2,816)	(3,451)	(2,831)
Net fee and commission income	**39,947**	35,535	20,566	14,388	12,322
Domestic					
Spread income from foreign exchange business	**9,012**	7,648	5,938	4,861	3,527
Agency commissions	**4,068**	6,742	1,406	823	647
Settlement and clearing fees	**6,544**	3,542	2,402	1,745	1,681
Credit commitment fees	**5,447**	2,839	2,164	1,784	1,407
Bank card fees	**3,353**	2,636	2,080	1,540	1,095
Other	**5,367**	3,145	1,541	1,112	654
Fee and commission income	**33,791**	26,552	15,531	11,865	9,011
Fee and commission expense	**(1,000)**	(970)	(964)	(1,797)	(1,432)
Net fee and commission income	**32,791**	25,582	14,567	10,068	7,579

In 2008, the Group earned a net fee and commission income of RMB39.947 billion, an increase of RMB4.412 billion or 12.42% compared with the prior year. The Group's domestic operations earned a net fee and commission income of RMB32.791 billion, an increase of RMB7.209 billion or 28.18% compared with the prior year, further increasing the Bank's market share compared with other major domestic commercial banks.

In 2008, in response to changes in the economic environment, the Group rapidly promoted its fee-based business, resulting in robust growth in its net fee and commission income, including fee income from international settlement, foreign exchange transactions, financial consultancy, credit commitment and others. Please refer to Note V.2 to the Consolidated Financial Statements for detailed information.

Net Trading Gains/(Losses)

Unit: RMB million

Items	2008	2007	2006	2005	2004
Net gains/(losses) from foreign exchange and foreign exchange products	**10,971**	(8,995)	(7,739)	(2,915)	1,529
Net (losses)/gains from interest rate products	**(5,324)**	(1,290)	(302)	1,753	2,294
Net (losses)/gains from equity products	**(827)**	1,442	324	130	(178)
Net gains/(losses) from precious metals and other commodity products	**225**	134	(68)	150	1,271
Other	**–**	–	(2)	24	201
Total	**5,045**	(8,709)	(7,787)	(858)	5,117

In 2008, the Group recorded net trading gains of RMB5.045 billion, which were mainly attributable to:

(1) A significant reduction in the cost of foreign exchange derivative transactions, used by the Group as part of asset and liability management and funding arrangements, due to a sharp decrease in interest rates in major foreign currencies and the narrowing of interest rate spreads between RMB and foreign currencies;

(2) A significant favourable revaluation on net foreign currency exposure and foreign exchange transactions due to the slowdown of the RMB appreciation in the second half of 2008 and continuous reduction in net foreign currency exposure. Please refer to Note V.3 to the Consolidated Financial Statements for more detailed information.

Operating Expenses

Unit: RMB million

Items	2008	2007	2006	2005	2004
Staff costs	**39,365**	36,261	30,896	27,106	20,545
General operating and administrative expenses	**23,932**	21,736	16,378	14,801	13,536
Depreciation and amortisation	**7,816**	7,094	6,026	6,314	6,664
Business and other taxes	**11,367**	8,726	6,462	5,680	4,981
Insurance benefits and claims	**8,243**	9,837	7,484	4,153	3,256
Other	**6,689**	1,624	1,656	1,497	5,198
Total	**97,412**	85,278	68,902	59,551	54,180

In 2008, the Group recorded operating expenses of RMB97.412 billion, an increase of RMB12.134 billion or 14.23% compared with the prior year. The increase included:

(1) An increase in staff costs and general operating and administrative expenses of 8.56% and 10.10% respectively, the lowest in recent years. The Group intensified efforts to reduce costs and control administrative expenses in 2008, resulting in a decrease of 7% in conference, travelling and other administrative expenses compared with the prior year;

(2) An increase in depreciation and amortisation due to increased investments in channel and IT infrastructure;

(3) A significant increase in taxable income and the consequent increase in business tax and other taxes;

(4) An increase in the cost of sales on Olympic-licensed products, in line with the rapid growth of related sales, as the sole official banking partner of the Beijing 2008 Olympic Games.

In 2008, the Group further strengthened budget management and cost control, and the increase in operating expenses was 3.17 percentage points lower than that of operating income, and the cost to income ratio was 37.59%, a decrease of 1.67 percentage points compared with the previous year. This reflected further improvements in operating efficiency. Please refer to Note V.6 to the Consolidated Financial Statements for more details.

Impairment Losses on Assets

Impairment Losses on Loans and Advances

In 2008, the Group's impairment losses on loans and advances amounted to RMB16.792 billion, an increase of RMB8.540 billion from 2007. The credit cost was 0.55%, higher than that in the prior year. For more information on loan quality and allowance for loan impairment losses, please refer to the "Risk Management – Credit Risk" section and Note V.9 and Note VI.3 to the Consolidated Financial Statements.

Impairment Losses on Other Assets

In 2008, impairment losses on other assets of the Group were RMB28.239 billion, an increase of RMB16.228 billion from the previous year. This increase was mainly attributable to increased impairment allowances for the Group's foreign currency-denominated debt securities and equity investments. For more details, please refer to the "Business review – Financial Market Business" section and Note V.9 and Note VI.3 to the Consolidated Financial Statements.

Income Tax Expense

In 2008, the Group incurred income tax expense of RMB21.285 billion, a decrease of RMB7.376 billion or 25.74% compared with the prior year. The effective tax rate decreased by 7.18 percentage points to 24.42%. The change in income tax expense was mainly attributable to:

(1) Approval by the National People's Congress of the *PRC Corporate Income Tax Law* on 16 March 2007, which reduced domestic corporate income tax rate from 33% to 25% effective from 1 January 2008.

(2) The Group re-measured its deferred tax assets and deferred tax liabilities of the domestic operations in 2007 in accordance with IFRS, which resulted in an increase in the income tax expense of the prior year.

The reconciliation of the statutory income tax rate to the effective income tax rate is set forth in Note V.10 to the Consolidated Financial Statements.

Balance Sheet Analysis

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

Unit: RMB million

	As at 31 December				
Items	**2008**	2007	2006	2005	2004
Assets					
Loans, net	**3,189,652**	2,754,493	2,337,726	2,152,112	2,072,919
Investment securities[1]	**1,646,208**	1,712,927	1,892,482	1,683,313	1,321,646
Balances with central banks	**1,207,613**	751,344	379,631	316,941	284,348
Due from banks and other financial institutions	**525,509**	423,904	407,840	344,537	347,379
Other assets	**382,698**	348,549	309,974	243,145	238,929
Total	**6,951,680**	5,991,217	5,327,653	4,740,048	4,265,221
Liabilities					
Due to customers	**5,102,111**	4,400,111	4,091,118	3,699,464	3,338,448
Due to banks and other financial institutions[2]	**859,343**	663,815	368,059	376,898	319,613
Other borrowed funds[3]	**108,231**	116,099	123,571	112,343	95,802
Other liabilities	**392,108**	360,535	331,949	295,824	283,451
Total	**6,461,793**	5,540,560	4,914,697	4,484,529	4,037,314

Notes:

1. Investment securities include available for sale securities, held to maturity securities, securities classified as loans and receivables, and financial assets at fair value through profit or loss.

2. Due to banks and other financial institutions includes due to central banks, due to banks and other financial institutions, certificates of deposit and placements from banks and other financial institutions.

3. Other borrowed funds include bonds issued and other borrowings.

At the end of 2008, the Group's total assets were RMB6,951.680 billion, an increase of RMB960.463 billion or 16.03% compared with the previous year-end. The major components included:

(1) The Group's loans and advances to customers amounted to RMB3,296.146 billion, an increase of RMB445.585 billion or 15.63% compared with the previous year-end. This included RMB-denominated loans of RMB2,354.454 billion, increased by RMB386.335 billion or 19.63% from the previous year-end. For the first half of 2008, the Bank strictly followed the domestic macro-economic policies and closely controlled credit growth, and as a result, loans and advances to customers grew steadily. In the second half of 2008, the Bank strengthened financial support to key industries and promoted the expansion of credit in adherence to national policies and measures in order to expand domestic market demand, optimise economic structure and promote stable, rapid and coordinated economic growth. Meanwhile, the Bank further improved its risk management capabilities and properly balanced the relationship between business growth and risk management so as to promote the healthy and rapid development of the loan business.

The credit quality of the Group's loan portfolio continued to improve during the year, and the ratio of loans classified as special-mention to gross loans decreased, resulting in an increase in the proportion of higher quality loans. Please refer to the "Risk Management – Credit Risk" section for more detailed information on loans.

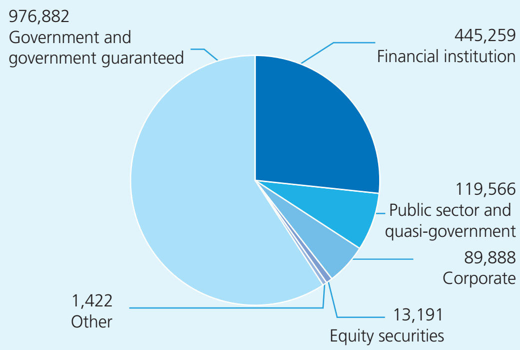
(2) The Group held investment securities of RMB1,646.208 billion, a decrease of RMB66.719 billion or 3.90% compared with the previous year-end. Of this amount, RMB-denominated investment securities amounted to RMB1,030.925 billion, an increase of RMB63.052 billion or 6.51% compared with the previous year-end. The amount of foreign currency-denominated investment securities amounted to RMB615.283 billion, a decrease of RMB129.771 billion or 17.42% compared with the previous year-end. In 2008, the Group continued to reduce the volume of foreign currency-denominated securities held and optimise its components, further reducing the risk in its foreign currency-denominated investment portfolio.

The classification of the Group's investment securities portfolio is shown below:

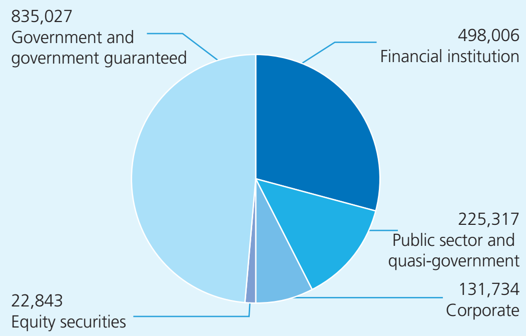
Unit: RMB million, except percentages

Items	As at 31 December									
	2008		2007		2006		2005		2004	
	Amount	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	**87,814**	**5.33%**	124,665	7.28%	115,828	6.12%	111,782	6.64%	92,124	6.97%
Securities available for sale	**752,602**	**45.72%**	682,995	39.87%	815,178	43.07%	602,221	35.77%	357,587	27.06%
Securities held to maturity	**365,838**	**22.22%**	446,647	26.08%	461,140	24.37%	607,459	36.09%	457,994	34.65%
Securities classified as loans and receivables	**439,954**	**26.73%**	458,620	26.77%	500,336	26.44%	361,851	21.50%	413,941	31.32%
Total	**1,646,208**	**100.00%**	1,712,927	100.00%	1,892,482	100.00%	1,683,313	100.00%	1,321,646	100.00%

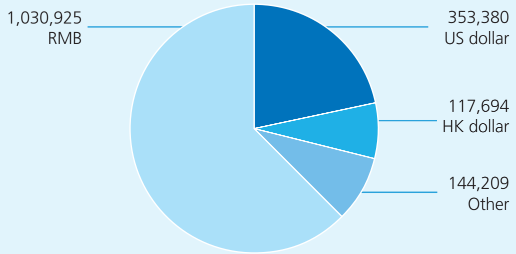
Investment Securities by Issuer Type
31 December 2008
Unit: RMB million



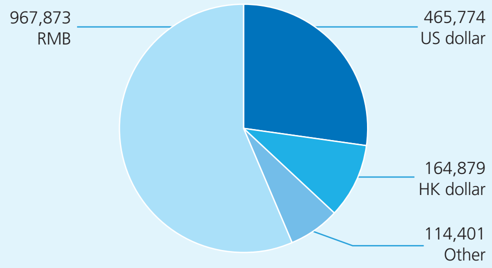
Investment Securities by Issuer Type
31 December 2007
Unit: RMB million



Investment Securities by Currency
31 December 2008
Unit: RMB million



Investment Securities by Currency
31 December 2007
Unit: RMB million



At the end of 2008, the Group's total liabilities amounted to RMB6,461.793 billion, an increase of RMB921.233 billion or 16.63% compared with the prior year-end.

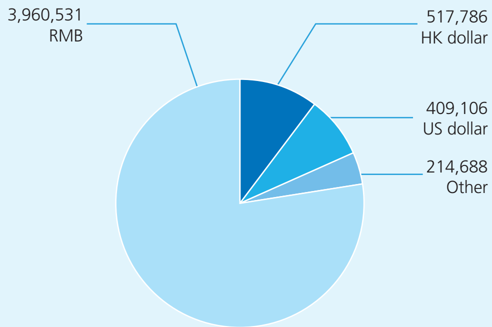
The Group's deposits from customers amounted to RMB5,102.111 billion, an increase of RMB702.000 billion or 15.95% from the prior year-end. This included RMB-denominated deposits of RMB3,960.531 billion, an increase of RMB721.453 billion or 22.27% from the prior year-end. Since the beginning of the year, the Group took advantage of capital market adjustments to attract personal deposits and corporate deposits, thereby increasing its market share compared with other major domestic commercial banks.

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

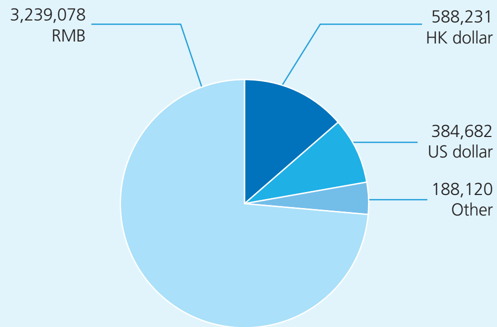
Unit: RMB million, except percentages

	As at 31 December									
	2008		2007		2006		2005		2004	
	Amount	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Group										
Corporate deposits										
Demand deposits	**1,375,251**	**26.96%**	1,174,722	26.70%	979,653	23.95%	836,763	22.62%	776,648	23.26%
Time deposits	**786,896**	**15.42%**	694,995	15.79%	549,118	13.42%	511,983	13.84%	406,019	12.16%
Sub-total	**2,162,147**	**42.38%**	1,869,717	42.49%	1,528,771	37.37%	1,348,746	36.46%	1,182,667	35.42%
Personal deposits										
Demand deposits	**901,188**	**17.66%**	810,720	18.43%	770,583	18.83%	667,957	18.05%	697,028	20.88%
Time deposits	**1,822,323**	**35.72%**	1,545,001	35.11%	1,645,914	40.23%	1,554,369	42.02%	1,351,692	40.49%
Sub-total	**2,723,511**	**53.38%**	2,355,721	53.54%	2,416,497	59.06%	2,222,326	60.07%	2,048,720	61.37%
Security and margin deposits	**216,453**	**4.24%**	174,673	3.97%	145,850	3.57%	128,392	3.47%	107,061	3.21%
Total	**5,102,111**	**100.00%**	4,400,111	100.00%	4,091,118	100.00%	3,699,464	100.00%	3,338,448	100.00%
Domestic										
Corporate deposits										
Demand deposits	**1,219,355**	**28.66%**	1,053,269	29.85%	871,331	26.65%	734,140	25.08%	657,481	25.80%
Time deposits	**631,905**	**14.85%**	517,173	14.65%	420,017	12.85%	393,394	13.44%	283,435	11.12%
Sub-total	**1,851,260**	**43.51%**	1,570,442	44.50%	1,291,348	39.50%	1,127,534	38.52%	940,916	36.92%
Personal deposits										
Demand deposits	**628,279**	**14.77%**	579,372	16.42%	544,974	16.67%	470,508	16.07%	416,516	16.34%
Time deposits	**1,568,024**	**36.86%**	1,214,757	34.42%	1,295,672	39.62%	1,208,176	41.27%	1,091,760	42.84%
Sub-total	**2,196,303**	**51.63%**	1,794,129	50.84%	1,840,646	56.29%	1,678,684	57.34%	1,508,276	59.18%
Security and margin deposits	**206,707**	**4.86%**	164,409	4.66%	137,815	4.21%	121,344	4.14%	99,417	3.90%
Total	**4,254,270**	**100.00%**	3,528,980	100.00%	3,269,809	100.00%	2,927,562	100.00%	2,548,609	100.00%

Customer Deposits by Currency
31 December 2008
Unit: RMB million



Customer Deposits by Currency
31 December 2007
Unit: RMB million



At the end of 2008, the Group's total equity was RMB489.887 billion, an increase of RMB39.230 billion or 8.71% compared with the prior year-end. This change was mainly attributable to:

(1) The profit for the year of RMB65.894 billion, with profit attributable to the equity holders of the Bank of RMB64.360 billion; and

(2) A cash dividend of RMB25.384 billion paid in respect of the 2007 profit approved by the equity holders of the Bank at the Annual General Meeting held on 19 June 2008.

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

Off-balance Sheet Items

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

The Group entered into various foreign currency exchange rate, interest rate, equity, precious metals and other commodity related derivative financial instruments, principally for trading, asset and liability management and on behalf of customers. Please refer to Note V.16 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments are in respect of credit commitments, legal proceedings, assets pledged, collateral accepted, capital commitments, operating leases, Certificate Treasury Bonds redemption commitments and security underwriting obligations. Credit commitments were the largest component of off-balance sheet items, totalling RMB1,614.063 billion at the end of 2008. Please refer to Note V.43 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

Cash Flow Analysis

At the end of 2008, the balance of the Group's cash and cash equivalents was RMB921.407 billion, a net increase of RMB392.470 billion compared with the prior year-end.

The net cash inflow from operating activities was RMB424.767 billion, an increase of RMB569.583 billion compared with the prior year. The increase was mainly attributable to the net increase of RMB525.481 billion in amounts due to customers, due to banks and other financial institutions.

The net cash inflow from investing activities was RMB25.040 billion. Cash inflow was RMB1,334.679 billion, a decrease of RMB330.077 billion compared with the prior year, mainly attributable to a decrease of RMB320.101 billion in proceeds from disposal of investment securities. Cash outflow was RMB1,309.639 billion, a decrease of RMB166.268 billion compared with the prior year, mainly attributable to decrease of RMB175.984 billion in cash payments for purchase of investment securities.

The net cash outflow from financing activities was RMB31.161 billion. Cash inflow was RMB3.248 billion, a decrease of RMB1.198 billion compared with the prior year. This was mainly attributable to the decrease of RMB1.069 billion in the cash received from issuance of bonds. Cash outflow was RMB34.409 billion, an increase of RMB17.688 billion compared with the prior year, mainly attributable to increase of RMB15.230 billion in the dividend payment to the equity holders of the Bank compared with the prior year.

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

Unit: RMB million

	Chinese Mainland		Hong Kong & Macau		Other Overseas Locations		Elimination		The Group	
Items	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net interest income	**139,412**	130,533	**19,429**	19,998	**4,095**	2,214	**–**	–	**162,936**	152,745
Non-interest income	**46,909**	10,139	**18,413**	30,586	**921**	1,577	**(283)**	(72)	**65,960**	42,230
Including: net fee and commission income	**32,791**	25,582	**6,085**	8,971	**1,175**	982	**(104)**	–	**39,947**	35,535
Operating expenses	**(75,683)**	(61,369)	**(20,023)**	(22,258)	**(1,935)**	(1,723)	**229**	72	**(97,412)**	(85,278)
Impairment losses on assets	**(30,357)**	(18,895)	**(12,645)**	(1,273)	**(2,029)**	(95)	**–**	–	**(45,031)**	(20,263)
Profit before income tax	**80,281**	60,408	**6,007**	28,316	**1,052**	1,973	**(161)**	–	**87,179**	90,697
Income tax expense	**(19,502)**	(24,577)	**(1,372)**	(3,675)	**(411)**	(409)	**–**	–	**(21,285)**	(28,661)
Profit for the year	**60,779**	35,831	**4,635**	24,641	**641**	1,564	**(161)**	–	**65,894**	62,036
Balance sheet items										
Assets	**5,570,992**	4,778,855	**1,250,309**	1,158,713	**585,365**	236,754	**(454,986)**	(183,105)	**6,951,680**	5,991,217
Liabilities	**5,198,840**	4,451,257	**1,144,774**	1,047,913	**573,004**	224,495	**(454,825)**	(183,105)	**6,461,793**	5,540,560

In 2008, the Chinese Mainland continued its rapid and robust growth. As at the end of 2008, total assets[3] of the Chinese Mainland segment amounted to RMB5,570.992 billion, an increase of RMB792.137 billion or 16.58% from the previous year-end. This represented 75.22% of the Group's total assets as at 31 December 2008. In 2008, this segment recorded a profit of RMB60.779 billion, an increase of RMB24.948 billion or 69.63% from the previous year. The increase was mainly attributable to an increase in net interest income of 6.80%, an increase in net fee and commission income of 28.18%, an increase in operating income of 32.45%, and an increase in operating expense of 23.32%, 9.13 percentage points lower than that of operating income. This segment represented 92.01% of the Group's profit for the year, a continuous increase in contribution.

Total assets of the Hong Kong and Macau segment amounted to RMB1,250.309 billion, an increase of RMB91.596 billion or 7.90% from the previous year-end, representing 16.88% of the Group's total assets. This segment achieved a profit for the year 2008 of RMB4.635 billion, a decrease of RMB20.006 billion from the previous year. The performance of the Hong Kong operations was mainly influenced by the impact of the international financial crisis. For details, please refer to the "Business Review" section.

The assets of the other overseas locations segment amounted to RMB585.365 billion, an increase of RMB348.611 billion or 147.25% compared with the prior year-end, representing 7.90% of the Group's total assets. This segment achieved a profit for the year 2008 of RMB0.641 billion, a decrease of RMB0.923 billion.

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

Critical Accounting Estimates and Judgments

The Group makes estimates and judgements 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. Management believes that the accounting estimates and judgements made properly reflected the economic conditions in which the Group was operating. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Group's accounting policies and accounting estimates.

Fair Value Measurement

In accordance with *the Guidelines on Market Risk Management in Commercial Banks, Chinese Accounting Standards 2006* and *International Financial Reporting Standards (IFRS)*, with reference to the *New Basel Capital Accord*, and drawing on good practices on valuation by leading international banks, the Bank formulated *Bank of China Limited Valuation and Price Verification of Financial Instruments (Treasury Products) Policy (trial)* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure.

If a financial instrument has an active market, the quoted market price in the active market is used to determine its fair value. If the market for a financial instrument is not active, valuation techniques are used

[3] The figures for the segment assets, segment profit for the year and their respective percentages are prior to intragroup elimination.

to establish its fair value. These include the use of recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants and demonstrated to provide reliable estimates of prices obtained in actual market transactions. Of which:

(1) The fair value of debt securities denominated in RMB and foreign currencies is largely based on market prices.

(2) The fair value of foreign exchange spots, forwards and swaps is measured using spot or forward exchange rates.

(3) The fair value of interest rate swaps and cross-currency interest rate swaps is established using a discounted cash flow model on the basis of the yield curve of each currency.

(4) The fair value of interest rate and currency options is established using option valuation models (e.g. the Black-Scholes model).

The risk-taking departments evaluate the fair value of financial instruments for trading or investment purposes. The financial management departments obtain quoted market prices or use valuation techniques for initial and subsequent measurement of the fair value of financial instruments in accordance with the accounting standards. Valuation and measurement reports are regularly prepared and delivered to the risk management departments and the risk-taking departments, to establish a clear and well-monitored fair value measurement process. The risk management departments are responsible for the review and verification of valuation models.

With regard to the fair value of new products, the measurement method, sources of information, valuation model, market prices and model inputs, among other things, are determined by the risk-taking departments, the financial management departments and the risk management departments and submitted to senior management for approval. In principle, the Bank cannot invest in treasury products on which the Bank does not have the ability to perform valuations. The reasonableness of market prices and model inputs is regularly reviewed and verified over the life of an instrument. Adjustments, if any, should be reported to the management for approval. For exotic treasury products, such as complex structured debt securities, the risk-taking departments shall analyse and assess fair values by obtaining quoted prices from multiple sources, including open market, counterparties or pricing service agencies. If there are indications of impairment, impairment allowances will be assessed. The risk management departments and the financial management departments respectively re-assess and verify the results from the risk measurement and the accounting measurement perspective.

In 2009, the Bank will take advantage of the opportunities presented from the implementation of Basel II to continue to strengthen fair value measurement and analysis of complex financial instruments.

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".

Management Discussion and Analysis — Business Review

In 2008, the Group achieved steady growth across all business lines as a result of continued improvement of its core competitiveness. A detailed review of the Group's principal deposits and loans as at the end of 2008 is summarised in the following table:

Unit: RMB million, except percentages

Items	As at 31 December		
	2008	2007	Change
Corporate deposits			
Domestic: RMB	**1,712,083**	1,447,091	18.31%
Foreign currency	**139,177**	123,350	12.83%
Overseas	**310,887**	299,276	3.88%
Sub-total	**2,162,147**	1,869,717	15.64%
Savings deposits			
Domestic: RMB	**2,020,900**	1,616,234	25.04%
Foreign currency	**175,403**	177,895	(1.40%)
Overseas	**527,208**	561,592	(6.12%)
Sub-total	**2,723,511**	2,355,721	15.61%
Security and margin deposits			
Domestic: RMB	**198,662**	158,335	25.47%
Foreign currency	**8,045**	6,074	32.45%
Overseas	**9,746**	10,264	(5.05%)
Sub-total	**216,453**	174,673	23.92%
Financial institution deposits			
Domestic: RMB	**308,701**	266,274	15.93%
Foreign currency	**188,327**	110,738	70.07%
Sub-total	**497,028**	377,012	31.83%
Corporate loans			
Domestic: RMB	**1,684,690**	1,370,321	22.94%
Foreign currency	**323,881**	359,851	(10.00%)
Overseas	**484,143**	387,805	24.84%
Sub-total	**2,492,714**	2,117,977	17.69%
Personal Loans			
Domestic: RMB	**653,994**	585,317	11.73%
Foreign currency	**239**	216	10.65%
Overseas	**149,199**	147,051	1.46%
Sub-total	**803,432**	732,584	9.67%

Note: Financial institution deposits herein are included in "Due to banks and other financial institutions", and corporate deposits, savings deposits, security and margin deposits are included in "Due to customers" in the Financial Statements.

Corporate Banking Business

The Bank continued to enhance its core competitiveness by improving key customer service marketing systems, coordinating the development of large high quality and small and medium-sized enterprises (SMEs) customers, optimising customer and industry bases, and strengthening product innovation. In 2008, the corporate banking business recorded a profit before tax of RMB60.554 billion, an increase of RMB12.934 billion, or 27.16%, over the previous year.

The Bank achieved stable and sustained growth in corporate deposits through enhancement of its deposit-taking business and marketing activities. These actions increased the deposit base of the Bank significantly. As at the end of 2008, the Bank's market share[4] of domestic RMB-denominated and foreign currency-denominated corporate deposits stood at 8.4% and 19.25% respectively, an increase of 0.27 and 0.54 percentage point compared with the prior year-end.

The Bank continually adjusted its loan structures, optimised credit allocation, and increased loans to key industries in line with the government policy of expanding domestic demand and promoting economic growth. As a result, the corporate loan business progressed steadily. At the end of 2008, the Bank's market share of RMB-denominated corporate loans stood at 6.54%, an increase of 0.29 percentage point from the previous year-end. The Bank's market share of foreign currency-denominated corporate loans continued to lead the market, reaching 19.45%.

During the year, the Bank launched a new SMEs pilot programme in two branches located in Shanghai and Quanzhou with distinct effectiveness, and the model has been implemented in other tier one branches such as Jiangsu, Shenzhen, Tianjin, Fujian and others, before the year end. Meanwhile, the Bank increased the amount of SMEs loans. As at the end of 2008, the loans to SMEs increased to RMB572.075 billion, and non-performing loans amounted to RMB41.942 billion, a decrease of RMB7.290 billion from the beginning of the year.

In view of the substantial changes in the economic environment, to ensure the healthy development of the financial institution banking business, the Bank has developed a watch list of financial institutions and adopted tailored risk management measures. Meanwhile, the Bank continued the transformation of its financial institution banking and product innovation, while enhancing credit risk management. By means of cross referral, resource sharing and joint development of new products, the Bank continued to strengthen

4 The market share refers to all financial institutions (including foreign financial institutions) quoted by the PBOC's monthly "Summary of Sources and Uses of Funds of Chinese Financial Institutions", same in hereafter.

its cooperation with financial institution customers. The third-party custody business sustained its growth this year with total customers reaching 5.21 million, an increase of 0.9 million in 2008. Cooperation with domestic and overseas financial institutions was further enhanced, particularly with regard to the mutual business routing, credit asset transfer, reciprocal funding, placement with banks and other financial institutions, monetary mutual deposit and agency services.

International settlement and trade finance are areas where the Bank has traditionally enjoyed a competitive advantage. Despite the adverse effects of the international financial crisis, the Bank was able to achieve rapid and steady growth in international settlement and trade finance in 2008. This was achieved by emphasising trade finance products and synergy of domestic and overseas operations. In 2008, transaction volume of the international settlement business conducted by the Group reached USD1,698.549 billion, up 20.94% over the previous year, enabling the Group to maintain its leading position in this field in the global banking industry. The transaction volume of the international settlement business conducted by the Bank's domestic operations stood at USD1,118.375 billion, up 17.72% over the previous year, of which, the transaction volume related to international trade settlement was USD732.729 billion, an increase of 21.41%, with a market share of 29.67% as reported in the statistics of the SAFE, continuing to lead the industry. The transaction volume of non-trade settlement was USD385.646 billion, an increase of 11.29%. The Bank has also strengthened its guarantee business. The transaction volume of foreign currency guarantees for domestic operations was USD26.989 billion, up 38.00% over the previous year, with a year-end balance of USD49.001 billion, an increase of 45.96%, allowing the Bank to maintain its leading position among major domestic commercial banks. The transaction volume of RMB-denominated guarantees reached RMB112.908 billion, an increase of 15.25% from the previous year, with a year-end balance of RMB188.679 billion, up 17.21% over the previous year-end. The trade finance volume hit a record high during the year. In 2008, the transaction volume of foreign currency trade finance conducted by the Bank's domestic operations increased by 43.53% to USD51.374 billion and the balance of foreign currency trade finance peaked at USD20.0 billion, amounting to USD15.106 billion at the year-end, an increase of 25.10% over the previous year-end, continuing to lead the industry. The transaction volume of RMB trade finance reached RMB85.682 billion, an increase of 19.96% over the previous year, with a year-end balance of RMB33.656 billion, up 35.50%. In 2008, transaction volume in the international factoring business conducted by the Bank's domestic operations was USD12.919 billion, an increase of 51.53% over the previous year. The transaction volume on "Two-factor Export" products grew by 112.17% to USD2.104 billion, maintaining the Bank's top ranking in the global market place.

The Bank reinforced its core competitiveness by continuing to emphasise product innovation. During the year, the Bank provided tailor-made financial solution packages for its corporate customers, developed an innovative "Invest-build-transfer" project finance model and agreement framework, and continued to promote structured products for ship finance. The Bank also rolled out investment loans for rental-generating properties, enriching its real estate finance product portfolio. Through establishment of settlement and financing platform for upstream automobile suppliers and the dual settlement and financing platform for downstream automobile dealers, the Bank extended its financing business from upstream enterprises to end customers. The Bank also introduced large-amount foreign currency corporate deposit products, including "Tiered Progressive Interest-Accrual Demand Deposit", "Time Deposit Products without Fixed Term", and "7-day and 14-day Time Deposit". The Bank developed and offered the "Customer Inward Information Enquiry System" for premium corporate customers as well as "Cross-border Cash Management System". The Bank rapidly developed its "*Da*" series of trade finance products, such as "*Huilida*" and "*Rongxinda*". Other new products were launched successively including "Domestic Letter of Credit with Interest Paid by Buyers", "Forfeiting under the Guarantee of IFC", "Third-party Financing under Two-factor Export". Significant progress was also made in the development of domestic and overseas cooperative products, such as short-term trade finance for banks and forfeiting, while steady development was made in the "TSU Leading Bank Plan" sponsored by SWIFT and the Global Trade Finance Program (GTFP) organised by IFC under the World Bank. Related trade promotion projects under EBRD, ADB and IDB continued to progress.

In 2009, the Bank will follow the macro-economic policies of the state, take a forward-looking approach to the ongoing transformation of its business growth model, strengthen its core competitiveness in the business units, and expand the corporate banking business. To achieve its goals, the Bank will consolidate its customer base, strengthen marketing management and improve marketing capability. It will continue to enhance its product innovation capability and corporate banking brand and will deepen process reforms, improve risk control capability and integration of domestic and overseas operations. It will also strengthen its team, consolidate business development to deliver coordinated and sustained development of its corporate banking business. Under the current economic and financial circumstance, the Bank's loan growth in 2009 is expected to be approximately 17%.

Personal Banking Business

The Bank has established a market-oriented and customer-centric service model as part of its ongoing development of personal banking business, and implemented a strategy focusing on key areas and cities as well as middle and high-end customers. During the year, the Bank consolidated its competitive product offerings and accelerated transformation of its retail network to improve their efficiency. The Bank also developed a global personal banking business, providing cross-border services to clients. In 2008, the Bank's personal banking business recorded a profit before tax of RMB23.447 billion.

During the year, the Bank strengthened customer relationship management focusing on middle and high-end customers, expanded its customer base, performed integrated marketing campaigns and increased savings deposits in response to the adjustments in the capital markets. As at the end of 2008, the balance of RMB-denominated savings deposits in the Bank's domestic operations exceeded RMB2 trillion, an increase of RMB400 billion over the previous year. Foreign currency savings deposits rebounded from the decline of the previous year, allowing the Bank to lead among all financial institutions with a market share (excluding foreign financial institutions) of 52.38%, up 0.59

percentage point compared with the previous year-end. The Bank continued to promote its "Ideal Home" brand and "Direct Marketing" mode of operations and introduced innovative personal loan products, such as "Automobile Loan Mortgage". The balance of RMB personal loans in the Bank's domestic operations increased by RMB68.677 billion, with a market share increasing to 16.06%.

The Bank vigorously promoted personal fee-based business, integrated personal foreign exchange and settlement business, and introduced one-stop financial services. The Bank also expanded its "BOC Foreign Exchange" outlets to improve brand awareness, and promoted the "Overseas Chinese Remittance" business to broaden the sources of overseas remittance, and maintained a leading role in the personal foreign exchange and settlement market as well as international remittance. The Bank also took advantage of the business opportunities created by the Beijing 2008 Olympic Games to market Olympic-licensed products, and precious metal products. These accounted for a net income of over RMB1.1 billion.

Substantial progress was made in the development of a three-tier wealth management system with the launch of the "BOC Wealth Management" brand. The number of new wealth management centres, prestigious wealth management centres and private banking centres reached 159, 50, and 10 respectively. As at the end of 2008, the volume of financial assets and the number of middle and high-end customers increased by 15.97% and 16.44% respectively compared with the previous year-end. The three-tier wealth management model is a service model different from that offered through ordinary outlets. The differentiated service model formally established within the Bank, this enhanced customer segmentation approach is characterised by standard services for ordinary outlets, diversified wealth management products for wealth management centres, personal consultations for prestigious wealth management centres and housekeeper-style financial services for private banking. Moreover, the service channels for overseas middle and high-end customers were further enhanced. In 2008, the Bank launched a private banking business in Macau, and set up a subsidiary in Switzerland specialising in private banking. A prestigious wealth management centre in Singapore is currently under development.

This year also saw the accelerated development of the Bank's service channels and transformation of its retail outlets. As at the end of 2008, the Bank owned 9,980 operating outlets across the Chinese Mainland, and renovated 6,761 outlets, representing 67.75% of the total. More than 6,220 ATM terminals were put into services in 2008, and the rate of migration from counter to self-service equipment reached 71.35%. In 2008, the Bank further segmented processes for business and retail customers and made a strong effort to integrate service and sales, business operations and management processes. Specialised marketing teams were set up at retail outlets, staff structures were streamlined and a comprehensive teller system was introduced. As at the end of 2008, the Bank had over 5,300 full-time lobby managers in business outlets, covering 53% business outlets, an increase of 19 percentage points over the previous year-end.

The Bank dedicated substantial marketing resources to the bank card business. By the end of 2008, the Bank's domestic operations had issued 15.7861 million credit cards, up 38.60% over the previous year-end, including 9.7226 million revolving credit cards, an increase of 88.42%. 127.5740 million debit cards were issued, an increase of 14.69%, including 58,300 overseas debit cards, an increase of 156.04% compared with the previous year-end. The total volume of spending with BOC card, RMB and FX card merchant acquiring transactions reached RMB313.249 billion, RMB314.093 billion and RMB26.785 billion, an increase of 24.68%, 33.00% and 2.98% respectively. The Bank's FX card merchant acquiring businesses maintained its top ranking position in the market.

To meet the diverse needs of its customers, the Bank continued to establish innovative products within personal banking products. Taking advantage of the Beijing 2008 Olympic Games, the Bank stepped up its effort to launch new products, including "Great Wall Payment Card", "Great Wall Prepaid Card", "Olympic Growth Account", "Olympic Courtesy Certificate of Deposit" and "Fuwa (Beijing Olympic mascot) Passbook". With a strong global franchise and diversified service platform, the Bank was able to offer comprehensive financial services to cross-border customers, including financial services for investment immigration in Canada, Chinese visa application agency services in London, and account opening agency services in the US, Canada and Australia. The Bank enhanced innovation in bank cards and services and shared marketing resources with other companies during the year. The Bank promoted its platinum cards to middle and high-end customers, and promoted a series of commercial cards to fiscal budgetary entities and large-sized enterprises. Distinctive co-branded cards, such as Nanhang Mingzhu BOC Credit Card and BOC Gotone Credit Card, were also rolled out during the year. Online payment and repayment functions were improved and the small-amount payment business was moved forward. The Bank took the lead among mainland banks in issuing the Singapore Dollar Union Pay Standard Credit Card in Singapore and introducing overseas debit cards in 6 regions and countries, including Macau and Seoul. During the Olympic Games at host cities and key regions, the Bank successfully completed the Europay-Master-Visa (EMV) promotion and provided Olympic bank card services to customers.

In 2009, as a market-oriented and customer-centric financial institution, the Bank will strive to develop into a leading international retail bank, and to become the first choice of middle and high-end personal banking customers. The Bank will aim to be the most internationalised local retail bank. It will continue to further integrate the Bank's business structures, improve its three-tier wealth management system, and optimise income structures and service models. In addition, the Bank will further enhance product innovation, transform more retail outlets to improve their efficiency, streamline business processes, improve the efficiency of outlets and strengthen its brand. All of these initiatives will enable the Bank to establish a global customer service system and achieve the integrated development of the personal banking business at home and abroad.

Financial Markets Business

In 2008, the Bank endeavored to accelerate business structure adjustment, improve innovation capability, optimise the investment portfolio and enhance risk monitoring capacity. The risk profile of the Bank's asset portfolio improved through an appropriate reduction in exposures to foreign currency-denominated securities. The Bank's financial market operations contributed RMB6.039 billion to the Group's before-tax profit.

The investments held by the Bank comprise both RMB-denominated and foreign currency-denominated investments. As at 31 December 2008, the Bank held debt securities totalling RMB1,631.595 billion, a decrease of RMB58.489 billion compared with the previous year-end.

The RMB-denominated investments mainly comprise Treasury bonds, PBOC bills and financial institutional bonds. In 2008, in response to the changing market conditions, the Bank increased its return on investment by increasing RMB-denominated investments, accelerating the investment pace and extending investment duration appropriately. As at 31 December 2008, the Bank's RMB-denominated debt securities totalled RMB1,030.912 billion, an increase of RMB66.243 billion over the previous year-end.

The foreign currency-denominated investments comprise primarily government bonds, public sector bonds, credit-linked notes, mortgage-backed securities (MBS), and asset backed securities (ABS). In 2008, the Bank appropriately adjusted the structure of its foreign currency investment portfolio by timely reducing positions in high-risk debt securities, such as structured bonds and credit bonds, and correspondingly increasing the proportion of government bonds in the portfolio. This was done according to the established Group policies of "position downsizing, structure optimisation, risk reduction and product simplification". All these measures helped the Bank substantially reduce its risk exposure.

As at 31 December 2008, the carrying value of US subprime mortgage related debt securities was USD2.590 billion (or RMB17.702 billion), representing 1.08% of the investment securities of the Group, of which 38.83% was AAA rated, 26.38% AA rated and 10.62% A rated. The impairment allowance for these securities was USD2.245 billion (or RMB15.344 billion) as at 31 December 2008. In addition, the Group recorded a fair value change of USD0.261 billion (or RMB1.785 billion) in the "Reserve for fair value changes of available for sale securities" in equity, reflecting the decrease in the fair value of the US subprime mortgage related securities positions.

As at 31 December 2008, the carrying value of US Alt-A mortgage-backed securities was USD1.148 billion (or RMB7.845 billion), representing 0.48% of the investment securities of the Group, of which 47.34% was AAA rated. The impairment allowance for US Alt-A mortgage-backed securities held as at 31 December 2008 was USD0.709 billion (or RMB4.844 billion).

As at 31 December 2008, the carrying value of Non-Agency US mortgage-backed securities was USD3.512 billion (or RMB24.000 billion), representing 1.46% of the investment securities of the Group, of which 60.65% was AAA rated. The impairment allowance for Non-Agency US mortgage-backed securities held as at 31 December 2008 was USD1.506 billion (or RMB10.293 billion).

As at 31 December 2008, the carrying value of the debt securities issued by US Freddie Mac and Fannie Mae held by the Group was USD5.045 billion (or RMB34.484 billion), of which 99.16% was AAA rated. The carrying value of the mortgage-backed securities guaranteed by these two agencies as at 31 December 2008 was USD3.711 billion (or RMB25.360 billion). The principal and interest payments on these securities are currently on schedule.

The Group will continue to follow up the developments in the international financial market and assess impairment on related debt securities in a prudent manner in accordance with IFRS.

Global trading undertaken by the Bank primarily comprises proprietary trading, market-making trading and customer driven transaction. In 2008, the Bank continued to implement the risk management strategy of "involving all employees, all relevant processes and all levels within the Bank" to maintain strict control of trading risks. The profitability of proprietary trading further improved. In its foreign currency-denominated bond trading, the Bank proactively took advantage of market opportunities and realised profits under effective risk controls. In RMB bond trading, to deal with the impact resulting from the fluctuation in the domestic bond market, the Bank actively adjusted its trading strategy and achieved positive results.

With regard to its market-making business, while bearing in mind the concept of being "customer-centric", the Bank focused on the development of its agency quotation business. In 2008, the Bank was named the "Best Market Maker of the Year", "the Most Influential Market Maker of the Year" and "Derivatives Market Maker of the Year" by China Foreign Exchange Trade System (CFETS). Its gold transaction volume grew rapidly and continued to rank first on the Shanghai Gold Exchange. RMB bond repo and forward bond transaction volume also ranked first in the market, and RMB spot bond transaction volume moved up to the second place.

The Bank promoted a healthy growth in the fee-based business by further optimising its product and client base, and enriching the product series provided. In 2008, the Bank developed 565 structured and entrusted wealth management products, of which, 92 were in foreign currency and 150 were in RMB for high-end and private banking customers. Foreign currency wealth management business maintained its market leader position while the development of the RMB wealth management business continued to innovate with 23 new issues of BOC Money Market Wealth Management Plan (bills-related wealth management series), totalling RMB18.340 billion. The Bank also restructured the BOC Stability Returns Wealth Management Plan (non-bank-guaranteed). The Bank actively adjusted its customer base in the debt capital markets and reinforced the marketing efforts on top-tier customers in both the head office and the branches. Sales of commercial papers (including those of joint sale) amounted to RMB23.350 billion while sales of medium-term notes reached RMB18.400 billion. 290 funds and other collective wealth management products were distributed by the Bank, a total of RMB102.3 billion, an increase of 150 funds and products over the prior year. Total assets under custody also reached RMB632 billion as at 2008 year end. The Bank reinforced marketing efforts for annuity products and provided annuity account management services and custody services for thousands of corporate customers, making great contributions to the development of these enterprises, the Bank and the social welfare.

In 2009, the Bank will continue to address the challenges in the financial markets caused by the financial crisis and the slowdown of economic growth. The Bank will take advantage of opportunities presented by changes in China's fiscal and monetary policies to promote sustained and healthy development of financial markets business. By consolidating its advantages in foreign exchange business and proprietary trading business, the Bank will further sharpen its competitive edge in respect of RMB business and customer driven business.

International and Diversified Business

In 2008, the Bank made significant progress with respect to its international and diversified businesses. As characterised by the enhanced synergies between its domestic and overseas businesses, the Bank's globally integrated management model proved to be highly effective. The international settlement and trade finance businesses in the Bank's overseas operations recorded substantial growth, the three syndicated loan centres performed well, and the international network was further expanded with the opening of Guro branch in Korea and Surabaya branch in Indonesia. The comprehensive financial offerings, including investment banking, insurance business and direct investment, continued to provide the Bank with diversified income streams.

Bank of China (Hong Kong)

Through its extensive service network of over 280 branches and 470 ATMs in Hong Kong as well as other servicing and distribution channels, BOCHK and its subsidiaries offer a comprehensive range of financial products and services to personal and corporate customers. BOCHK is one of the three note-issuing banks in Hong Kong. In addition, BOCHK and its subsidiaries have a combined total of 18 branches and sub-branches in the Chinese Mainland to provide cross-border services to customers in Hong Kong and the Chinese Mainland. BOCHK has been appointed by the PBOC as the clearing bank for RMB-denominated business in Hong Kong. BOCHK (Holdings), which holds the entire equity interest in BOCHK, was listed on main board of the Hong Kong Stock Exchange on 25 July 2002.

In 2008, owing to the global financial crisis, BOCHK registered a profit for the year of RMB2.826 billion, which was significantly lower than the prior year.

In response to the extreme volatilities in the operating environment, BOCHK enhanced its assets and liabilities management as well as liquidity management and continued the execution of its stringent risk management

policies. In 2008, its capital base was further strengthened following two subordinated loans granted by the Bank. With its powerful base and competitive edge, its traditional banking businesses continued to grow healthily. By leveraging its Relationship-Product-Channel (RPC) business model, BOCHK further improved its service quality and innovative capabilities and maintained its leading position in the Hong Kong market.

Being the clearing bank for RMB-denominated business in Hong Kong, BOCHK proactively developed its RMB remittance and exchange businesses, enhanced its integrated RMB services and maintained its leading position in the RMB-denominated business in Hong Kong in 2008. At the end of 2008, the balance of BOCHK's RMB deposits in Hong Kong was up 58.5% from the prior year-end. BOCHK also maintained its leading position in terms of the issuing number of RMB credit cards, with the total number increased by 24.6% from the prior year-end, while cardholder spending volume grew by 49.8% from 2007.

Acting as the Group's "Asia-Pacific Syndicated Loan Centre", BOCHK is responsible for the initiation and coordination of syndicated loans for the Group in the Asia-Pacific region. It maintained its leading position as the top arranger in both the Hong Kong-Macau and the Chinese Mainland-Hong Kong-Macau syndicated loan markets. In respect of its mortgage business, BOCHK continued to offer its customers a diversified range of mortgage products and hence outperformed its peers in terms of growth in mortgage loans.

BOCHK further enhanced its capabilities in product and service innovations. In 2008, BOCHK launched "BOC CUP Dual Currency Credit Card", the first credit card ever introduced in Hong Kong displaying the China UnionPay logo and using both RMB and HKD as the settlement currencies. Taking advantage of the opportunities arising from the Olympic Games, BOCHK actively promoted its deposit service by introducing new products such as "Olympic Triple Jump Fixed Deposit" and successfully introduced and sold "Beijing 2008 Olympic Games Hong Kong Dollar Commemorative Banknote". BOCHK also launched equity-linked investment products under its own brand. To target customers' financial needs, a specialised commercial wealth management team was established to help corporate customers in formulating tailor-made financial management strategies. The number of ATMs with RMB cash withdrawal service increased, further expanding its servicing network.

BOCHK made steady progress in developing its business in the Chinese Mainland. The locally incorporated NCB (China) opened its Guangzhou Panyu sub-branch and Hangzhou and Nanning branches during the year. At the end of 2008, a total of 6 branches and sub-branches of NCB (China) were approved to conduct full range of RMB businesses. In addition, BOCHK's branches in the Chinese Mainland also enhanced their service scope, and while reinforcing their internet banking service platforms, also actively promoted their cross-border services including RMB remittance and account opening services for overseas customers.

In 2009, BOCHK will strive to optimise its business, customer and revenue structures by taking advantage of market adjustments to formulate a balanced business and regional development strategy. While consolidating its traditional competitive position, BOCHK will continue to enhance its competitiveness in core business areas. Meanwhile, BOCHK will deepen its business cooperation with the Bank to fully realise synergies, expedite the Chinese Mainland business and strengthen its competitiveness in the Asia Pacific region.

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

Investment Banking Business

BOCI

The Bank operates an investment banking business through 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 offerings include listings, mergers and acquisitions, financial advisory, sales and trading of equities and private wealth management among others.

In 2008, amidst the continued fluctuations in the capital markets in Hong Kong and the Chinese Mainland, and the significant drop in stock exchange trading volume, BOCI recorded RMB0.462 billion in after-tax profit in 2008, significantly lower than the prior year.

Against the backdrop of adverse market conditions in the Chinese Mainland and Hong Kong, BOCI unremittingly sought out market opportunities, strengthened product innovation, marketing and risk management, and furthered its presence in overseas capital markets. In 2008, BOCI acted as joint global coordinator, joint book runner, joint sponsor, and joint lead manager in the Red-chips IPO of Renhe Commercial. BOCI also acted as sole financing agent, sole book runner, and joint financial advisor in the asset acquisition and share placement project of Fushan Energy.

In 2008, the Fixed-Income business of BOCI was severely impacted by the shrinking global credit market, declining liquidity and stagnant primary bond market. Under these difficult market conditions, BOCI twice acted as the co-lead manager in the issuance of European Investment Bank (EIB) medium-term notes; and successfully acted as the joint lead underwriter and book runner for the RMB3 billion bond issuance for the Bank in Hong Kong.

BOCI Prudential, a joint venture asset management company of BOCI, retained its position as a leading player in the local market. It maintained its top-five position in terms of Mandatory Provident Fund market share in Hong Kong and its leading position in the Macau Pension market. In 2008, subsequent to the launch of "W.I.S.E – CSI 300 China Tracker" Fund, BOCI Prudential successfully launched the first Exchange-Traded Fund (ETF) product in Hong Kong that tracks "CSI Hong Kong 100 Index", which provided QDII clients with convenient channels for investing in the Hong Kong stock market.

BOCI continued to promote leveraged and structured finance business and successfully offered a number of enterprises financial advisory and funding support for leveraged acquisition, listing and project construction activities, demonstrating BOCI's capabilities in providing integrated financial services including equity financing, debt financing and acquisition advisory.

BOCI conducts business in the Chinese Mainland through BOCI China. In 2008, BOCI China achieved steady growth in its business. BOCI China ranked second among all securities firms in the Chinese Mainland in terms of the total volume involved in underwriting of treasury bonds, ranked fourth in terms of number of corporate bonds underwritten, one of the top three domestic underwriters of inter-bank bonds in terms of transaction volume, one of the top underwriters of policy bank bonds in terms of total underwriting amount, and ranked fifth in the A-Share IPO market in terms of underwriting turnover. In 2008, BOCI China acted as leading co-sponsor and co-underwriter on the A-Share IPO of Jinduicheng Molybdenum, which was the first electronic IPO pilot offering project in the A-Share market, and the private placement of Huaxia Bank, which was the largest non-public SEO project in the year. Also, BOCI China acted as lead or co-lead manager for a number of corporate bond issuance for large domestic enterprises and institutions. In addition, BOC International Futures Limited was incorporated in 2008 to engage in businesses including futures brokerage, futures consultation and training service.

In 2009, BOCI will continue to enhance its corporate governance, risk management and internal control systems. BOCI will continue to implement its "Comprehensive Investment Banking" operation model, as well as to promote product innovation in order to achieve the objectives of becoming the best investment bank in China with sustainable growth capacity.

BOCIM

In 2008, the Chinese fund management industry had been impacted by the global financial crisis. BOCIM adopted proactive approaches to address the challenges and minimise the impact of the crisis by focusing on financial management and budgeting, strengthening internal management and cost control processes. Leveraging resources from across the Group, BOCIM has achieved steady growth despite the fund management industry experiencing a sharp shrink in assets under management due to the volatility in the capital markets. As at 31 December 2008, total assets under management amounted to RMB22.261 billion, a decrease of RMB2.765 billion or 11.05% from the prior year-end while its fund units under management increased to 30.466 billion, an increase of 45.43% compared with the previous year-end.

In 2009, BOCIM will further enhance its internal management and operational systems, effectively control risk, aggressively seek to expand market share and the scale of assets under management, improve fund management capabilities, and strive to achieve a steady growth in all aspects of its business.

Insurance Business

The Bank operates its insurance business through BOCG Insurance, its wholly-owned subsidiary registered in Hong Kong. BOCG Insurance mainly operates a general insurance business, as well as a life assurance business through BOCG Life, which is jointly owned with BOCHK (Holdings). In addition, BOCG Insurance operates a property insurance business in the Chinese Mainland through its wholly-owned subsidiary, BOC Insurance. At present, BOCG Insurance has six branches in Hong Kong and holds dominant position in the Hong Kong property and casualty insurance market.

In 2008, BOCG Insurance registered a gross premium income of HKD1.416 billion (RMB1.260 billion), an increase of HKD0.241 billion and 20.51% in comparison with the prior year.

BOCG Insurance has enhanced its marketing strategy in the insurance market, consolidated and embedded collaboration between Group's organisations in Hong

Kong, proactively promoting bancassurance cooperative relationship, strengthened the Group brand, restructured the Broker and Agency Business Departments, positively developed its insurance business in Hong Kong and explored the marketing channels of Brokers and Agents. All of these resulted in a competitive advantage for the company. In addition, to optimise its business structure, BOCG Insurance further reduced risk by reinforcing its risk management controls.

BOCG Life further enhanced cooperation with BOCHK. With assess to BOCHK's large client base and distribution networks, BOCG Life provides its customers with a diversified range of insurance products. In 2008, BOCG Life further enhanced its brand image and strengthened marketing initiatives and actively expanded regular pay products. Its market share in terms of total individual new business standard premium further increased.

BOC Insurance proactively managed its business structure, vigorously developed its insurance business, and increased proportion of its non-auto insurance business to 30%, which is relatively advantageous among peers. The cooperation between the Bank and insurance companies further contributed to the growth of premium income. In 2008, BOC Insurance registered a gross premium income of RMB1.722 billion, representing a significant increase compared with the prior year. Regarding market share, BOC Insurance increased 0.41 percentage point compared with the prior year-end, and it rose from a market ranking of 23rd in 2007 to 18th in 2008. At the end of 2008, BOC Insurance operated in 19 provinces across the Chinese Mainland, covering most regions in China.

In 2009, BOCG Insurance will continue to promote product and service innovation, expand distribution channels, optimise its product portfolio, adjust business structures, deepen the cooperation with BOCHK, NCB and Chiyu, enhance the cooperation between businesses in the Chinese Mainland, Hong Kong and Macau, leverage the brand, channel and customer resources of the Group and improve integration level of financial service.

Investment Business

BOCG Investment

The Bank is engaged in direct investment and investment management business through its wholly-owned subsidiary, BOCG Investment. Through its business roots in Hong Kong, it penetrates the Chinese Mainland and reaches out to the world. Its main business scope includes corporate equity investment, non-performing assets ("NPA") investment and real estate investment and management.

In 2008, BOCG Investment actively developed its business in prudent manner, increased investment value and constantly explored enhancements to its own business model, growth model and management mechanism. It achieved healthy results from all businesses and registered an after-tax profit of RMB0.249 billion.

In 2008, the external environment substantially impacted the direct investment business. Accordingly, BOCG Investment adjusted its investment speed and strategy, clarified key investment targets, broadened and maintained business channels, and marketed investment products. Through prudent project selection and business development, it made investments in a number of equities and funds. Through strengthening cooperation with the Group and other peer companies, it made significant returns from NPA investment. BOCG Investment disposed of NPA investment assets efficiently and took initiatives in exploring merger & acquisition model. In addition, it clarified the business model for real estate investment, developed strict investment entry standards, proactively selected cooperation projects with great prudence, and maintained good returns on its investment projects.

In 2009, BOCG Investment will closely monitor the changes in the macro-economic environment, focus on long-term development plans and respond to the new competitive situation and customers' demands. It will explore innovative operating models and new products, reinforce project operation and implementation capability, analyse and seize potential business opportunities and effectively facilitate sound development of its investment business.

BOC Aviation

BOC Aviation, a subsidiary of BOCG Investment, reported an after-tax profit of USD107 million, an increase of USD26 million or 32% year-on-year. In response to the negative impact of the global economic downturns, it proactively took advantage of market opportunities to increase its high quality customer base, further expand sources of stable and sustainable rental income, and reinforce its leading position in Asia. During 2008, BOC Aviation signed lease contracts involving 32 aircraft with 7 airlines globally, and purchased 20 aircraft through purchase and lease-back from airlines including Southwest Airlines. BOC Aviation has a portfolio of 92 aircraft and another 71 aircraft orders, a year-on-year increase of 21% and 18% respectively.

Management Discussion and Analysis — Risk Management

In 2008, the Bank reacted to the changes in macro-economic policy and the economic environment by implementing proactive risk management strategies and enhancing its forward-looking and specialised risk management procedures, in order to improve its core competitiveness. This improvement in the Bank's risk management capabilities was in line with the accelerated implementation of Basel II.

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

The risk management framework of the Bank comprises the Board of Directors and the Risk Policy Committee under the Board, Internal Control Committee, Anti-money Laundering Committee and Assets Disposal Committee under the Senior Management, Risk Management Department, Credit Administration Department, Financial Management Department, Legal & Compliance Department and the other related departments. The Head Office manages the risks in branches through the Bank's vertical management model and the risks in business department through the window management model. The Bank monitors and controls risk in subsidiaries by appointing certain members of the boards of directors or risk management committees of the subsidiaries.

Credit Risk

Credit risk means the risk that a customer or counterparty may be unable or unwilling to meet a repayment obligation that it has entered into with the Bank. The major credit risks of the Bank come from the loans, trade finance and treasury businesses.

In 2008, the Bank further enhanced its monitoring and controls on asset quality, strengthened stress testing of sensitive industries and adjusted credit policies in a timely manner to respond to changes in the macro-economy. To further improve the credit structure, the Bank focused on the support of major high quality customers and withdrew from lower quality and high-risk customers. At the end of 2008, outstanding loans extended to borrowers with an internal credit rating of "A" and above accounted for 51.3% of the total loan balance outstanding of the rated corporate customers in domestic operations, an increase of 0.7 percentage point compared with the prior year-end.

With respect to its corporate banking business, the Bank closely followed the economic situation, assessed the credit risks of vulnerable industries impacted by the government's austerity policies, enhanced its analysis and monitoring of industries with overcapacity, potential overcapacity and industries seriously impacted by the macro-economic policies. The Bank adjusted its industry credit granting strategy to control industry risk. The Bank managed a watch list on high-risk customers with large outstanding balances. The Bank intensified the frequency of risk monitoring and the

degree of inspection and strengthened the reporting system for high risk issues, the risk management of special-mention loans and pre-warning indicators. With respect to personal banking business, the Bank continued to implement a pre-warning and calling-off mechanism, strengthened the management of personal housing loans, improved the collateral registration process of personal mortgage loans, and further promoted decision-making systems across its personal credit business.

In March 2008, the implementation plan for the Basel II was approved by the Board of Directors and the Bank gradually accelerated the implementation process. In accordance with the Bank's overall requirements of "uniform planning and implementation by modules, uniform methods and implementation by departments", the Bank moved forward with the implementation of Basel II in relevant modules and sub-projects. Meanwhile, the Bank actively conducted self-assessment programs to evaluate compliance with five guidelines stipulated by the CBRC, establishing an important foundation for compliance requirement fulfillment in the future. The implementation process of Basel II in overseas operations was consistent with local regulatory requirements.

The Bank generally measures and manages the quality of credit risk bearing assets based on the *Guidance of Loan Credit Risk Classification* issued by the 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 (NPLs). 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 2008, the Bank continued to centralise the management of loan classification in the domestic branches. All loan classifications are reviewed and approved by either the Head Office or tier one branches. When loans are classified, consideration is given to various factors that will affect the quality of loans. Probability of asset recovery and the extent of loss are core criteria. To obtain a loan's final risk classification, the Bank must perform standardised processes of classifying, checking, reviewing and approving. The loan classification may be revised when there are significant changes to risk profile.

At the end of 2008, the Group reported NPLs of RMB87.490 billion, and an NPL ratio of 2.65%, representing a decrease of RMB1.312 billion or 0.47 percentage point compared with the prior year-end respectively. Domestic NPLs and NPL ratio was RMB83.305 billion and 3.13%, respectively representing a decrease of RMB3.706 billion and 0.63 percentage point compared with the prior year-end. The amount of outstanding special-mention loans was RMB159.988 billion, an increase of RMB14.997 billion compared with those as at the end of prior year, accounting for 4.85% of the total loan portfolio and a decrease of 0.23 percentage point from the end of prior year.

Five-category loan classification

Unit: RMB million, except percentages

	As at 31 December 2008		As at 31 December 2007		As at 31 December 2006	
	Amount	**% of total**	Amount	% of total	Amount	% of total
Group						
Pass	**3,048,668**	**92.50%**	2,616,768	91.80%	2,135,654	87.81%
Special-mention	**159,988**	**4.85%**	144,991	5.08%	198,145	8.15%
Substandard	**39,411**	**1.20%**	35,105	1.23%	39,390	1.62%
Doubtful	**35,212**	**1.06%**	40,897	1.43%	44,100	1.81%
Loss	**12,867**	**0.39%**	12,800	0.46%	14,730	0.61%
Total	**3,296,146**	**100.00%**	2,850,561	100.00%	2,432,019	100.00%
NPLs	**87,490**	**2.65%**	88,802	3.12%	98,220	4.04%
Domestic						
Pass	**2,436,838**	**91.51%**	2,089,139	90.21%	1,703,908	85.69%
Special-mention	**142,661**	**5.36%**	139,555	6.03%	188,604	9.49%
Substandard	**36,585**	**1.38%**	34,216	1.48%	38,517	1.94%
Doubtful	**34,354**	**1.29%**	40,308	1.74%	43,119	2.17%
Loss	**12,366**	**0.46%**	12,487	0.54%	14,186	0.71%
Total	**2,662,804**	**100.00%**	2,315,705	100.00%	1,988,334	100.00%
NPLs	**83,305**	**3.13%**	87,011	3.76%	95,822	4.82%

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. At the end of 2008, the Group reported identified impaired loans totalling RMB90.879 billion, an increase of RMB0.562 billion compared with the prior year-end. The Group's impaired loans to gross loans ratio was 2.76%, representing a decrease of 0.41 percentage point year-on-year. Domestic operations reported identified impaired loans totalling RMB87.352 billion, a decrease of RMB2.085 billion compared with the prior year-end. The domestic impaired loans to gross loans ratio was 3.28%, representing a reduction of 0.58 percentage point year-on-year. Overseas operations reported impaired loans totalling RMB3.527 billion, an increase of RMB2.647 billion compared with the prior year-end. The overseas impaired loans to gross loans ratio was 0.56%, representing an increase of 0.40 percentage point year-on-year.

Movement of identified impaired loans

Unit: RMB million

	2008	2007	2006
Group			
Balance at the beginning of the year	**90,317**	103,232	109,530
Increase during the year	**32,352**	33,006	41,928
Reduction during the year	**(31,790)**	(45,921)	(48,226)
Balance at the end of the year	**90,879**	90,317	103,232
Domestic			
Balance at the beginning of the year	**89,437**	98,649	102,359
Increase during the year	**30,478**	31,814	40,924
Reduction during the year	**(32,563)**	(41,026)	(44,634)
Balance at the end of the year	**87,352**	89,437	98,649

Loans and identified impaired loans by currency

Unit: RMB million

	2008		2007		2006	
	Loans	**Impaired loans**	Loans	Impaired loans	Loans	Impaired loans
Group						
RMB	**2,354,454**	**76,599**	1,968,119	80,209	1,692,980	86,816
Foreign currency	**941,692**	**14,280**	882,442	10,108	739,039	16,416
Total	**3,296,146**	**90,879**	2,850,561	90,317	2,432,019	103,232
Domestic						
RMB	**2,338,684**	**75,035**	1,955,638	80,209	1,688,414	86,816
Foreign currency	**324,120**	**12,317**	360,067	9,228	299,920	11,833
Total	**2,662,804**	**87,352**	2,315,705	89,437	1,988,334	98,649

Note: In 2006, the Bank transferred impaired loans of RMB2.066 billion from overseas operations. 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.

The Bank makes adequate allowance for impairment losses on a timely basis and in accordance with prudent and true 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 allowances for impairment losses, please refer to Note II. 4 and VI. 3 to the Consolidated Financial Statements.

In 2008, the impairment losses on loans and advances for the year were RMB16.792 billion, representing an increase of RMB8.540 billion from the prior year. The credit cost was 0.55%, representing an increase of 0.24 percentage point from the prior year. Impairment losses on loans and advances in domestic operations reached RMB14.256 billion, representing an increase of RMB5.425 billion from the prior year, with the credit cost of 0.57% increasing by 0.16 percentage point from the prior year. At the end of 2008, the Group's allowance for impairment losses on loans and advances was RMB106.494 billion, an increase of RMB10.426 billion from the prior year-end, with the coverage ratio of allowance for impairment losses to identified impaired loans increasing by 10.81 percentage points to 117.18% from the prior year-end. Allowance for impairment losses on loans and advances in domestic operations reached RMB100.757 billion, an increase of RMB7.474 billion from the prior year-end, with the coverage ratio of allowance for impairment losses to identified impaired loans increasing by 11.05 percentage points from the prior year-end to 115.35%.

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

Main regulatory ratios	Regulatory Standard	As at 31 December		
		2008	2007	2006
Loan concentration ratio of the largest single borrower (%)	≤10	**3.4**	3.4	2.2
Loan concentration ratio of the ten largest borrowers (%)	≤50	**17.6**	16.1	15.7

Notes:

1. Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower/net regulatory capital

2. Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers/net regulatory capital

Please refer to Note V.17 and VI.3 to the Consolidated Financial Statements for the classification of loans, identified impaired loans and allowance for loan impairment losses.

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

Unit: RMB million

		As at 31 December 2008	
Borrower	**Industry**	**Outstanding principal amount**	**% of total loans**
A	Transportation	17,990	0.55%
B	Commerce and Services	12,280	0.37%
C	Transportation	10,972	0.33%
D	Public Utilities	9,581	0.29%
E	Transportation	9,224	0.28%
F	Manufacturing and supplying of Electric Power, Gas and Water	8,303	0.25%
G	Manufacturing and supplying of Electric Power, Gas and Water	6,835	0.21%
H	Manufacturing and supplying of Electric Power, Gas and Water	6,748	0.20%
I	Transportation	5,812	0.18%
J	Manufacturing	5,490	0.17%

Market Risk

The Bank is exposed to market risks that may cause losses in both on and off-balance sheet as a result of adverse changes in market prices (interest rate, exchange rate, stock price and commodity price). Market risk arises from trading and banking books. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other risks 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).

The Board of Directors of the Bank takes ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for carrying out market risk management policies ensuring that the level of market risk is within the risk appetite determined by the Board of Directors, while meeting the Group's business objectives. The Risk Management Department is dedicated to identifying, measuring, monitoring, controlling and reporting market risks at the Group level. Each business unit is responsible for monitoring and reporting market risk within their respective business units.

In 2008, the international financial market experienced a high level of volatility, major financial markets became more inter-dependent, and as a result, market risks increased substantially. In response to the financial crisis, the Bank took positive and prompt measures to strengthen the Group's uniform management of market risks. The Bank assigned management of the bond investment business of major subsidiaries to the Group's Securities Investment Management Committee to preliminarily ensure uniform monitoring of the market risk of the Group's trading and investment business and increase monitoring frequency. The Bank promoted specialised and differentiated market risk management dependent on the business nature and product characteristics of different operations within the Group. The Bank further improved the market risk limits system, assigned approval authority for the market risk limits of subsidiaries to the Board of Directors of the Group, and ensured the limits were adjusted in a timely manner according to the market changes. The Bank also broadened its Value-at-Risk (VaR) measurement scope, reinforced measurement capability, applied VaR measurement to RMB and precious metal businesses as well as digital options and other complex derivative products, refined VaR measurement approaches and parameter settings, and enhanced the VaR post testing and model parameter validation. The Bank also steadily pushed forward with implementation of the market risk module of Basel II.

As to the market risk of the trading book, the Bank monitors the overall VaR and exposure limits of the trading book and tracks the implementation of the various risk limits of trading desks and traders on a daily basis. In response to the changes in the financial market, the Bank continued to adjust and improve stress testing scenarios and measurement approaches for trading book, capture the influence of concurrent changes in market price and volatilities, and improve market risk identification capability. In order to unify the parameters of the Group's market risk measurement model, since 1 April 2008, the Bank has used a 99% level of confidence (1% statistical probability that actual losses could be greater than the VaR estimate) and historical simulation approach to calculate the VaR estimate. Prior to this, a 95% level of confidence and Monte Carlo Simulation approach was used. BOCHK and BOCI also adopted a confidence level of 99% and historical simulation approach. Please refer to Note VI.4 to the Consolidated Financial Statements for detailed information regarding the VaR of the Bank's trading book.

Market risk in the banking book mainly comprises interest risk and exchange rate risk. The Bank's primary market risk for the banking book is interest rate risk. Interest rate risk arises mainly from mismatches in the maturities, re-pricing periods or benchmark interest rates of assets and liabilities. The Bank manages the interest rate risk of the banking book primarily through interest rate repricing gap analysis. 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. 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 of Directors and monitored by the Risk Management Department periodically. In 2008, in order to reduce interest rate risk, the Bank closely followed domestic and foreign currency interest rate trends and promptly adjusted interest rates of local and foreign currency deposits and loans, continued to refine various investment policies and procedures, gave full play to the role of Securities Investment Management Committee, strengthened monitoring and risk analysis of bond investment business, and adjusted its investment strategy in response to market changes on a timely basis. For details of the interest rate repricing gaps, please refer to Note VI.4 to the Consolidated Financial Statements.

Assuming the yield curves of all major currencies shift up or down 25 basis points in parallel, the Group's sensitivity analysis of net interest income on major currencies was as follows[5]:

Group

Unit: RMB million

	As at 31 December 2008			As at 31 December 2007		
	RMB	**USD**	**HKD**	RMB	USD	HKD
Up 25bps	**(1,084)**	**(304)**	**(85)**	(1,631)	(282)	131
Down 25bps	**1,084**	**304**	**85**	1,631	282	(131)

The Bank's management of exchange rate risk covers both non-trading and trading book. 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. Non-trading exchange rate risk mainly arises from foreign currency profit and loss and investment in overseas subsidiaries. The Bank manages and controls exchange rate risk by way of FX transactions or hedging to ensure currency matching in asset and liability and maintain FX exposure within the specified limit.

Liquidity Risk

Liquidity risk refers to the risk that the Bank is unable to obtain funds at a reasonable cost when required to meet a repayment obligation or fund its asset portfolio in a certain time. The Bank's objective in liquidity risk management is to maintain liquidity at reasonable level, to ensure due debt repayment and meet the demand of business development, as well as to maintain adequate readily convertible assets and funding availability in order to respond to emergencies.

In 2008, in response to the increasing fluctuations of the financial markets and swift changes in the macro-environment, the Bank further strengthened its liquidity risk management and revised the *Liquidity Management Regulations of Bank of China Limited* and the *Liquidity Portfolio Guidelines of Bank of China Limited*, which regulate the basic principles, management framework, operational procedures and monitoring index of liquidity management.

The Bank adopts a proactive liquidity management strategy, which includes the principle of developing assets in line with liabilities, maintaining an appropriate level of highly liquid assets, improving the stability of liabilities, increasing the proportion of core deposits, and developing the RMB and FX liquidity portfolios to ensure that sources and usage of different currencies are in accordance with its liquidity management requirements.

5 The analysis is in accordance with the CRBC rules, and includes all off-balance sheet positions. It is for illustration purpose only and based on the Group's gap position at the end of 2008 and does not take into account any change in customer behaviour, basis risk or any prepayment options on debt securities. The changes of net interest income are calculated only assuming the yield curves shift up or down 25 basis points in parallel, because major currencies' interest rates are at historical low level, and results of 2007 are adjusted accordingly.

In 2008, as a result of the government's moderate monetary policy, the Bank witnessed a steady increase in the size of RMB deposits. Fund stability was improved, credits were granted on a steady basis, and RMB liquidity increased. The Bank utilised several measures to improve the accuracy of position forecasting, promoted specialised liquidity risk management, diversified its asset portfolio, supported the healthy development of asset business, and reduced liquidity costs.

In 2008, anticipated changes in RMB appreciation caused wide fluctuations in the foreign currency fund of the Bank. The Bank strengthened its overall arrangements regarding the Group's foreign currency funds, effectively adjusted the surplus and deficiency of foreign currency funds of domestic and overseas operations, and successfully met business development objectives and regulatory requirements. In response to the global financial crisis, the Bank immediately launched an emergency plan, revised the allocation strategy of its liquidity portfolio, increased investment in government bonds with lower risk and high liquidity, and reduced the credit risk of its liquidity portfolios. On the strength of its abundant liquidity and sufficient funds, the Bank gained a strong reputation in the international financial markets.

As of 31 December 2008, the Bank's liquidity position, as shown in the table below, met regulatory requirements (Liquidity ratio is the 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):

		Regulatory	As at 31 December		
Major regulatory ratios		**standard**	**2008**	2007	2006
Liquidity ratio (%)	RMB	≥25	**48.8**	32.6	37.7
	Foreign Currency	≥25	**76.6**	75.9	64.1
Loan to deposit ratio (%)	RMB & Foreign Currency	≤75	**61.3**	64.0	59.0
Excess reserve ratio (%)	RMB	–	**3.5**	3.1	2.8
	Foreign Currency	–	**20.5**	20.7	25.8
Inter-bank ratio (%)	Inter-bank borrowings ratio	≤4	**1.91**	1.3	0.9
	Inter-bank loans ratio	≤8	**1.67**	0.7	0.7

Notes:

1. Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of the PBOC and the CBRC. Financial data for 2007 and 2008 are based on the *Chinese Accounting Standards 2006*. Data for the year 2006 is not adjusted retrospectively.

2. Loan to deposit ratio = outstanding loans/balance of deposits

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

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

5. Inter-bank borrowings ratio = total RMB inter-bank borrowings from other banks and financial institutions/total RMB deposits

6. Inter-bank loans ratio = total RMB inter-bank loans to other banks and financial institutions/total RMB deposits

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. As of 31 December 2008, the Bank's liquidity gap position was as follows (for details of the liquidity position, please refer to Note VI.5 to the Consolidated 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 2008	26,276	(2,594,579)	500,863	(45,953)	4,134	1,425,507	1,173,639	489,887
As at 31 December 2007	25,062	(2,164,164)	46,676	(23,953)	(5,335)	1,334,986	1,237,385	450,657

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

Internal Control and Operational Risk Management

In 2008, the Bank reinforced its internal control management, clearly defined its communication mechanism, and further improved the three internal control defence lines.

Branches, business departments and staff at various levels of the Bank are the Bank's first line of defence, responsible for internal control while promoting business development. In 2008, the Bank enhanced the daily management of its business outlets and the risk control of major business activities at the grass-roots level with effective self-review and improvement of self-control capacity in the first line of defence.

The Legal and Compliance Department, together with various management departments, are the Bank's second line of defence, responsible for making overall plans for establishing internal control policies, directing, examining, monitoring and assessing the work of the first line of defence. In 2008, the Bank strengthened the frequency of on and off-site inspections, and enhanced the relevance and effectiveness of the inspection by using up-to-date inspection technology. It also established a continuous follow-up mechanism to improve the quality of internal control rectification, and monitored, supported and assessed the first line of defence using existing information and systematic means.

Internal Audit Department serves as the third line of defence, responsible for reviewing and assessing the adequacy and effectiveness of the Bank's risk management, internal control and corporate governance. In 2008, the Bank further improved the vertical and integrated management of internal audit, and changed the audit strategy and inspection and assessment perspective, shifting the focus of internal audit from compliance inspection to internal control evaluation. The Bank attached great importance to assessment of systematic risks and overall situation of internal control, and fully strengthened specialised audits. The Bank also effectively analysed audit results so as to highlight potential risks, propose rectification of weaknesses and further improve the effectiveness of internal control.

The Bank took proactive steps to promote the implementation of its Basel II operational risk program and implemented an enhanced operational risk management framework. The Bank formulated the *Manual for Management of Internal Control and Operational Risk* to provide managerial personnel at each level and employees with clear and specific guidance and ensure relevant management responsibilities are undertaken. The Bank implemented operational risk control and assessment procedures, improved risk identifying and assessing capability, optimised management processes, improved management tools, and established a standardised, systematic and scientific operational risk management model. The Bank also took the following measures to strengthen control over branches and outlets, including: (1) improving the business manager placement system that covers banking outlets, further separating business operations from risk control functions of outlets, and strengthening the management and control over operating activities and key points; (2) improving and promoting video recording monitoring to enhance supervision quality and efficiency; and (3) integrating internal control systems of banking outlets, giving full play to the role of the internal control system, improving the efficiency of internal control of banking outlets.

With respect to anti-money laundering, the Bank formulated and issued the *Measures for the Management of Customer Due Diligence Investigation and Risk Categorisation* to provide comprehensive rules for the categorisation determination, ongoing monitoring and categorisation updating concerning the customers' risk profile. Additionally, it effectively prevented anti-money laundering and terrorism financing by focusing on the management of high-risk customers. The Bank delivered certain phases of IT infrastructure improvement, improving its domestic large-value and suspicious transaction reporting system. It also upgraded its overseas anti-money laundering system and implemented centralised maintenance of blacklists on a trial basis. The Bank completed the domestic operation monitoring, sorting and tracking of anti-money laundering issues uncovered by internal and external auditing. The Bank continued to promote the implementation of internal management guidelines such as the *Administrative Measures for the Reporting of Large-value and Suspicious Transactions* and *Guidelines for the Identification of Suspicious Transactions*. In 2008, the Bank continually held anti-money laundering training sessions for staff at various levels of the Bank, over 1,500 sessions was offered with over 130,000 participations. In addition, the Bank also performed inspections of anti-money laundering at 47 domestic and overseas operations, including specialised inspections for better monitoring and management of cross-border remittances by personal banking customers.

Management Discussion and Analysis — IT Blueprint

The Bank made substantial progress in implementing its IT blueprint project. The main data centre, local backup centre and disaster recovery centres were prepared for operation. The Bank accelerated the collection, supplementation and input of customer information, as well as account data clearing. It also greatly improved data quality and completed the Core Banking System (CBS) handbooks. Pilot branches made steady progress towards the implementation of the IT blueprint. The Bank monitored several rounds of data migration validation and successfully completed the first round of cutover rehearsals. The Bank progressed with the adoption of CBS, and started training management personnel and staff. The regression testing of System Integration Test commenced and user acceptance testing entered the preparation stage.

The implementation of the Management Information System (MIS) has made substantial progress. Profitability analysis (PA) has been successfully put in place, enabling the whole bank to analyse the profit contribution, profit structure and loyalty of corporate customers and high-end individual customers in a comprehensive way. It has also provided information services for the Bank to set up and improve a customer-centric service model and an evaluation mechanism for relationship managers and product managers. Data quality was improved significantly as a result of further optimisation of the Data Extraction and Transfer Platform, Reporting Platform and Credit Information System. Smooth progress was made in developing supporting systems, including the General Ledger, Financial Management, Enterprise Customer Information systems and MIS Portal.

In 2009, the Bank will focus on the testing and operational preparation for IT blueprint roll out.

Management Discussion and Analysis — Organisational Management, Human Resources Development and Management

Organisational Management

As at the end of 2008, the Bank had a total of 10,789 domestic and overseas branches, subsidiaries and outlets, including 9,983 branches, subsidiaries and outlets in the Chinese Mainland and 806 branches, subsidiaries and representative offices in Hong Kong, Macau and other countries and regions, a reduction of 45 from the beginning of the year. In the Chinese Mainland, there were 37 tier one and direct branches, 284 tier two branches and 9,659 outlets.

The following table shows the geographic breakdown of the domestic operations at the end of 2008.

	As at 31 December 2008	
	Branches and outlets	% of total
Northern China	1,449	14.52%
Northeastern China	889	8.91%
Eastern China	3,390	33.97%
Central and Southern China	2,686	26.91%
Western China	1,566	15.69%
Total	9,980	100.00%

In 2008, the Bank further reengineered and restructured its organisation framework. Being customer-centric, the Bank reinforced synergies between customer and product lines, and improved the business operations and customer service models that coordinate and integrate customer relationship management, product management and channels management. The Head Office set up the Corporate Banking Unit to focus on the management of customer relationships and appropriately integrate customer relationship management and product management functions. The Head Office set up the Personal Banking Unit to strengthen wealth management services and improve the three-tier wealth management service scheme. The Head Office set up the Financial Markets Unit to accelerate the development of financial market products, reinforce risk management and enhance the bank's competitiveness in financial market products. The Head Office also set up the Operation Service Unit to centralise back office business processing and introduce an intensive and standardised operational system. Through these units, the Bank developed a matrix management model to emphasise the line management functions through both business units and branches. Under the matrix management model, business units of the Head Office are responsible for comprehensive management functions, such as strategic planning, business planning, budget management and human resources management.

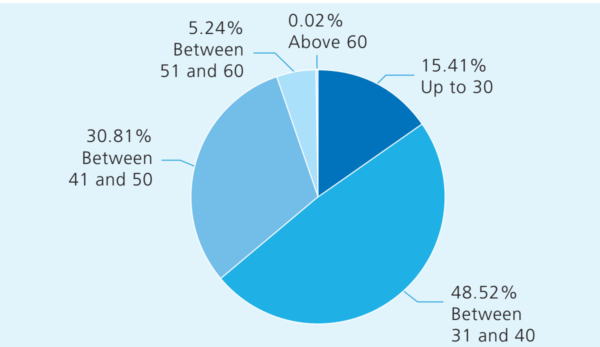
Business restructuring was carried out in tier one branches of the Chinese Mainland, with the establishment of the Corporate Banking and Financial Markets Department, the Personal Banking Department and Operation Service Department. In addition, in order to improve the intensive business operations, the Bank optimised outlet management in the cities where tier one branches are located.

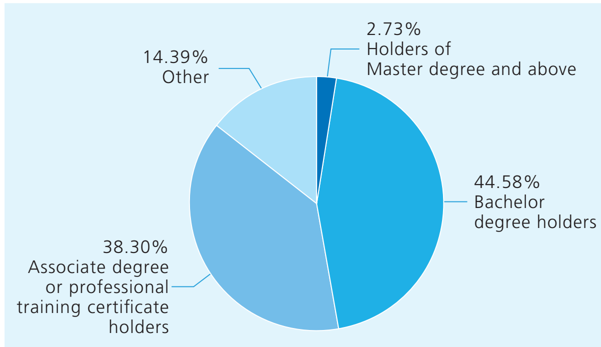
Domestic operation geographic coverage was further optimised. In line with its institutional development strategy, the Bank continued to channel domestic resources to key regions and cities and closed inefficient business outlets that failed to meet the internal control standards of the Bank.

Human Resources Development and Management

As at the end of 2008, the Bank had 249,278 employees (including 56,131 external contractual staff in domestic operations), of which 26,555 were employed in overseas branches and subsidiaries. By the end of 2008, the Bank paid retirement expenses for a total of 7,072 retirees.

Contracted staff composition in commercial banks in the Chinese Mainland in terms of age and educational background at the end of the year is as follows:





In 2008, the Bank continued to promote market-oriented and strategic human resources management reforms and optimise related management mechanisms. It also developed professional processes and infrastructure, specified the responsibility and authority of positions, qualification, remuneration and performance management, and priortised training needs for employees in order to promote professional development of staff. In accordance with its matrix management requirements, the Bank improved its performance management systems and utilised the differentiated Management by Objectives and Benchmarking Mechanism for its branches. It also established a Customer-Product Two-way Evaluation Mechanism with regard to business and functions, and implemented a simple, clear, direct and effective performance evaluation and incentive system for staff in the marketing and trading departments as well as frontline tellers. The Bank further improved remuneration management mechanism to maintain staff cost increases at a rate proportional to the Bank's operating results, and refined a proportional management system for salaries.

The Bank optimised employee allocation and staff management, and enhanced talent cultivation and development. The Bank strengthened selection and appointment procedures for managers and team heads at each level. In addition, it implemented a successor planning process and built a backup talent data bank targeting managerial personnel at each level of the Head Office, branches, subsidiaries and outlets. The Bank established the Group's headcount and training development plans for 2009-2012, and increased staff for key regions and key positions by enhanced recruitment. The Bank strengthened labour systems and established harmonious staff relationships in compliance with the *Law of Employment Contracts*. Training resources were deployed to increase staff quality, skills and international competitiveness. During the year, 33,000 off-site training sessions were offered with 1,190,000 class participants.

In 2008, the Bank increased the IT application support of human resources management with the launch of the Phase 1 e-HR system.

Management Discussion and Analysis — Cooperation with Strategic Investors

The cooperation between the Bank and its four strategic investors, namely RBS Group, Fullerton Financial, UBS and Asian Development Bank (ADB) has been ongoing for over three years and has achieved remarkable results. After expiration of the stock lock-up periods, UBS and RBS Group sold their stakes in the Bank. The Bank will make continued efforts to develop business relationships with these institutions.

Corporate Banking Business

The Bank and RBS Group worked together to seek opportunities in areas such as syndicated loans and real estate financing and launched the pilot project of trade finance for suppliers and supporting services for middle and high-end customers at home and abroad. With the assistance of financial experts of Fullerton Financial, the Bank improved its experimental SMEs financial service model in two cities, Shanghai and Quanzhou of Fujian province, and prepared for rollout of the models. The Bank and RBS Group continued to promote mutual customer referrals and services in the UK and the US, the Bank joined force with Citizens, a US-based subsidiary of RBS Group to hold 11 China forum activities in the US, and provided various financial services, including working capital loans, international settlement and trade finance, to enterprises in both China and the US.

Personal Banking Business

With the technical support of staff seconded from RBS Group, the Bank continued to strengthen credit card innovation, cost accounting, risk management, operating service and information technology. The Bank exceeded card issuance targets and improved various operating indicators, such as the credit card NPL ratio and telephone abandonment rate. Continuous improvement was also made to the operating processes of the two private banking department branches in Beijing and Shanghai and in customer base and product capacity, and a team of professional private bankers was developed. Fullerton Financial assisted the Bank in cultivating high-end personal wealth management personnel. So far, 40 employees of the Bank have been granted private banking certificates by the Wealth Management Institute of Singapore, and six employees have participated in the wealth management master course.

Financial Markets Business

In 2008, the Bank and RBS Group strengthened their cooperation in the global markets business, including foreign exchange, fixed income products, and QDII. RBS Group also shared its experience with the Bank in fixed income and asset securitisation business by means of training, communication and visits. The Bank also developed a number of structured wealth management products with UBS, and discussed QFII issues.

Comprehensive Management

In the field of risk management, RBS Group provided consulting services in areas such as retail credit risk management information and prediction, credit risk policy framework, credit approval and authorisation systems, retail loan credit scorecards, environmental risk assessment in project financing, treasury and financial budget management. In addition, it assisted the Bank in improving capabilities in terms of trading book risk analysis, foreign exchange options market risk control, response to regulatory changes, and identification of suspicious anti-money laundering transactions.

Fullerton Financial assisted the Bank in launching a market risk management model and provided training to the Bank in market risk management, financial model, valuation methods, M&A and investment management among other areas. UBS organised training in Business Continuity Management and post M&A integration for the Bank. ADB assisted the Bank to better understand the experience of international banks in corporate governance, environmental protection and social risk management.

Management Discussion and Analysis — Olympic Services

As the sole banking partner of the Beijing 2008 Olympic Games, the Bank adhered to the principle of facilitating the Bank's development by virtue of the Games, and assisting the Games by virtue of the Bank's development. Through the careful planning and dedication of all staff, the Bank provided a full range of comprehensive financial services to support the Olympic Games.

During the Olympic and Paralympic Games, the Bank provided exclusive financial services at all venues and designated sites in seven host cities, Beijing, Tianjin, Shanghai, Qingdao, Shenyang, Qinhuangdao and Hong Kong. With excellent on-site services, the Bank earned high praise from customers at home and abroad. The Bank had the unique opportunity to portray a favorable image for China-based financial enterprises and in doing so enhanced its brand value.

The Bank committed 3,930 persons to provide on-site financial services for the Games. The Bank arranged 40 outlets in the seven host cities to provide "one-to-one" exclusive services for the Olympic venues, the Olympic village, the International Broadcasting Centre, the Main Press Centre and the designated hotels among others. It also established 1,334 fixed and mobile points for foreign exchange, installed 2,364 ATMs and 39,993 POS machines. Bank cards accepted by merchants covered 100% of the Olympic venues.

From 8 August to 17 September, temporary outlets at sites of the Games in Beijing and Shandong completed 110,836 transactions. Host cities in the Chinese Mainland registered a steady growth of total business volume by designated service outlets, among which the outlets in Beijing reported more than 780,000 transactions. The Bank reported 29,435 inquiry and withdrawal transactions by ATMs at sites of the Games, with the transactions totalling RMB29.4516 million. Bank card transactions at the sites of the Games totalled 181,051, with a total transaction amount of RMB0.122 billion. The Bank provided fund settlement services for 34 overseas institutions including the International Olympic Committee and opened 45 RMB and foreign exchange temporary accounts for the Games. The Bank provided door-to-door money collection, supply and counting services in order to satisfy the demand for cash supply and foreign currency re-exchange during the Games. On-site outlets and customer service centres of the Bank provided service on extended rotation basis in multiple languages including Chinese, English, French, Spanish, Japanese, Korean and Arabic and dialects such as Cantonese, Southern Fujian dialect and Shanghai dialect.

The Olympic Service Guaranty and Commanding Centre operated on site seven days a week and 24 hours a day, conducting end-to-end and integrated management of service outlets and strictly implementing real-time system monitoring and daily "zero" trouble reporting. The Bank placed POS machines supporting mobile and fixed communication lines in all merchants at the sites of the Games and made emergency plans for all services. To ensure stable operation of the Bank's website and online banking service, the Bank specially established four special network monitoring systems over internet flow, equipment performance, abnormal events and hacking alarms for internet gateway and network connection of the portal website and online banking, and monitored on a 7×24 hours basis.

More than 1,000 outlets of the Bank were designated to sell tickets for the Olympic and Paralympic Games. The Bank successfully accomplished ticket sale, distribution and sale of the Beijing 2008 Olympic Games Commemorative Banknotes denominated in HK Dollar and MOP Dollar, which attracted keen attention and won praise from the market. As the largest licensed retailer of the Beijing Organising Committee for the Games of the XXIX Olympiad, the Bank actively sold Olympic-licensed merchandise. In addition, the Bank made full use of rights and interests concerning the Games, intensified product and service innovation, and further expanded promotion and sale of innovative products such as the BOC VISA Olympic Credit Card.

After the completion of the Olympic and Paralympic Games, the Bank conducted an assessment on the service experience during the Games to ensure improvements in quality service, IT security, and security policies were incorporated into regular service and to enhance market competitiveness.

Management Discussion and Analysis — Corporate Social Responsibilities

In 2008, the Bank operated in alignment with the scientific outlook on development and in fulfillment of its role as a socially responsible organisation, contributing to a harmonious society. Highlights of the year included providing assistance during the severe sleet and icy weather, earthquake relief of the 2008, and providing service to Beijing 2008 Olympic Games, while ensuring growth and promoting development and sponsoring scientific, art and cultural activities.

In early 2008, severe sleet and icy weather covered most of Southern China. The Bank took the lead in donating over RMB12 million to disaster-stricken areas, with the Bank's staff making sizable individual donations. To help the region recover as soon as possible, the Bank also launched a "Green Finance Channel" to support disaster relief efforts of governments and enterprises in the afflicted areas. The Bank's branches in those areas earned wide praise by continuing to operate despite the severe challenges faced.

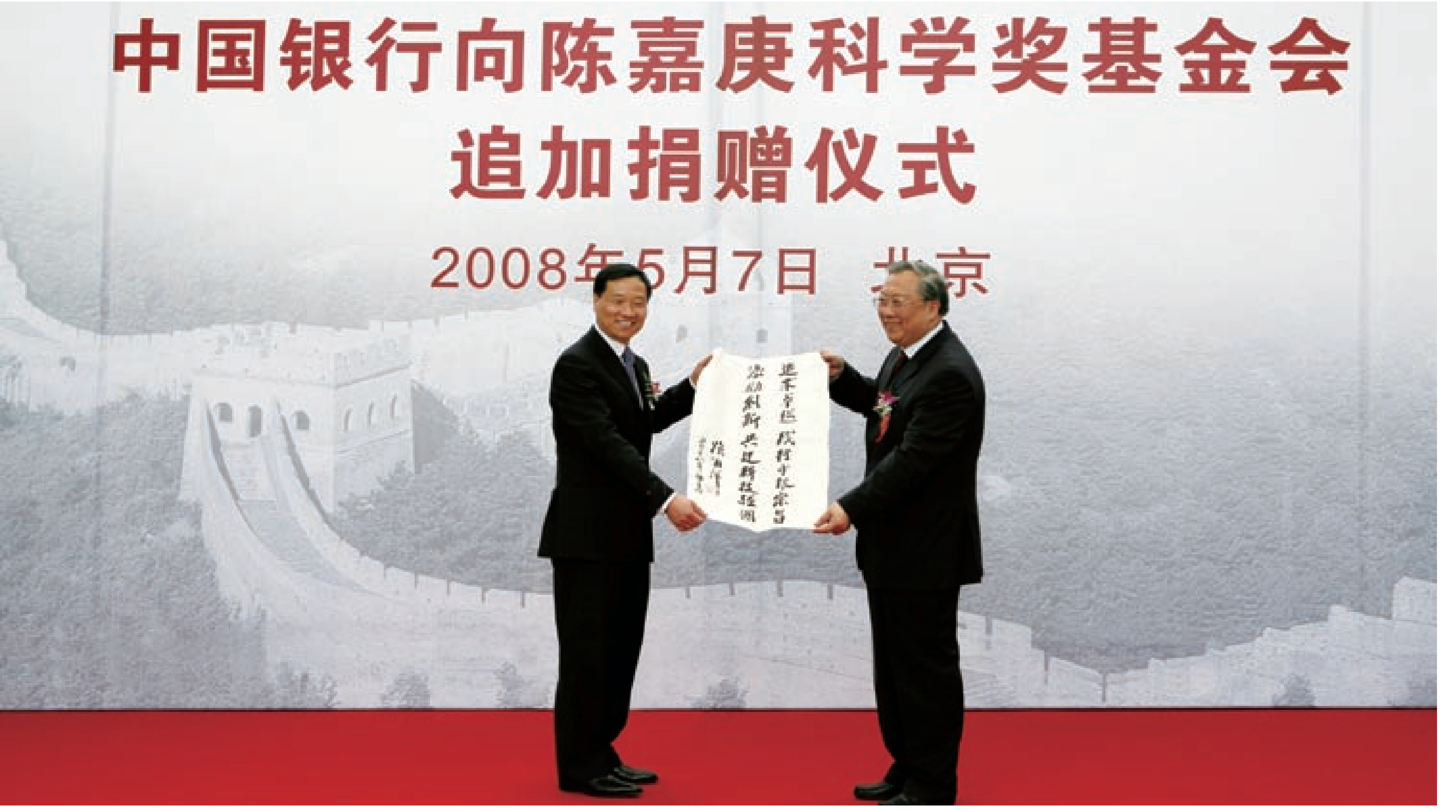
On 12 May 2008, a severe earthquake shook Wenchuan, Sichuan Province. The Bank's domestic and overseas operations, including all Bank's employees made generous donations in various forms valued over RMB150 million. In addition, a "Green Channel for Global Donations" was opened in all domestic and overseas outlets of the Bank. Temporary "tent banks" and "mobile banks" were also set up in quake-hit regions to provide all types of much-needed financial service support to local residents. The Bank also extended credit to Dongfang Electric Corporation, Conch Cement Co., Ltd. and Panzhihua Iron & Steel (Group) Corporation, with the aim of helping the quake-hit zones resume production and launch reconstruction efforts as soon as practicable.

Facing the adverse effects of the global financial crisis, the Bank actively carried out macro-economic policies promulgated by the central government, extended credit to key sectors and industries, and made efforts to support the expansion of domestic demand. The Bank actively adjusted credit structures and improved financial service to effectively satisfy the reasonable demand on the real economy for financial service.

The Bank continued to enhance its investment in underdeveloped regions and poor mountainous areas in 2008. All its branches promoted poverty alleviation efforts for those populations targeted for assistance and other poor areas, and supported poverty-alleviation programs such as road construction, tree planting and livestock raising, so as to create favourable conditions in these areas.

The Bank made continuous contributions to the development of science, culture and art during the year. For example, it donated a further RMB10 million to Tan Kan Kee Foundation for Science Awards to facilitate scientific innovation, held the 2008 Forum (Beijing) on Olympic Economy jointly with the BOCOG, CCTV and other entities, sponsored the "Beijing Olympic Tour of Young Representatives of 56 Nationalities of China" co-organised by the BOCOG and China Disabled Persons' Federation, entered into strategic partnership with the National Centre of Performing Arts (NCPA) and donated RMB20 million to accelerate the development of national art undertakings and promote international cultural communication, ran "Let Art Reach Everyone – A Hundred Opera Lectures" with the NCPA to popularise art throughout the population. In addition, under the sole sponsors of the Bank, the China Disabled People's Arts Troupe made its first open performing tour in Britain to raise funds for disaster relief.

On 28 April 2008, the Bank released its first Corporate Social Responsibility Report to the public. This report will continue to be published on an annual basis to highlight the performance of the Bank in social responsibility.


中国银行向陈嘉庚科学奖基金会
追加捐赠仪式


北京加油 汶川挺住


迎奥运 展风采

Global
Collaboration

Changes in Share Capital and Shareholdings of Substantial Shareholders

Disclosure of Shareholding under A-Share Regulation

Changes in Share Capital during the Reporting Period

Unit: Share

	1 January 2008		Increase/decrease during the reporting period					31 December 2008	
	Number of shares	Percentage	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage
I. Shares subject to selling restrictions	**216,287,102,209**	**85.21%**	–	–	–	**(36,584,356,140)**	**(36,584,356,140)**	**179,702,746,069**	**70.79%**
1. State-owned shares	179,702,746,069	70.79%						179,702,746,069	70.79%
2. Shares held by state-owned legal persons									
3. Shares held by other domestic investors	1,285,712,000	0.51%				(1,285,712,000)	(1,285,712,000)		
Including:									
Shares held by domestic legal persons									
Shares held by domestic natural persons									
4. Shares held by foreign investors	35,298,644,140	13.91%				(35,298,644,140)	(35,298,644,140)		
Including:									
Shares held by foreign legal persons									
Shares held by foreign natural persons									
II. Shares not subject to selling restrictions	**37,552,059,800**	**14.79%**	–	–	–	**36,584,356,140**	**36,584,356,140**	**74,136,415,940**	**29.21%**
1. RMB-denominated ordinary shares	5,207,794,000	2.05%				1,285,712,000	1,285,712,000	6,493,506,000	2.56%
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	32,344,265,800	12.74%				35,298,644,140	35,298,644,140	67,642,909,940	26.65%
4. Others									
III. Total	**253,839,162,009**	**100.00%**	–	–	–	–	–	**253,839,162,009**	**100.00%**

Notes:

1. As at 31 December 2008, 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.
2. Within the shares subject to selling restrictions, state-owned shares include the 171,325,404,740 A Shares held by Central SAFE Investments Limited and the 8,377,341,329 H Shares held by the National Council for Social Security Fund PRC.
3. The selling restriction on the 1,285,712,000 A Shares with a lock-up period of 18 months, which had been placed to strategic investors during the A-Share IPO had expired on 5 January 2008 and the aforesaid shares had become tradable on the stock exchange on 7 January 2008 (5 and 6 of January 2008 were non-trading days). Thereafter, 171,325,404,740 A Shares of the Bank are subject to selling restrictions and 6,493,506,000 A Shares of the Bank are not subject to selling restrictions.
4. Within the shares subject to selling restrictions, shares held by foreign investors include the H Shares held by the strategic investors of the Bank, including The Royal Bank of Scotland Group plc, Temasek Holdings (Private) Limited, UBS AG and Asian Development Bank, which totalled 35,298,644,140 shares. The selling restriction on the above shares had expired respectively on 30 and 31 December 2008. Thereafter, 8,377,341,329 H Shares are subject to selling restrictions and 67,642,909,940 H Shares are not subject to selling restrictions.
5. "Shares subject to selling restrictions" refers to shares held by shareholders who are subject to restrictions on selling in accordance with laws, regulations and rules or commitments.

Changes in Shares Subject to Selling Restrictions

Unit: Share

No.	Names of shareholders	Number of shares subject to selling restrictions at the year beginning	Number of shares released from restrictions within 2008	Number of shares subject to selling restrictions at the year end	Expiry date of selling restrictions	Reason for restrictions	Type of shares
1	Central SAFE Investments Limited	171,325,404,740	–	171,325,404,740	5 July 2009	Company commitment	A
2	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	–	31 December 2008	Lock-up period	H
3	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	–	30 December 2008	Lock-up period	H
4	National Council for Social Security Fund PRC	8,377,341,329	–	8,377,341,329	13 March 2009	Lock-up period	H
5	UBS AG	3,377,860,684	3,377,860,684	–	30 December 2008	Lock-up period	H
6	Asian Development Bank	506,679,102	506,679,102	–	30 December 2008	Lock-up period	H
7	China Life Insurance Company Limited – traditional – ordinary insurance products – 005L-CT001Shanghai	123,376,000	123,376,000	–	5 January 2008	Lock-up period	A
8	China Life Insurance (Group) Company – traditional – ordinary insurance products	97,402,000	97,402,000	–	5 January 2008	Lock-up period	A
9	PICC Property and Casualty Company Limited – traditional – ordinary insurance products – 008C-CT001Shanghai	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	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	A
9	Ping An Life Insurance Company of China, Ltd. – traditional – ordinary insurance products	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	State Development and Investment Corporation	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	China Huaneng Group Co., Ltd.	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	Shenhua Group Corporation Limited	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	Baosteel Group Co., Ltd.	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	China National Offshore Oil Corporation	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	China Southern Power Grid Co., Ltd.	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	Aluminum Corporation of China	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
9	China National Aviation Holding Company	90,909,000	90,909,000	–	5 January 2008	Lock-up period	A
20	China National Foreign Trade Transportation (Group) Corporation	64,935,000	64,935,000	–	5 January 2008	Lock-up period	A

Trading Schedule of Shares Subject to Selling Restrictions

Unit: Share

Trading date	Number of new shares allowed to be tradable at the maturity of lock-up period	Remaining shares subject to selling restrictions	Remaining shares not subject to selling restrictions	Remarks	Selling restrictions
13 March 2009	8,377,341,329	171,325,404,740	82,513,757,269	H Shares held by National Council for Social Security Fund PRC	Lock-up period
6 July 2009	171,325,404,740	–	253,839,162,009	A Shares held by Central SAFE Investments Limited	Company commitment

Notes:

1. Central SAFE Investments Limited ("Huijin") undertook that, within three years of the Bank's A-Share 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 re-registration of such shares as H Shares would not affect any pre-existing restrictions on the sale or transfer applicable to Huijin's shares.

2. The selling restriction on the 171,325,404,740 A Shares held by Huijin will expire on 5 July 2009, and the aforesaid shares will become tradable on 6 July 2009 (5 July is non-trading day).

Issue and Listing of Securities

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.

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

The Bank issued RMB3 billion RMB-denominated bonds in Hong Kong in September 2007, the first ever issue by a mainland commercial bank. Following that, the Bank issued another RMB3 billion RMB-denominated bonds in Hong Kong in September 2008. Please refer to Note V.32 to the Consolidated Financial Statements for details.

No shares issued by the Bank have been placed to its employees.

Number of Shareholders and Shareholdings

Number of shareholders: 1,668,807 (including 1,399,444 A-Share Holders and 269,363 H-Share Holders)

Top ten Shareholders as at 31 December 2008

Unit: Share

No.	Name of shareholder	Type of shareholder	Type of shares	Percentage in total share capital	Number of shares held	Number of shares subject to selling restrictions	Number of shares pledged or frozen
1	Central SAFE Investments Limited	State	A	67.52%	171,402,012,157	171,325,404,740	None
2	HKSCC Nominees Limited	Foreign legal person	H	12.24%	31,070,559,156	–	Unknown
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.)	Foreign legal person	H	8.25%	20,942,736,236	–	Unknown
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.)	Foreign legal person	H	4.13%	10,471,368,118	–	Unknown
5	National Council for Social Security Fund PRC	State	H	3.30%	8,377,341,329	8,377,341,329	Unknown
6	UBS Nominees Asia Limited	Foreign legal person	H	0.93%	2,368,243,684	–	Unknown
7	Asian Development Bank	Foreign legal person	H	0.20%	506,679,102	–	Unknown
8	The Bank of Tokyo-Mitsubishi UFJ Ltd.	Foreign legal person	H	0.19%	473,052,000	–	Unknown
9	LAU LUEN-HUNG	Foreign natural person	H	0.14%	351,535,000	–	Unknown
10	JCAM Global Fund (Master) LP	Foreign legal person	H	0.08%	199,166,000	–	Unknown

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. The number of shares held by the National Council for Social Security Fund PRC does not include the shares it held under HKSCC Nominees Limited.

During the reporting period, Huijin increased its shareholding in the Bank by 76,607,417 A Shares. According to the *Guidance on the Shareholding Increase of Listed Company by Shareholders and its Concerted Action Parties* issued by the Shanghai Stock Exchange, Huijin shall not sell its shares held in the Bank within one year starting from the date of its initial shareholding increase in the Bank, being September 2008.

The number of shares held by RBS China Investments S.à.r.l. did not change during the reporting period. According to the Report of Change in Shareholding signed by RBS China Investments S.à.r.l. on 15 January 2009, the 20,942,736,236 H Shares originally held by RBS China Investments S.à.r.l. were transferred or sold on 7 and 14 January 2009 respectively.

The Bank is not aware of any connected relations or concerted action among the aforesaid shareholders.

Top Ten Shareholders of Shares not Subject to Selling Restrictions as at 31 December 2008

Unit: Share

No.	Name of shareholder	Number of shares not subject to selling restrictions	Type of shares
1	HKSCC Nominees Limited	31,070,559,156	H
2	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	H
3	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	H
4	UBS Nominees Asia Limited	2,368,243,684	H
5	Asian Development Bank	506,679,102	H
6	The Bank of Tokyo-Mitsubishi UFJ Ltd.	473,052,000	H
7	LAU LUEN-HUNG	351,535,000	H
8	JCAM Global Fund (Master) LP	199,166,000	H
9	HSBC Bank (Cayman) Limited	151,366,000	H
10	Highbridge Asia Opportunities Master Fund LP	150,000,000	H

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. The Bank is not aware of any connected relations or concerted action among the aforesaid shareholders.

Disclosure of Shareholding under H-Share Regulation

Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the SFO recorded that, as at 31 December 2008, the following corporations were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Name of shareholder	Number of shares held/number of underlying shares	Type of shares	Percentage in total issued A Shares	Percentage in total issued H Shares	Percentage in total issued share capital	Capacity
Central SAFE Investments Limited	171,325,404,740	A	96.35%	–	67.49%	Beneficial owner
The Royal Bank of Scotland Group plc[1]	21,603,025,779	H	–	28.42%	8.51%	Attributable interest
	604,122,652(S)[2]			0.79%	0.24%	
National Council for Social Security Fund PRC	11,317,729,129	H	–	14.89%	4.46%	Beneficial owner
Temasek Holdings (Private) Limited[3]	10,481,591,118	H	–	13.79%	4.13%	Attributable interest

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 the issued share capital 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 under the SFO. RBS China holds 20,942,736,236 H Shares of the Bank. Meanwhile, RBS Group also holds a long position in 660,289,543 H Shares of the Bank and a short position in 604,122,652 H Shares through other corporations controlled by it.

2. "S" denotes short positions.

3. 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 under the SFO. Fullerton Financial holds 10,471,575,118 H Shares of the Bank. Temasek also has an interest in 10,016,000 H Shares of the Bank through other corporations controlled by it.

All the interests stated above represented long positions except where stated otherwise. Save as disclosed above, as at 31 December 2008, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Controlling Shareholders of the Bank

Central SAFE Investments Limited

Central SAFE Investments Limited ("Huijin") is a wholly state-owned company incorporated in accordance with the Company Law of the People's Republic of China. Established on 16 December 2003, Huijin has a registered capital of RMB552.117 billion and paid-in capital of RMB859.658 billion. Its legal representative is Lou Jiwei (pending finalisation with the commerce and industry registration authorities). Huijin makes equity investment in key state-owned financial institutions as authorised by the State Council. On behalf of the state, Huijin exercises the rights and fulfills the obligations as an investor on the basis of its investment capital in accordance with the laws aiming at preservation and appreciation of state financial assets. 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.

As at 31 December 2008, no other legal-person shareholders held 10% or more shares issued by the Bank (excluding HKSCC Nominees Limited).

Directors, Supervisors and Senior Management

Basic Information

Name	Age	Gender	Position	Term of office
XIAO Gang	50	Male	Chairman	From August 2004 to the date of the Annual General Meeting in 2010
LI Lihui	56	Male	Vice Chairman and President	From August 2004 to the date of the Annual General Meeting in 2010
LI Zaohang	53	Male	Executive Director and Executive Vice President	From August 2004 to the date of the Annual General Meeting in 2010
ZHOU Zaiqun	56	Male	Executive Director and Executive Vice President	From February 2008 to the date of the Annual General Meeting in 2010
ZHANG Jinghua	52	Male	Non-Executive Director	From August 2004 to the date of the Annual General Meeting in 2010
HONG Zhihua	56	Female	Non-Executive Director	From August 2004 to the date of the Annual General Meeting in 2010
HUANG Haibo	56	Female	Non-Executive Director	From August 2004 to the date of the Annual General Meeting in 2010
CAI Haoyi	54	Male	Non-Executive Director	From August 2007 to the date of the Annual General Meeting in 2010
WANG Gang	55	Male	Non-Executive Director	From August 2007 to the date of the Annual General Meeting in 2010
LIN Yongze	57	Male	Non-Executive Director	From January 2008 to the date of the Annual General Meeting in 2010
SEAH Lim Huat Peter	62	Male	Non-Executive Director	From June 2006 to June 2009
Anthony Francis NEOH	62	Male	Independent Non-Executive Director	From August 2004 to the date of the Annual General Meeting in 2010
Alberto TOGNI	70	Male	Independent Non-Executive Director	From June 2006 to June 2009
HUANG Shizhong	46	Male	Independent Non-Executive Director	From August 2007 to the date of the Annual General Meeting in 2010
HUANG Danhan	59	Female	Independent Non-Executive Director	From November 2007 to the date of the Annual General Meeting in 2010
LIU Ziqiang	60	Male	Chairman of Board of Supervisors	From August 2004 to the date of the Annual General Meeting in 2010
WANG Xueqiang	51	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2010
LIU Wanming	50	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2010
LI Chunyu	49	Male	Employee Supervisor	From December 2004 to the date of the Employee Delegates' Meeting in 2011
JIANG Kuiwei	40	Male	Employee Supervisor	From May 2008 to the date of the Employee Delegates' Meeting in 2011
ZHANG Yanling	57	Female	Executive Vice President	From August 2004
ZHANG Lin	52	Female	Secretary of Party Discipline Committee	From August 2004
ZHU Min	56	Male	Executive Vice President	From August 2006
WANG Yongli	44	Male	Executive Vice President	From August 2006
CHEN Siqing	48	Male	Executive Vice President	From June 2008
CHIM Wai Kin	48	Male	Chief Credit Officer	From March 2007 to March 2011
NG Peng Khian	53	Male	Chief Audit Officer	From April 2007 to April 2011
ZHANG Bingxun	59	Male	Secretary to the Board of Directors	From May 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 approval date by the 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. SEAH Lim Huat Peter and Alberto TONGI have accepted re-election at the 2008 Annual General Meeting. If re-elected, they will continue to serve as Non-Executive Director and Independent Non-Executive Director respectively.
4. During the reporting period, no Director, Supervisor or senior management held any shares of the Bank.
5. The information listed in the above table pertains to the incumbent Directors, Supervisors and senior management members.

Compensation for Directors, Supervisors and Senior Management in 2008

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	–	523	495	766	218	1,507	No
LI Lihui	61	519	491	748	216	1,544	Yes
LI Zaohang	53	492	464	730	206	1,481	Yes
ZHOU Zaiqun	53	490	462	729	205	1,477	Yes
ZHANG Jinghua	–	–	–	–	–	–	Yes
HONG Zhihua	–	–	–	–	–	–	Yes
HUANG Haibo	–	–	–	–	–	–	Yes
CAI Haoyi	–	–	–	–	–	–	Yes
WANG Gang	–	–	–	–	–	–	Yes
LIN Yongze	–	–	–	–	–	–	Yes
Frederick Anderson GOODWIN	250	–	–	–	–	250	No
SEAH Lim Huat Peter	300	–	–	–	–	300	No
Anthony Francis NEOH	550	–	–	–	–	550	No
Alberto TOGNI	450	–	–	–	–	450	No
HUANG Shizhong	550	–	–	–	–	550	No
HUANG Danhan	350	–	–	–	–	350	No
Patrick de SAINT-AIGNAN	12	–	–	–	–	12	No
LIU Ziqiang	–	492	464	716	223	1,431	No
WANG Xueqiang	–	348	316	465	150	963	No
LIU Wanming	–	346	314	456	151	953	No
LI Chunyu	–	275	243	107	93	475	No
JIANG Kuiwei	–	245	167	225	30	500	No
LIU Dun	–	131	128	112	22	265	No
ZHANG Yanling	57	469	441	697	213	1,436	Yes
ZHANG Lin	–	469	441	698	196	1,363	No
ZHU Min	–	469	441	696	204	1,369	No
WANG Yongli	–	469	441	710	184	1,363	No
CHEN Siqing	–	273	257	415	116	804	No
CHIM Wai Kin	–	7,309	6,637	4,493	9	11,811	No
NG Peng Khian	–	2,255	1,805	2,160	9	4,424	No
ZHANG Bingxun	–	276	255	419	121	816	No
YEUNG Jason Chi Wai	–	862	833	–	73	935	Yes

Notes:

1. Non-Executive Directors receive compensation in accordance with the Resolution of the 2007 Annual General Meeting. Supervisors representing shareholders receive compensation in accordance with the Resolution of the 2005 Second Extraordinary Shareholders' Meeting of Bank of China Limited and the Resolution of the 2006 Annual General Meeting. Compensation of Independent Non-Executive Directors and Supervisors representing shareholders is proposed by the Personnel and Remuneration Committee under the Board of Directors, reviewed by the Board of Directors and approved by the Shareholders' Meeting. Senior management members receive compensation in accordance with the *Measures on Senior Management's Remuneration of Bank of China*. Employee Supervisors receive compensation as staff in accordance with the staff compensation scheme of the Bank.
2. Compensation for 2008 for the Directors, Supervisors and senior management listed in the above table have been reviewed by the Personnel and Remuneration Committee and the Board of Directors of the Bank.
3. Discretionary bonuses to be paid to the Directors and Supervisors listed above shall be subject to the review and approval by the Annual General Meeting scheduled in June 2009.
4. Non-Executive Directors ZHANG Jinghua, HONG Zhihua, HUANG Haibo, CAI Haoyi, WANG Gang and LIN Yongze signed an agreement in 2008 to waive 2008 directors' fee paid to them.
5. Total emoluments were paid to the RBS Group in respect of Sir Frederick Anderson GOODWIN's services to the Bank.
6. Compensation for Patrick de SAINT-AIGNAN, JIANG Kuiwei, LIU Dun, CHEN Siqing, ZHANG Bingxun and YEUNG Jason Chi Wai is calculated on the basis of their respective actual time 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.
7. Compensation for HUANG Shizhong, HUANG Danhan, CHIM Wai Kin and NG Peng Khian is the full year amount for 2008. Their respective compensation in 2007 was calculated on the basis of their actual time working with the Bank.

The Bank compensates 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. Other Directors are not compensated with salaries by the Bank.

In 2008, the Bank paid RMB37,379 thousand in aggregate to its Directors, Supervisors and senior management members, of which RMB2,639 thousand was for compulsory insurances, additional insurances and housing allowances.

	Unit: RMB thousand
Total fees and compensation	37,379
Independent Non-Executive Directors' fees and other emoluments	2,462

Compensation range	Number of persons
RMB9,000 thousand to RMB12,000 thousand	1
RMB3,000 thousand to RMB8,999 thousand	1
RMB2,000 thousand to RMB2,999 thousand	0
RMB1,000 thousand to RMB1,999 thousand	9
RMB100 thousand to RMB999 thousand	14
Below RMB99 thousand	1

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

As of 25 June 2008, Non-Executive Director Mr. CAI Haoyi commenced to serve as Director of BOC Equity Investment Division of the Banking Department, Huijin. Save as the above and disclosed, in 2008, 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

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

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 Assistant Governor and Deputy Governor of the PBOC. During this period, he was also Director General of the Fund Planning Department and the Monetary Policy Department of the PBOC, Governor of the Guangdong Branch of the PBOC and Governor of the Guangdong Branch of the SAFE. From May 1989 to October 1996, Mr. Xiao held various positions at the PBOC, including Deputy Director General, Director General of the Policy Research Office, General Manager of the China Foreign Exchange Trading Centre and Director General of the Fund Planning Department. Mr. Xiao graduated from the Finance Department of Hunan Institute of Finance and Economics in 1981, 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

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 of 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 in 1977 and obtained a Doctorate in Economics from the Guanghua School of Management of Peking University in 1999.

LI Zaohang
Executive Director and Executive Vice President

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

Executive Director of the Bank since February 2008. He joined the Bank in November 2000 and has served as Executive Vice President of the Bank since then. Mr. Zhou also served as Executive Vice President and Director of MasterCard 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 graduated from Shanxi College of Finance and Economics in 1977 and 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 a Non-Executive Director of BOCHK (Holdings).

ZHANG Jinghua
Non-Executive Director

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

Non-Executive Director of the Bank since August 2004. Ms. Hong previously worked with the SAFE 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

Non-Executive Director of the Bank since August 2004. Ms. Huang worked with the 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

Non-Executive Director of the Bank since August 2007. Mr. Cai worked in several positions in the PBOC from 1986 to 2007, including Deputy Director of the Graduate School of the PBOC, Deputy Director General of the Financial Research Institute of the 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 a tutor for postgraduate students of Financial Research Institute of the PBOC, a 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 the Economics Department of Peking University in 1983 with a Bachelor's degree in economics. In 1986, he graduated from the Graduate School of the PBOC with a Master's degree in economics. In 1995, he continued the doctoral programme of economics in the Graduate School of the PBOC and obtained his Ph.D. in 2001.

WANG Gang
Non-Executive Director

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 in 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 the Finance Department of China 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 China 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

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, Director and Researcher of the Agricultural Finance Department, Agricultural Taxation Department, Tax System and Rule Department and Tax Policy Department, a 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.

SEAH Lim Huat Peter
Non-Executive Director

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 and STATS ChipPAC Ltd. since 2002, all of which are companies listed on the securities exchanges of Singapore, Thailand and/or the United States.

Anthony Francis NEOH
Independent Non-Executive Director

Independent Non-Executive Director of the Bank since August 2004. Mr. Neoh currently serves as a member of the International Consultation Committee of CSRC. Mr. Neoh previously served as Chief Advisor to CSRC, 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, 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. In 2003 Mr. Neoh was conferred the degree of Doctor of Laws, honoris causa by the Chinese University of Hong Kong. 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

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

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 Port Co., Ltd and Sinosteel Co., Ltd.

HUANG Danhan
Independent Non-Executive Director

Independent Non-Executive Director since November 2007. Ms. Huang currently serves as Senior Advisor of EU-China Trade Project in trade in services, and is a Partner of Sinobridge PRC Lawyers. Ms. 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, Ms. Huang has successively worked in the Ministry of Foreign Trade and Economic Cooperation (now Ministry of Commerce), university, law firm and state-owned foreign trade companies and financial institutions, including General Manager of Legal Department, China Construction Bank from August 1999 to March 2001, and General Counsel, China Galaxy Securities Company Limited from April 2001 to September 2004. Ms. Huang also served as a member of the First Session of the Public Offering Examination and Approval Commission under the CSRC from 1993 to 1995. Ms. Huang has been serving as the 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

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 the PBOC in 1984.

WANG Xueqiang
Supervisor

Director General Supervisor of the Bank since August 2004 and Head of Office of Board of Supervisors since April 2005. 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 at the Agricultural Development Bank of China and worked with the Central Financial Working Commission from October 2000 to October 2001. From November 1996 to September 2000, Mr. Wang worked with Hong Kong Gang Ao International (Holdings) Co., Ltd. and Hong Kong Fujian Group Limited in succession. Prior to that, Mr. Wang worked with the Ministry of Finance from August 1985 to October 1996. Mr. Wang graduated from China Central University of Finance and Economics in 1985 and obtained his Doctorate in Economics from the Public Finance Institute of the Ministry of Finance in 2008. Mr. Wang is a senior accountant and Certified Public Accountant qualified by the Chinese Institute of Certified Public Accountants.

LIU Wanming
Supervisor

Deputy Director General Supervisor of the Bank since August 2004. From November 2001 to August 2004, Mr. Liu was designated by the State Council to serve as a Director Supervisor and a Deputy Director General Supervisor at Bank of Communications and the Bank. 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 and Economics in 1984.

LI Chunyu
Employee Supervisor

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 Bachelor's degree.

JIANG Kuiwei
Employee Supervisor

Employee Supervisor of the Bank since May 2008. Since 1989, Mr. Jiang has worked in Changzhou Sub-branch of the Bank, Taizhou Division of the PBOC and Jiangsu Branch of the Bank. He is currently the General Manager of the Financial Planning Department of the Jiangsu Branch of the Bank. He obtained a Bachelor's degree in Engineering from Zhejiang University in 1989.

Senior Management

LI Lihui
Vice Chairman and President

Please refer to the section "Directors".

LI Zaohang
Executive Director and Executive Vice President

Please refer to the section "Directors".

ZHOU Zaiqun
Executive Director and Executive Vice President

Please refer to the section "Directors".

ZHANG Yanling
Executive Vice President

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. Since June 2002, Ms. Zhang has been serving as a Non-Executive Director of BOCHK (Holdings). Since September 2003, Ms. Zhang has successively served as Chairperson and Vice Chairperson of the Board of Directors in BOCI. Ms. Zhang began to serve as Chairperson of Bank of China (UK) Limited in November 2007 and Chairperson of BOC Aviation in December 2008. Ms. Zhang graduated from Liaoning University in 1977 and received a Master's degree from Wuhan University in 1999.

ZHANG Lin
Secretary of Party Discipline Committee

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

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 successively 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 in 1982. He also obtained a Master's degree from Princeton University and a Ph.D. from Johns Hopkins University.

WANG Yongli
Executive Vice President

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 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.

CHEN Siqing
Executive Vice President

Executive Vice President of the Bank since June 2008. Mr. Chen joined the Bank in 1990 and worked in Hunan Branch of the Bank before he was seconded to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr. Chen held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager, Vice General Manager of Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of Guangdong Branch. Mr. Chen graduated from Hubei College of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999.

CHIM Wai Kin
Chief Credit Officer

Chief Credit Officer of the Bank since March 2007. Prior to joining the Bank, Mr. Chim held various positions at Standard Chartered Bank, Bankers Trust Company and Deutsche Bank. While 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

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

ZHANG Bingxun
Secretary to the Board of Directors

Secretary to the Board of Directors of the Bank since May 2008. Mr. Zhang joined the Bank in 1997 and held various positions, including General Manager of the Financial Institutions Department, General Manager of the Board Secretariat. Mr. Zhang graduated from Renmin University of China with a Master's degree in 1985. He also obtained a Doctorate from the London School of Economics in 1992.

Changes in Directors, Supervisors and Senior Management

During the reporting period, the newly appointed directors were as follows:

1. Mr. LIN Yongze started to serve as Non-Executive Director of the Bank as of 22 January 2008.

2. Mr. ZHOU Zaiqun started to serve as Executive Director of the Bank as of 3 February 2008.

The following directors ceased to be Directors of the Bank:

1. Mr. Patrick de SAINT-AIGNAN ceased to serve as Independent Non-Executive Director of the Bank as of 14 January 2008.

2. Sir Frederick Anderson GOODWIN ceased to serve as Non-Executive Director of the Bank as of 22 January 2009.

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

1. Mr. JIANG Kuiwei started to serve as Employee Supervisor of the Bank as of 6 May 2008.

2. Mr. LIU Dun ceased to serve as Employee Supervisor of the Bank as of 6 May 2008.

During the reporting period, changes in the Bank's senior management were as follows:

1. Mr. CHEN Siqing was appointed as Executive Vice President of the Bank by the Board of Directors on 19 June 2008.

2. Mr. YEUNG Jason Chi Wai resigned from the position of Board Secretary on 16 April 2008.

3. Mr. ZHANG Bingxun took the office of Board Secretary on 24 May 2008.

Corporate Governance

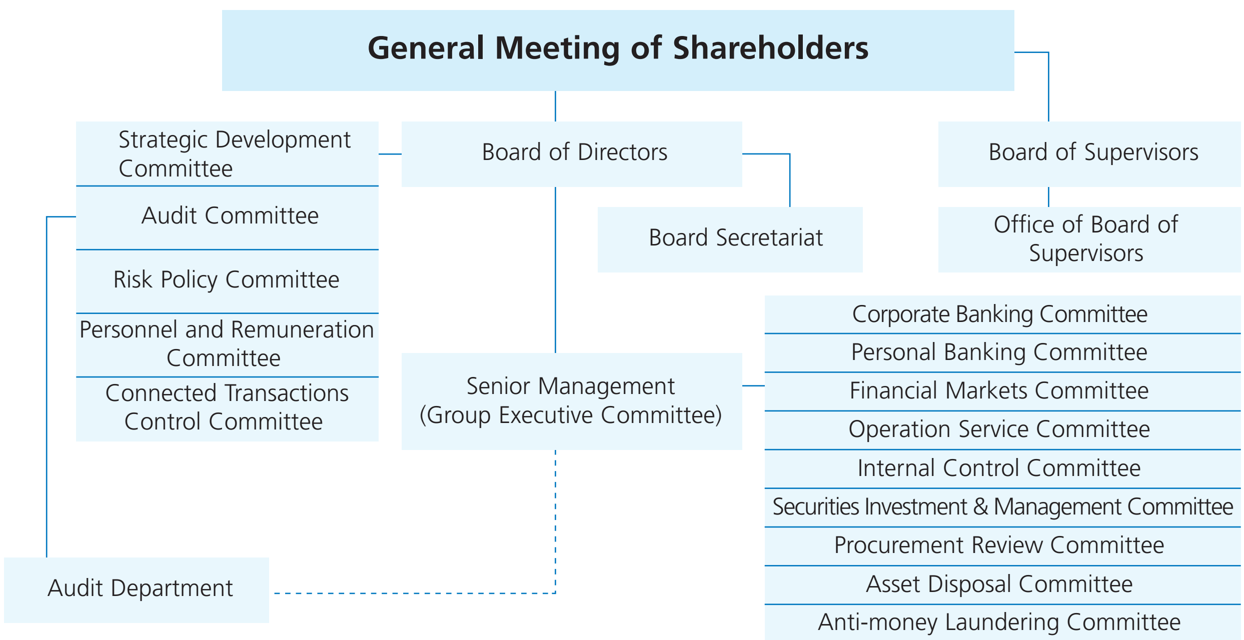
In 2008, in compliance with the PRC Company Law, the PRC Commercial Banking Law and the requirements of regulatory authorities, and based on its own experience, the Bank promoted sound corporate governance and the improvement of its corporate governance framework as a modern joint-stock company, which is characterised by a Shareholders' Meeting, Board of Directors, Board of Supervisors and senior management. By following the responsibilities set forth in the Articles of Association, all parties functioned independently in compliance with the relevant laws and exercised their rights and obligations respectively.

During the reporting period, the Bank passed the *Work Rules of Independent Directors of Bank of China Limited* in order to standardise and specify the responsibilities of independent directors, bring their functions in corporate governance into full play and uphold the interests of the Bank and its shareholders. The Bank held the 2007 Annual General Meeting of Shareholders by means of a video-conference in both Hong Kong and Beijing on 19 June 2008.

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 provisions of the Code and has substantially complied with most of the recommended best practices it sets out. The Bank also observes the laws and regulations of the places as well as the various provisions and guidelines of 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 established an effective channel for communicating with shareholders to ensure all shareholders are treated equally, properly informed and 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, Central SAFE Investments Limited, in respect of its business, personnel, assets, and institutional and financial matters.

The Bank held the 2007 Annual General Meeting of Shareholders by means of a video-conference simultaneously in both Hong Kong and Beijing on 19 June 2008. 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 88% of the total shares of the Bank. All the Directors and Supervisors together with certain management personnel attended the meeting and responded to the inquiries of shareholders. The meeting considered and approved twelve proposals, including the annual report, the profit distribution plan, and the re-election of director, among other matters. The meeting also passed the proposed issuance of RMB-denominated bonds in Hong Kong for an amount not exceeding RMB7 billion by means of special resolution. The Bank encourages shareholders in Hong Kong and the Chinese Mainland to attend the Annual General Meeting and fully exercise their rights as equity owners. By holding the Annual General Meeting simultaneously in both Hong Kong and the Chinese Mainland by means of video-conference, the Bank facilitated all shareholders to participate in the meeting and vote on the proposals as well as communicate with the Board of Directors and the management, representing a positive step for the further improvement of the Bank's corporate governance.

The Bank published the resolutions and the legal opinions of the Annual General Meeting of Shareholders in media outlets and websites designated by the Bank for information disclosure on 20 June 2008.

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

The Board of Directors earnestly and fully implemented the resolutions adopted by the Annual General Meeting of Shareholders during the reporting period.

Directors and Board of Directors

The Board of Directors, which is responsible to the Shareholders' Meeting, is the Bank's decision-making body. The Board of Directors exercises the following functions and powers as specified by the Bank's Articles of Association:

- Convening shareholders' meeting and reporting its work to shareholders' meeting;
- Implementing the resolutions of the shareholders' meeting;

- Deciding on the strategic policies, business plans and material investment plans of the Bank except for those material investment plans that are subject to shareholders' meeting approval as specified in the Articles of Association;

- Formulating the proposed annual financial budgets and final accounts of the Bank;

- Formulating the plans for profit distribution, loss making-up of the Bank and risk capital distribution;

- Formulating plans for the increase or reduction in the registered capital of the Bank, the issuance of other securities, public listings and issuance of bonds;

- Drafting plans for substantial acquisition, repurchase of the Bank's stocks or plans for merger, division, dissolution or change of incorporation nature of the Bank;

- Examining and approving connected transactions which require board approval under laws, administrative regulations and other relevant governing rules;

- Reviewing and deciding on the establishment of the Bank's basic administrative system, internal management framework and important sub-entities;

- Appointing or dismissing the Bank's president, board secretary and chairmen of the special committees; appointing or dismissing the Bank's executive vice president, executive assistant president, chief financial officer, chief risk officer and other senior management members nominated by the president; appointing or dismissing the chief audit officer nominated by the Audit Committee and deciding on his/her remuneration, awards and punishment; and appointing or dismissing members of the special committees nominated by the Personnel and Remuneration Committee;

- Examining and approving the policies regarding legal and regulatory compliance and the fundamental management system of the Bank;

- Formulating proposals for amendment of the Articles of Association of the Bank and submitting them to the shareholders' meeting for approval;

- Examining the Bank's human resources and remuneration strategies; reviewing and determining the remuneration strategies for the Bank's senior management members; taking responsibility for performance evaluations of senior management members; and deciding on the material rewards and punishment matters for senior management members;

- Reviewing and approving the information disclosure policy and measures of the Bank;

- Proposing the appointment, re-appointment or change of the accounting firm that audits the Bank to shareholders' meetings;

- Hearing work reports from the president and the management team of the Bank and examining their work;

- Reporting the rectification opinion regarding the Bank issued by relevant regulatory authorities and the execution status of rectification by the Bank;

- Hearing the reports by external auditors on a regular or irregular basis;

- Reviewing and approving the Bank's annual report; and

- Exercising other functions and powers prescribed by law, administrative regulations or the Articles of Association of the Bank, and those granted by the shareholders' meeting.

Currently, the Board of Directors comprises fifteen members. Other than the Chairman, there are three Executive Directors, seven Non-Executive Directors and four Independent Non-Executive Directors. For a detailed background and 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 the 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 2008 for members of the Board to provide protection against claims arising from the lawful discharge of duties by the Directors.

In 2008, the Board of Directors held six meetings respectively on 20 March, 28 April, 19 June, 27 August, 29 October and 12 December and passed thirteen written resolutions. The Board of Directors mainly reviewed the Bank's financial budget, periodic reports, profit distribution plan, internal control self-assessment report, Basel II implementation plan, appointment of external auditors, performance evaluation and distribution of bonuses for senior management, appointment of directors, appointment of senior management members, *Work Rules of Independent Directors of Bank of China Limited*, market risk limits, the announcement regarding the issuance of subordinated loans to BOCHK, and the issuance of RMB-denominated bonds in Hong Kong for an amount not exceeding RMB7 billion. The Board also reviewed the management report rendered by the external auditors and the response of the management, the impact of the current global financial situation and the Bank's countermeasures and strategies, and the work report of BOC Aviation.

The average attendance rate of the board meetings reached 96% for the year 2008. The attendance rate of each director is shown below:

Director	Number of Board Meetings Attended[1]	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%
LI Zaohang	Attended 6 out of a total of 6 meetings	100%
ZHOU Zaiqun	Attended 6 out of a total of 6 meetings	100%
ZHANG Jinghua	Attended 6 out of a total of 6 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 6 out of a total of 6 meetings	100%
WANG Gang	Attended 6 out of a total of 6 meetings	100%
LIN Yongze	Attended 6 out of a total of 6 meetings	100%
Frederick Anderson GOODWIN[2]	Attended 4 out of a total of 6 meetings	67%
SEAH Lim Huat Peter[3]	Attended 5 out of a total of 6 meetings	83%
Anthony Francis NEOH	Attended 6 out of a total of 6 meetings	100%
Alberto TOGNI[4]	Attended 5 out of a total of 6 meetings	83%
HUANG Shizhong	Attended 6 out of a total of 6 meetings	100%
HUANG Danhan	Attended 6 out of a total of 6 meetings	100%

Notes:

1. "Number of board meetings attended" refers to the number of meetings that a director personally attended out of the number a director was required to attend during the reporting period.

2. Non-Executive Director Sir Frederick Anderson GOODWIN was unable to personally attend the board meetings held on 28 April and 29 October. He entrusted another director to attend and exercise the voting right on his behalf at these meetings. Sir Frederick Anderson GOODWIN ceased to serve as Non-Executive Director of the Bank as of 22 January 2009.

3. Non-Executive Director SEAH Lim Huat Peter was unable to personally attend the board meeting held on 12 December. He entrusted another director to attend and exercise the voting right on his behalf at the meeting.

4. Independent Non-Executive Director Alberto TOGNI was unable to personally attend the board meeting held on 12 December. 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 ten members, including the Chairman of the Board, one Executive Director, seven Non-Executive Directors and one Independent Non-Executive Director. Mr. XIAO Gang, Chairman of the Board, serves as chairman of the committee. Committee members include LI Lihui, ZHANG Jinghua, HONG Zhihua, HUANG Haibo, CAI Haoyi, WANG Gang, LIN Yongze, 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 objectives of asset and liability management;
- Coordinating the overall development strategies for various financial business lines;
- Coordinating the development strategies of domestic and overseas branches and subsidiaries, and making decisions on establishment, dissolution and capital increase/decrease of domestic and overseas branches and subsidiaries within its authority;
- Reviewing the Bank's material investment and financing plans;
- Reviewing the Bank's merger and acquisition plans;
- Reviewing the Bank's material restructuring and adjustment plans; and
- Reviewing the Bank's IT development plan and other specific strategic development plans.

The Strategic Development Committee held five meetings in 2008. At these meetings, the Committee reviewed proposals covering the Bank's profit distribution for 2007, capital increase to BOCG Investment, the business plan and financial budget for 2009, the development strategies of the Bank, as well as the implementation of the budget for 2008.

The average attendance rate of the meetings of the Strategic Development Committee reached 85%, and the attendance rates of the relevant directors are shown as below:

Director	Number of Committee Meetings Attended	Attendance Rate
XIAO Gang	Attended 5 out of a total of 5 meetings	100%
LI Lihui	Attended 4 out of a total of 5 meetings	80%
ZHANG Jinghua	Attended 5 out of a total of 5 meetings	100%
HONG Zhihua	Attended 5 out of a total of 5 meetings	100%
HUANG Haibo	Attended 5 out of a total of 5 meetings	100%
CAI Haoyi	Attended 5 out of a total of 5 meetings	100%
WANG Gang	Attended 5 out of a total of 5 meetings	100%
LIN Yongze	Attended 5 out of a total of 5 meetings	100%
Frederick Anderson GOODWIN	Attended 0 out of a total of 5 meetings	0%
SEAH Lim Huat Peter	Attended 3 out of a total of 5 meetings	60%
Alberto TOGNI	Attended 5 out of a total of 5 meetings	100%

Note:

"Number of committee meetings attended" refers to the number of meetings that a committee member personally attended out of the number a committee member was required to attend during the reporting period, same below.

The Audit Committee

The Audit Committee comprises seven members, including three Non-Executive Directors and four Independent Non-Executive Directors. Independent Non-Executive Director Mr. HUANG Shizhong serves as chairman of the committee. 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 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 on the organisational restructuring of internal audit function, 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 of 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 2008, mainly to review financial reports and the dividend and profit distribution plans, the self-assessment report on internal control, improvement of internal control, policies of selection, rotation and dismissal of external auditors, the securities investment and distribution report, the sub-prime bonds investment and disposal report, the internal audit report on market risks, the implementation plan for internal control evaluation in 2008, the internal audit plan for Basel II implementation, the evaluation of the external auditors, recommendations put forward by the external auditors arising from their 2007 audit and management's response. Other matters and reports reviewed and approved include rectification on suggestions from the inspections of the CBRC, internal audit findings and fraud investigation reports, audit scope, plan and proposed audit fee for external auditors in 2009, and the work focus of internal audit in 2009.

The average attendance rate of the meetings of the Audit Committee in 2008 was 98%. The attendance rates of the relevant directors are shown as below:

Director	Number of Committee Meetings Attended	Attendance Rate
HUANG Shizhong	Attended 6 out of a total of 6 meetings	100%
HUANG Haibo	Attended 6 out of a total of 6 meetings	100%
WANG Gang	Attended 6 out of a total of 6 meetings	100%
SEAH Lim Huat Peter	Attended 5 out of a total of 6 meetings	83%
Anthony Francis NEOH	Attended 6 out of a total of 6 meetings	100%
Alberto TOGNI	Attended 6 out of a total of 6 meetings	100%
HUANG Danhan	Attended 6 out of a total of 6 meetings	100%

The Audit Committee formulated its *Work Rules for Annual Financial Statements of Bank of China Limited* (the "Work Rules") in accordance with the CSRC Announcement [2008] No.48. In line with the Work Rules, pending the start of audit by the accounting firm, the Audit Committee affirmed the qualification of the audit responsible person, the certified public accountants and the composition of the audit team of the accounting firm. Express requirements were raised to the accounting firm when the Audit Committee reviewed the audit scope and focus, the risk assessment and evaluation standards, testing methods of controls and frauds. The Audit Committee heard report from the management concerning the Bank's operating status and major financial data and put forward comments and opinions. The management was requested by the Committee to submit the annual financial statements to the accounting firm in time to leave sufficient time for the audit. During the audit period, the Committee had separate discussion with the accounting firm and arranged communication between the independent directors and the accounting firm. The Audit Committee compared and studied opinions between the accounting firm and the management after the accounting firm issued the preliminary opinions, and put forward questions and issued a note in writing. At its first meeting in 2009, the Audit Committee reviewed the Bank's 2008 financial statements and submitted them to the Board of Directors for approval.

During the review of the Bank's annual financial statements of 2008, the Audit Committee paid special attention to the Group's securities investment and distribution, sub-prime bonds investment and disposal, and impaired loans as well, analysed and affirmed the provisioning for the impaired assets, and reviewed the relevant disclosure matters.

In accordance with the CSRC Announcement [2008] No.48 and the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited* established by the Audit Committee, the accounting firm of the Bank submitted its 2008 summary work report. The management appraised the performance of the accounting firm, and based on which, the Audit Committee conducted its own assessment on the accounting firm in 2008. After deliberation, the Audit Committee decided to submit to the Board of Directors the proposal of re-appointing PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as the Bank's domestic auditor and PricewaterhouseCoopers Hong Kong as the Bank's international auditor for 2009.

Guidance of the Board of Directors and the Audit Committee of the Board to Internal Control

The Board of Directors has attached great importance to and actively facilitated the construction and development of the internal control system. The Board reviewed and approved the *Compliance Policy of Bank of China Limited*, with a view to advocating the philosophy of compliance and cultivating employees' awareness of compliance. The Board also reviewed on a regular basis the reports presented by the senior management concerning compliance, risk management, fraud cases and internal control, and gave guidance to the internal control and compliance work of the Bank in a timely manner. The Audit Committee of the Board listened to and reviewed the report on internal audit inspection and internal control evaluation, progress of rectification as proposed by the external auditor for internal control improvement, and prevention and control of fraud cases and non-compliances, thus guiding and urging the senior management to improve internal control. The Board also paid due regards to developing the compliance culture and the awareness of risk, and guided the senior management to take a series of measures for strengthening internal control.

During the reporting period, the Bank carried out an internal control self-assessment. For the report on the internal control self-assessment of the Bank, please refer to the announcement published by the Bank on 25 March 2009.

Plan of the Bank concerning Implementation of the Basic Standard of Enterprise Internal Control (CaiKuai [2008] No. 7)

The Board of Directors and the Audit Committee of the Board have attached great importance to the implementation of the *Basic Standard of Enterprise Internal Control* (Caikuai [2008] No. 7). During the reporting period, the Board organised Directors to attend relevant trainings, and guided the senior management in relevant activities. The Bank has made a gap analysis to compare the present status of internal control system of the Bank with the requirements set out in the *Basic Standard of Enterprise Internal Control*, with a view to meeting such requirements gradually.

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. Independent Non-Executive Director Mr. Anthony Francis NEOH serves as chairman of the committee. Committee members include ZHOU Zaiqun, ZHANG Jinghua, LIN Yongze, Alberto TOGNI and HUANG Shizhong. The committee is mainly responsible for:

- Reviewing risk management strategies, major risk management policies, procedures and systems, and providing suggestions to the Board of Directors;

- Reviewing the Bank's major risk-taking activities and exercising its veto power in a reasonable manner over any transaction that will or may lead to liabilities incurred by 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 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 improvements.

The Risk Policy Committee held five meetings in 2008. At these meetings, the committee reviewed proposals, including the Basel II implementation plan, application for Bank of China market risk limit (Level A) of 2008, measures on the management of non-credit large amount transactions of Bank of China Limited, *Valuation and Price Verification of Financial Instruments (Treasury Products) Policy (2007) of Bank of China Limited (Trial)*, proposal for clarifying the responsibilities and authorisation of Board of Directors and senior management in the write-off processes, and the rectification report of the Bank on the CBRC Onsite inspection 2007. The committee also reviewed the Bank of China management report on domestic and foreign currency liquidity risk for 2007, report on personal housing mortgage loans of Bank of China, annual review on credit approval authorisation of Bank of China in 2007, report on the small and medium enterprises (SMEs) business mode of Bank of China, report on securities investment management, notes of overseas visit of risk policy committee, report on the management mode for the group customers with large credit amount, contingency plan of Bank of China Limited, analysis reports on the real estate industry and other sensitive sectors, and the report on the management model and current status of syndicated loans of Bank of China. Moreover, in view of the impact of the sub-prime crisis in the US, the Risk Policy Committee focused its attention on the Bank's securities investments and discussed special topics on the Bank's securities investments since the second Risk Policy Committee meeting on 17 June 2008. At these meetings, Directors made valuable comments and suggestions on the 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 in 2008 was 100%. The attendance rates of the relevant directors are shown as below:

Director	Number of Committee Meetings Attended	Attendance Rate
Anthony Francis NEOH	Attended 5 out of a total of 5 meetings	100%
ZHOU Zaiqun	Attended 5 out of a total of 5 meetings	100%
ZHANG Jinghua	Attended 5 out of a total of 5 meetings	100%
LIN Yongze	Attended 5 out of a total of 5 meetings	100%
Alberto TOGNI	Attended 5 out of a total of 5 meetings	100%
HUANG Shizhong	Attended 5 out of a total of 5 meetings	100%

The Personnel and Remuneration Committee

The Personnel and Remuneration Committee comprises five members, including two Non-Executive Directors and three Independent Non-Executive Directors. Non-Executive Director Mr. CAI Haoyi serves as chairman of the committee. Committee members include HONG Zhihua, Anthony Francis NEOH, HUANG Shizhong and HUANG Danhan. The committee is mainly responsible for:

- Assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their 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 puts forward suggestions to the Board of Directors concerning the size and composition of the Board according to the Bank's business activities, asset size and equity structure; studies and reviews the standards and procedures of selecting, nominating and appointing directors, and puts forward suggestions to the Board. The committee conducts a preliminary examination on the qualifications of the candidates for directors and independent directors nominated in accordance with the Articles of Association and submits those deemed qualified to the Board of Directors for review and the Shareholders' Meeting for approval.

The Personnel and Remuneration Committee held four meetings in 2008 and passed two resolutions by voting. At these meetings, the committee reviewed proposals, including nomination and appointment of directors and senior management members of the Bank, the performance evaluation and distribution of bonuses for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, supervisors and senior management members for 2007, performance targets for the senior management for 2008; and the performance targets for the Chairman of the Board of Directors, the President and the senior management for 2008.

The average attendance rate of the meetings of the Personnel and Remuneration Committee in 2008 was 100%. The attendance rates of the relevant directors are shown as below:

Director	Number of Committee Meetings Attended	Attendance Rate
CAI Haoyi	Attended 4 out of a total of 4 meetings	100%
HONG Zhihua	Attended 4 out of a total of 4 meetings	100%
Anthony Francis NEOH	Attended 4 out of a total of 4 meetings	100%
HUANG Shizhong	Attended 4 out of a total of 4 meetings	100%
HUANG Danhan	Attended 4 out of a total of 4 meetings	100%

The Connected Transactions Control Committee

The Connected Transactions Control Committee comprises six members, including two Executive Directors and four Independent Non-Executive Directors. Independent Non-Executive Director Mr. Alberto TOGNI serves as chairman of the committee. Committee members include LI Zaohang, ZHOU Zaiqun, 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 the relevant laws and regulations; and
- Reviewing major connected transactions of the Bank in accordance with the relevant laws and regulations.

The Connected Transactions Control Committee held four meetings in 2008, at which it reviewed proposals, including the continuing connected transactions between the Bank and BOCHK (Group) and the annual caps, the announcement on continuing connected transactions for 2007, the report on the internal caps of continuing connected transactions, and the granting of subordinated loans to BOCHK.

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

Director	Number of Committee Meetings Attended	Attendance Rate
Alberto TOGNI	Attended 4 out of a total of 4 meetings	100%
LI Zaohang	Attended 4 out of a total of 4 meetings	100%
ZHOU Zaiqun	Attended 4 out of a total of 4 meetings	100%
Anthony Francis NEOH	Attended 4 out of a total of 4 meetings	100%
HUANG Shizhong	Attended 4 out of a total of 4 meetings	100%
HUANG Danhan	Attended 4 out of a total of 4 meetings	100%

Special Corporate Governance Campaign

During the reporting period, following the requirement issued by the Beijing CSRC on further work of the special corporate governance campaign, the Bank formulated the *Work Rules of Independent Directors of Bank of China Limited*, enhanced its internal control management system, continuously improved its corporate governance, and disclosed the rectification of the items in the corporate governance rectification report in a timely manner in accordance with its plan of continuously strengthening and enhancing corporate governance.

Appointment of Directors

In compliance with Rules A.4.1 and A.4.2 of Appendix 14 of the Hong Kong Listing Rules and provisions of the Articles of Association, 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 the 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 the 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 the 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 Non-Executive Director with regard to his/her independence. Based on these confirmations and relevant information in its possession, the Bank confirms their independence status.

Information on the attendance of Independent Non-Executive Directors at board meetings in 2008 is detailed in the section "Directors and 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 Directors and the special committees under the Board of Directors of the Bank in 2008.

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 (ZhengJianFa [2003] No.56) issued by the China Securities Regulatory Commission and according to 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 the PBOC and the CBRC and 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 the guarantee business and carried out this business accordingly. The Bank's guarantee business comprises principally Letters of Guarantee. As at 31 December 2008, the outstanding amount of letters of guarantee issued by the Bank was RMB532.845 billion.

Supervisors and Board of Supervisors

The Board of Supervisors is the Bank's supervisory body 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. Supervisors representing shareholders and external supervisors are elected or replaced at the Shareholders' Meeting.

The Board of Supervisors held five meetings in 2008 and adopted related resolutions. For the performance and supervision opinions of the Board of Supervisors for the reporting period, please refer to the section "Report of the Board of Supervisors" in this annual report.

Senior Management

In 2008, the senior management of the Bank, carrying out the operation and management of the Bank in accordance with the powers bestowed on them by the Articles of Association of the Bank and the rights delegated to them by the Board of Directors, drove the Bank's various businesses in line with the performance goals set by the Board of Directors for 2008, responding with composure to various challenges and successfully offering a range of financial services for the Olympic Games.

During the reporting period, the senior management of the Bank formulated charters for the Group Executive Committee and the management and decision-making committees, steadily promoted the integration of business structures and set up the Corporate Banking Unit, the Personal Banking Unit, the Financial Markets Unit and the Operation Service Unit. The Securities Investment and Management Committee was established, responsible for making and reviewing decisions related to the Bank's securities investment business. The Financial Institution Risk and Emergency Team was developed to deal with the turmoil in international financial markets, achieving certain goals with respect to crisis management.

During the reporting period, the Executive Committee held twenty regular meetings and six special meetings at which it discussed and decided upon a series of significant operating and management matters, including the operating development plan, the progress of the IT blueprint, the integration of business processes, the management of human resources, the use of domestic and foreign currency-denominated funds and risk management.

Under the Executive Committee are the Corporate Banking Committee, the Personal Banking Committee, the Financial Markets Committee, the Operation Service Committee, the Internal Control Committee, the Securities Investment and Management Committee, the Procurement Review Committee, the Asset Disposal Committee and the Anti-money Laundering Committee. During the reporting period, all the committees diligently fulfilled their duties and responsibilities as per the power specified in the committee charters and the rights delegated by the Executive Committee.

Securities Transactions by Directors and Supervisors

Pursuant to the overseas and local securities regulators' requirements, the Bank has adopted and implemented the *Management Rules on Securities Transactions by Directors, Supervisors and Senior Management of Bank of China Limited* (the "Management Rules") to govern securities transactions by Directors, Supervisors and senior management members of the Bank. The terms of the Management Rules are more stringent than the mandatory standards as set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 of the Hong Kong Listing Rules (the "Model Code"). The Bank has made specific enquiry to all Directors and Supervisors, all of whom confirmed that they have complied with the standards set out in both the Management Rules and the Model Code throughout the reporting period.

Responsibility Statement of Directors on Financial Reports

The following statement, which sets 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 of External Auditors

At the 2007 Annual General Meeting of the Bank, shareholders of the Bank approved the appointments of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as its domestic auditor and PricewaterhouseCoopers Hong Kong as its international auditor for 2008.

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 2008 were RMB221 million.

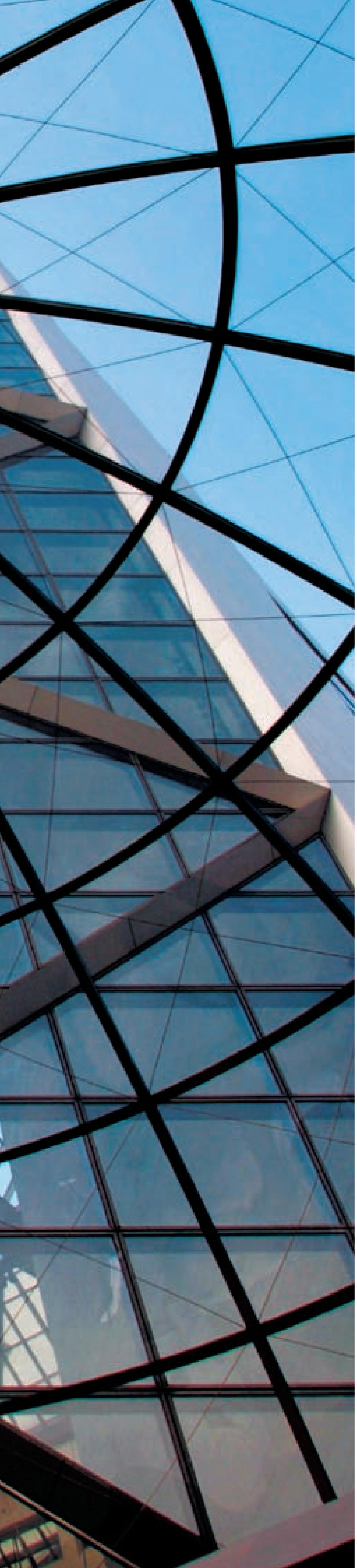
PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank. The Bank incurred RMB5 million for non-auditing services performed by PricewaterhouseCoopers for the year ended 31 December 2008.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong have provided audit services to the Bank for the last six 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 2008.

The Board will table a resolution at the 2008 Annual General Meeting, proposing to re-appoint PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong as its auditors.

Investor Relations and Information Disclosure

The Board of Directors and senior management of the Bank attach great importance to investor relations and information disclosure affairs, and are committed to ensuring timely, fair, accurate, truthful and complete information disclosure. The Bank aims to promote awareness and understanding of its investment proposition among the investment community through full and open communication with investors. In 2008, the Bank enhanced its efforts in the construction of its information disclosure management system. Its Information Disclosure Policy was amended and published following the amendments of the listing rules of the Shanghai Stock Exchange and the Hong Kong Stock Exchange with a view to safeguarding the interests of the investors. In the first half of 2008, the Bank published its 2007 annual report, which received a gold award in the annual report competition organised by the League of American Communications Professionals, as well as awards from the Annual Report Competition in the US and the Hong Kong Management Association. The management took part in a global road-show after the release of 2007 annual results and a domestic road-show after the 2008 interim results announcement, featuring one-on-one or group briefings to investors on the Bank's progress in various businesses. A total of fifteen cities were visited in the Chinese Mainland, Hong Kong, Asia, Europe, and North America. All investors responded with great interest. In addition, the Bank enhanced its communication with investors through regular conferences and visits. During the year, the senior management of the Bank held 254 meetings with domestic and overseas institutional investors and analysts. The Bank also continued to update and improve the Investor Relations webpage on its website and enhanced day-to-day communication with investors through various channels, such as live online broadcasts, email and telephone hotlines.



Global Opportunities

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 2008.

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 RMB0.13 per share (before tax), amounting to approximately RMB32.999 billion, subject to the approval of shareholders at the forthcoming Annual General Meeting scheduled on Thursday, 18 June 2009. If approved, the 2008 final dividend of the Bank will be denominated and declared in Renminbi and paid in Renminbi or Hong Kong dollars. For such conversion, Renminbi will be converted into Hong Kong dollars based on the average exchange rate as announced by the PBOC prevailing one week before 18 June 2009 (inclusive), being the date of the Bank's Annual General Meeting.

At the Annual General Meeting held on 19 June 2008, a final dividend of RMB0.10 per share (before tax), amounting to RMB25.384 billion in total, was approved for payment in respect of the 2007 profits. The distribution plan was implemented in July 2008. No interim dividend was paid for the period ended 30 June 2008 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital during the year.

Dividend Payout for the Preceding Three Years

Unit: RMB million

	2007	2006[3]	2005
Total dividends[1]	25,384	10,154	14,112
Payout ratio[2]	45%	24%	54%

Notes:

1. Total dividends are before-tax amount including interim dividends.
2. Payout ratio = total dividends/profits attributable to the equity holders of the Bank
3. Dividends for year 2006 are from profits attributable to the equity holders of the Bank for the period from 1 July 2006 to 31 December 2006.

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, 19 May 2009 to Thursday, 18 June 2009 (both days inclusive). 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, 18 May 2009.

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 reporting period amounted to approximately RMB138.7289 million.

Share Capital

As at the latest practicable date prior to the issue of this Annual Report and based on the publicly available information, the Bank had 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.

Reserves

Please refer to the Consolidated Statement of Changes in Equity for details of changes in the reserves of the Bank.

Distributable Reserves

Please refer to Note V.40 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

Fixed Assets

Please refer to Note V.22 to the Consolidated 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 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 the Hong Kong Listing Rules. Details of such connected transactions are as follows:

Banking Services

The provisions of the following banking services by the Bank to its connected persons are exempted from the disclosure requirements of the Hong Kong Listing Rules:

(1) Taking of deposits from connected persons

The Bank provides commercial banking services and products to its customers in the ordinary and usual course of its business. Such commercial banking services and products include taking of deposits. The Bank's connected persons, including its substantial shareholders, directors, supervisors and chief executive officers and ex-directors who were directors within 12 months prior to 31 December 2008 and their respective associates, might have placed deposits or continue to place deposits with the Bank. Under the Hong Kong Listing Rules, deposits by connected persons are exempted from the disclosure requirements of the Hong Kong Listing Rules, as such deposits are placed (1) in the ordinary and usual course of the Bank's business and on normal commercial terms; and (2) no security over the assets of the Bank is granted in respect of the placing of such deposits.

Further, to the extent that staff rates on deposits are available to connected persons who are employees of the Bank, such deposits are taken by the Bank on normal commercial terms no more favourable than the staff rates applicable to other employees of the Bank who are not connected persons. Such deposits are similarly exempted from the disclosure requirements of the Hong Kong Listing Rules.

(2) Loans and credit facilities granted to connected persons

The Bank extends loans and credit facilities to its customers in the ordinary and usual course of its business on normal commercial terms with reference to the prevailing market rates. Credit facilities provided by the Bank include provision of long-term loans, short-term loans, customer loans, credit card facilities, mortgages, guarantees, security for third party loans, comfort letters and billing discounting facilities. The Bank's connected persons, including its substantial shareholders, directors, supervisors and chief executive officers and ex-directors who were directors within 12 months prior to 31 December 2008 and their respective associates, might have utilised or continue to utilise loans and credit facilities of the Bank. Under the Hong Kong Listing Rules, such loans and credit facilities to connected persons are exempted from the disclosure requirements of the Hong Kong Listing Rules, as such loans and credit facilities are provided (1) in the ordinary and usual course of the Bank's business for the benefit of the connected persons; and (2) on normal commercial terms.

Further, to the extent that staff rates are available for certain loans and credit facilities, the loans and credit facilities are provided by the Bank to connected persons who are employees of the Bank at staff rates and on normal commercial terms no more favourable than the staff rates applicable to other employees of the Bank who are not connected persons. Such loans and credit facilities are exempted from the disclosure requirements of the Hong Kong Listing Rules.

Transactions with Prudential Corporation Holdings Limited and its associates

Prudential Corporation Holdings Limited ("Prudential Corporation") is a connected person of the Bank by reason of its being a substantial shareholder in two of the indirect subsidiaries of the Bank, namely, BOCI-Prudential Asset Management Limited ("BOCI-Prudential") and BOCI-Prudential Trustee Limited ("BPTL"), each holding a 36% equity interest. In addition, by reason of its having 30% or more equity interests in each of BOCI-Prudential and BPTL, both of them are associates of Prudential Corporation and transactions by the Bank with BOCI-Prudential and BPTL are also connected transactions.

In 2008, the Bank continued to engage on a regular basis in a number of transactions with Prudential Corporation and its associates in the ordinary and usual course of its business and on normal commercial terms. Such transactions included fund distribution services, fund management services, client referral services, IT services, office rental and consumption services, insurance services and corporate management services. These transactions are exempted from the disclosure requirements of the Hong Kong Listing Rules as the percentage ratios (other than the profits ratio) of each category of such transactions calculated in accordance with the Hong Kong Listing Rules are all less than 0.1%.

Transactions with BOC Hong Kong (Holdings) Limited and its associates

In late November 2007, the Bank and BOCHK (Holdings) established BOC Services Co., Ltd, which is indirectly held by the Bank (55%) and BOCHK (Holdings) (45%). Upon the establishment of BOC Services Co., Ltd, BOCHK (Holdings) became a connected person of the Bank by reason of its being a substantial shareholder of BOC Services Co., Ltd., an indirect subsidiary of the Bank.

Pursuant to the Services and Relationship Agreement dated 6 July 2002 entered into between the Group (excluding BOCHK (Group)) and BOCHK (Group), and as amended and supplemented from time to time, the Group has been engaged and will continue to engage on a regular basis in a number of transactions with BOCHK (Group) in the ordinary and usual course of its business. Under the Hong Kong Listing Rules, upon BOCHK (Holdings) becoming a connected person of the Bank all on-going transactions conducted by the Group with BOCHK (Group) pursuant to the Services and Relationship Agreement constitute continuing connected transactions. Such transactions include, among others, (1) information technology services, (2) property transactions, (3) bank-note delivery, (4) provision of insurance cover, (5) credit card services, (6) securities transactions, (7) fund distribution transactions, (8) insurance agency, (9) foreign exchange transactions, (10) trading of financial assets, and (11) inter-bank capital markets. The Services and Relationship Agreements, as amended (the duration being the only amendment), is valid for a period of three years commencing 1 January 2008.

The continuing connected transactions numbered (1) to (5) above ("General Connected Transactions") constitute exempt continuing connected transactions as each of the annual caps of such transactions represents less than 2.5% of the applicable percentage ratios as calculated in accordance with the Hong Kong Listing Rules. Subject to the reporting and announcement requirements, they are exempted from the independent shareholders' approval requirement under the Hong Kong Listing Rules. The Bank has fulfilled its obligation by making the relevant announcement on 2 January 2008.

The continuing connected transactions numbered (6) to (8) ("Investment Connected Transactions") and the continuing connected transactions numbered (9) to (11) ("Inter-bank Connected Transactions") constitute non-exempt continuing connected transactions as each of the annual caps of such transactions represents more than 2.5% of the applicable percentage ratios as calculated in accordance with the Hong Kong Listing Rules. They are subject to the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules. The annual caps in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions for the years 2008 to 2010 were approved by the Bank's independent shareholders at its annual general meeting held on 19 June 2008.

Please refer to the "Unaudited Supplementary Financial Information – Continuing Connected Transactions" for more information on continuing connected transactions.

Review and confirmation of the Independent Non-Executive Directors on the non-exempt continuing connected transactions of the Bank

The Bank's Independent Non-Executive Directors have reviewed the above non-exempt continuing connected transactions of the Group for the year ended 31 December 2008 and confirmed that (1) all connected transactions have been (i) entered into by the Group in its ordinary and usual course of business; (ii) conducted either on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; (iii) entered into in accordance with the terms under the Services and Relationship Agreement, or where not applicable, on terms that are fair and reasonable and in the interest of the shareholders of the Bank as a whole; and (2) the annual amounts of the General Connected Transactions, Investment Connected Transactions and Inter-bank Connected Transactions have not exceeded the respective annual caps for the year ended 31 December 2008.

Confirmation of the auditors on the non-exempt continuing connected transactions of the Bank

The auditors of the Bank have examined the above non-exempt continuing connected transactions of the Group for the year ended 31 December 2008 and confirmed that such continuing connected transactions (1) have been approved by the Bank's Board of Directors; (2) are in accordance with the pricing policies of the Bank; (3) have been entered into in accordance with the terms under the Services and Relationship Agreement; and (4) have not exceeded the annual caps for the year ended 31 December 2008.

Corporate Governance

The Bank endeavours 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 2008 are set out in the section headed "Directors, Supervisors and Senior Management".

Directors' Interests in Competing Businesses

Sir Frederick Anderson GOODWIN, a Non-Executive Director of the Bank, served as Director of the RBS Group from August 1998 to November 2008. RBS Group is the holding company of one of the world's largest banking and financial services groups, whose business may compete directly or indirectly with the Bank's business. In respect of the competition between the Bank and the RBS Group, Directors of the Bank believe that the good corporate governance and participation of independent non-executive directors are able to safeguard the interests and ensure independence of the Bank.

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

Note: Sir Frederick Anderson GOODWIN ceased to be a Non-Executive Director of the Bank as of 22 January 2009.

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 Directors were 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.

Particulars of the outstanding options granted to the Directors of the Bank under the Pre-Listing Share Option Scheme as at 31 December 2008 are set out below:

				Number of share options					
Name of director	Date of grant	Exercise price per share (HK$)	Exercisable period	Granted on 5 July 2002	Balance as at 1 January 2008	Exercised during the year	Surrendered during the year	Lapsed during the year	Balance as at 31 December 2008
Li Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
Zhou Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	361,500	–	–	1,084,500

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 of 31 December 2008, Director Zhou Zaiqun possessed 500 shares and interests in BOCHK (Holdings), which was recorded in the register required to be kept by the Bank pursuant to section 352 of the SFO or otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers*.

Save as disclosed above, as at 31 December 2008, 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.

Financial, Business and Family Relations among Directors

Directors of the Bank do not relate to one another with respect to finance, business and family, or other material relations.

Substantial Shareholder Interests

Details of the Bank's substantial shareholder interests 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.36 to the Consolidated 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" 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 2008, approximately 9.12 million shares of the Bank were held as treasury shares. Please refer to Note V.39 to the Consolidated 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 law, 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 has been used to strengthen the capital base of the Bank. The Bank issued RMB60 billion in RMB-denominated subordinated bonds in 2004 and 2005. The issue of the subordinated bonds aims to mitigate liquidity risk and optimise the maturity structure of assets and liabilities and raise the capital adequacy ratio.

The Bank proposed to issue RMB-denominated subordinated bond with an amount not exceeding RMB120 billion before 31 December 2012. The proposal was approved in the Extraordinary General Meeting held on 23 March 2009. For details, please refer to the Circular and Announcement of Resolutions of the Extraordinary General Meeting.

Taxation and Tax Relief

A-Share Holders: In accordance with the *Notice on Taxation Policy of Personal Stock Dividends Income* (Caishui [2005] No.102) (the "Notice") and the *Supplementary Notice on Taxation Policy of Personal Stock Dividends Income* (Caishui [2005] No.107) 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; dividends obtained by mutual funds from listed companies shall be taxed with a reduction of 50% as taxable amount when paying personal income tax on behalf of the obligatory persons pursuant to the Notice.

Article 26.2 of the *PRC Corporate Income Tax Law* provides that dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax free.

In accordance with Article 83 of the *Implementation Rules of PRC Corporate Income Tax Law*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises in Article 26.2 of the *PRC Corporate Income Tax Law* mean the investment proceeds obtained from direct investment of resident enterprises in other resident enterprises, excluding those investment proceeds obtained from publicly-offered and tradable stocks of resident enterprises held for less than 12 months on a continuing basis.

As per the *PRC Corporate Income Tax Law* and the *Implementation Rules of PRC Corporate Income Tax Law*, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

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 Foreign Citizens* (Guoshuifa [1993] No.045) published by the State Administration of Taxation, foreign individuals holding H Shares are exempted from paying personal income tax for dividends obtained from companies incorporated in PRC that issue H Shares.

As stipulated by the *Notice on Issues Relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises* published by the State Administration of Taxation PRC (Guoshuihan [2008] No.897), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H-Share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

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 are taxed or 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
24 March 2009

Report of the Board of Supervisors

Meetings of the Board of Supervisors

The Board of Supervisors held five meetings in 2008.

1. The first meeting (on 13 March) examined and approved the 2007 performance evaluation results of supervisors who represent shareholders for submission to the General Meeting of Shareholders for review. The Report of the Board of Supervisors of Bank of China Limited at the General Meeting of Shareholders in 2008 was examined on a preliminary basis.

2. The second meeting (on 21 March and 25 March) examined and approved the 2007 Annual Report of Bank of China Limited, the 2007 profit distribution plan of Bank of China Limited, the self-assessment report on internal control of the Bank and the report of the Board of Supervisors of Bank of China Limited at the General Meeting of Shareholders in 2008 for submission to the General Meeting of Shareholders for review.

3. The third meeting (on 28 April) examined and approved the 2008 first quarter report of Bank of China Limited.

4. The fourth meeting (on 27 August) examined and approved the 2008 Interim Report of Bank of China Limited.

5. The fifth meeting (on 29 October) examined and approved the 2008 third quarter report of Bank of China Limited.

Supervision and Inspection Work of the Board of Supervisors

In 2008, based on the applicable state laws and regulations and the Articles of Association of the Bank, the Board of Supervisors performed their supervision and inspection duties by way of their attendance at the relevant meetings, consultation of materials and special inspections and investigations. The main work undertaken was as follows:

1. Supervision and inspection of the financial activities of the Bank. The Board of Supervisors reviewed the final financial accounts for the preceding year and the financial budget for the current year as well as the quarterly financial statements; made offsite analysis of the financial activities of branches; performed onsite inspections to verify compliance of off-balance sheet business and the authenticity of the accounting data of four provincial branches; and participated in the onsite inspections of the Financial Management Department of the Head Office to verify compliance of the financial receipts and expenditures of three provincial branches.

2. Supervision and inspection of the credit asset quality and loan provisions of the Bank. On the basis of this work in 2007, the Board of Supervisors continuously followed and analysed loan quality and provision levels; carried out onsite inspections of loan provisions at six provincial branches; and investigated three provincial branches in regard to risk changes

in certain sensitive industries and their related impact on credit asset quality, as well as the provisions and financial position of the Bank in light of the new international economic environment and adjustments in the domestic economy. Onsite inspections of the disposal of non-performing assets at two provincial branches were also performed.

3. Supervision and inspection of the internal control status of the Bank. As required by the relevant regulatory laws and regulations, the Board of Supervisors paid close attention to the construction of the Bank's new internal control and fraud prevention system and conducted onsite inspections and investigations of the internal control-related work of six provincial branches.

4. The Board of Supervisors checked the development of the Bank's information disclosure system and the effects of its implementation and put forward several suggestions.

Independent Opinions of the Board of Supervisors on Relevant Issues of the Bank during the Reporting Period

1. Operations according to law

It was found that, during the reporting period, the Bank's Board of Directors and senior management did not violate any laws, regulations or the Articles of Association of the Bank, nor did they infringe upon the Bank's interests in discharging their duties.

2. Financial position

The financial statements contained in the 2008 Annual Report of the Bank reflect truthfully and fairly the Bank's financial position and business performance of the reporting period.

3. Use of 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 by 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 transaction that might infringe upon the Bank's interests during the reporting period.

6. Internal control

The Bank further enhanced and improved its internal control during the reporting period. The Board of Supervisors examined and approved the *Report of the Board of Directors of Bank of China Limited on Self-assessment of Internal Control for 2008*.

Significant Events

Material Litigation and Arbitration

The Bank was involved in certain litigation and arbitration cases in its regular course of business. After consultation with legal professionals, the senior management holds that none of the litigation and arbitration cases will have a significant adverse impact on the financial position or operating results of the Bank.

Purchase and Sale, and Merger and Acquisition of Assets

Acquiring Share Capital of LCFR

As discussed and approved by the Board of Directors, on 18 September 2008 the Bank entered into agreements with Compagnie Financière Saint-Honoré ("CFSH") and La Compagnie Financière Edmond de ROTHSCHILD Banque ("LCFR"), whereby the Bank agreed to acquire a 20% interest in the enlarged share capital of LCFR, a French financial institution, at a total consideration of EUR236,270,842.68 (the "Transaction"). The Transaction will be effected by subscription of 663,268 new shares issued and allotted by LCFR, and purchase of 577,064 shares held by CFSH. The Transaction does not require the approval of the Shareholders' Meeting, but it is subject to the approval of certain PRC regulatory agencies, including the CBRC, and the approval of relevant regulatory authorities in France and the United Kingdom. The Transaction is going through the relevant approval process.

LCFR is established and registered in France, with its headquarters in Paris. It is a financial group mainly engaged in private banking and asset management and is controlled by the Rothschild Family. It has representative offices in many countries globally. The Rothschild Family, the controlling shareholder of CFSH, has a history of over 250 years in the financial industry and enjoys an established reputation in Europe and around the world. The Transaction will strengthen the Bank's strategic development in the areas of private banking and asset management. In addition, the Bank's cooperation with LCFR will enhance the Bank's capabilities in product development and its international operations and will help the Bank explore further opportunities in European and other emerging markets. The Bank expects that the Transaction will not have a material impact on the Bank's capital adequacy ratio (CAR) or earnings per share (EPS). The Transaction does not constitute a connected transaction for the Bank.

For detailed information on the Transaction, please refer to the announcement of the Bank dated 18 September 2008.

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.

Significant Related Party Transactions

The Bank undertook no discloseable significant related party transactions during the reporting period. For related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note V.45 to the Consolidated Financial Statements for details.

Major Contracts and the Enforcement thereof

Material Custody, Sub-contracts and Leases

During the reporting period, the Bank did not transact, take custody of, sub-contract or lease any material business assets from other companies, or allow its material business assets to be subject to such arrangements.

Material Guarantee Business

As approved by the PBOC and CBRC, the guarantee business is an off-balance sheet item in the ordinary course of the Bank's business. The Bank operates the guarantee business in a prudent manner and has formulated specific management measures, operational processes and approval procedures in accordance with the risks of the guarantee business and carries out this business accordingly. During the reporting period, save as disclosed, the Bank did not enter into any material guarantee business.

Material Cash Assets of the Bank Entrusted to Others for Management

During the reporting period, no material cash assets of the Bank were entrusted to others for management.

Funds Held by the Controlling Shareholder and its Related Parties

During the reporting period, no funds, which were not related to normal operations, were held by the Bank's controlling shareholder and its related parties.

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 the Bank and its Directors, Supervisors and Senior Management Members

During the reporting period, neither the Bank nor its directors, supervisors or senior management members were subject to investigation, administrative punishment or censure by the CSRC, or publicly reprimanded by any stock exchange. No other regulatory administration imposed any penality on the Bank that had material impact to the Bank's operation.

Other Significant Events

Investment Securities

No.	Type of securities	Securities code	Company name	Initial investment cost (unit: RMB)	Securities held	Carrying value at period end (unit: RMB)	Proportion of the total investment securities (%)	Gains/(losses) during the reporting period (unit: RMB)
1	Fund	–	Fortis Plan Target Click Fund (USD) 2035	559,654,593	1,625,048	650,086,728	14.04%	25,929,537
2	Stock	5 HK	HSBC Holdings	250,453,453	2,637,969	171,457,512	3.70%	(77,215,921)
3	Fund	070009	Harvest Ultra-short Term Bond Fund	94,429,443	99,772,827	95,929,636	2.07%	1,500,194
4	Stock	000002 CH	China Vanke Co., Ltd.	58,182,197	13,140,864	84,760,670	1.83%	2,606,634
5	Stock	939 HK	China Construction Bank	88,479,443	22,530,799	84,447,124	1.82%	945,393
6	Stock	600663 CH	Shanghai Lujiazui Fin & Trade Zone Dev	147,593,935	5,931,114	78,766,894	1.70%	1,124,948
7	Stock	3968 HK	China Merchants Bank	76,399,136	6,034,628	76,423,028	1.65%	649,856
8	Fund	–	Huatai Value Adding Investment Product	66,100,610	51,869,551	69,669,334	1.50%	3,568,724
9	Convertible bond	XS0313803321	Xinyu Hengdeli	95,842,500	100	66,001,633	1.43%	(30,125,745)
10	Stock	941 HK	China Mobile	72,685,798	954,369	65,464,172	1.41%	(3,128,182)
Other investment securities held at period end				4,952,408,381	–	3,187,416,134	68.85%	(544,624,890)
Gains/(losses) of investment securities sold during the reporting period				–	–	–	–	(462,484,348)
Total				6,462,229,489	–	4,630,422,865	100.00%	(1,081,253,801)

Notes:

1. The table lists the top ten investment securities held by the Group in descending order at their carrying value at period end.

2. Investment securities listed in this table include stocks, warrants, convertible bonds, open-ended and close-ended fund which are classified under financial assets at fair value through profit or loss by the Group.

3. "Other investment securities held at period end" refers to investment securities other than the top ten investment securities listed above held by the Group by the end of the reporting period.

4. Unit for stock and fund is share and unit for convertible bond is issue.

Stocks of Other Listed Companies held by the Group

Stock code	Company name	Initial investment cost (unit: RMB)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains/(losses) during the reporting period (unit: RMB)	Increase/(decrease) of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
189 HK	Dongyue Group Ltd.	207,805,444	5.18%	63,865,046	(173,517,172)	(13,163,420)	Available for sale equity security	IPO
8002 HK	Phoenix Satellite Television Holdings Ltd.	343,721,879	8.32%	250,706,532	6,540,170	(352,442,516)	Available for sale equity security	Joint-stock reform
549 HK	Jilin Qifeng Chemical Fiber Co., Ltd.	60,965,263	10.95%	10,538,756	(50,426,508)	16,551,936	Available for sale equity security	Joint-stock reform
600591 CH	Shanghai Airlines Co., Ltd.	87,798,484	13.30%	627,611,394	–	(1,739,436,302)	Available for sale equity security	Joint-stock reform
Total	–	700,291,070	–	952,721,728	(217,403,510)	(2,088,490,302)	–	–

Notes:

1. The table lists stocks of listed companies in which the Group had a shareholding of 5% or above, which are classified as long-term equity investments or available for sale equity securities.

2. "Gains/(losses) during the reporting period" refers to the relevant investment's contribution to the Group's consolidated profits for the period.

Equity Investments in Unlisted Financial Companies held by the Group

Company name	Initial investment cost (unit: RMB)	Equity held (unit: share)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase/ (decrease) of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
Dongfeng Peugeot Citroen Auto Finance Co., Ltd.	211,862,778	–	50%	263,087,735	5,523,887	–	Investment in associates and joint ventures	Investment
JCC Financial Co., Ltd.	51,436,280	–	20%	56,137,716	6,873,730	–	Investment in associates and joint ventures	Investment
Hunan Hualing Financial Co., Ltd.	25,636,501	–	10%	28,556,750	3,043,963	–	Investment in associates and joint ventures	Investment
CJM Insurance Brokers Limited	4,083,298	2,000,000	22%	3,486,536	205,566	–	Investment in associates and joint ventures	Investment
The Debt Management Company Limited	14,640	1,660	11%	14,640	–	–	Available for sale equity investments	Investment
Total	293,033,497	–	–	351,283,377	15,647,146	–	–	–

Notes:

1. Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, etc.
2. The table lists equity investments in unlisted financial companies in which the Group held a proportion of 5% or more of the total shares.
3. The table is in the descending order of carrying value at period end. Carrying value is after the reduction of impairment allowance.
4. "Gains during the reporting period" refers to the relevant investment's contribution to the Group's consolidated profits for the period.

Trading of Stocks of Other Listed Companies during the Reporting Period

	Shares held at period beginning (unit: share)	Shares purchased during the reporting period (unit: share)	Shares sold during the reporting period (unit: share)	Shares held at period end (unit: share)	Amount of funds used (unit: RMB)	Gains during the reporting period (unit: RMB)
Trading of stocks of listed companies	622,205,791	322,958,022	562,745,510	382,418,303	4,070,375,005	579,570,580

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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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 consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 137 to 357, which comprise the consolidated and company balance sheets as of 31 December 2008, 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 as to 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.

PRICEWATERHOUSECOOPERS

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 consolidated financial statements give a true and fair view of the financial position of the Bank and of the Group as of 31 December 2008, 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, 24 March 2009

Consolidated Financial Statements

CONTENTS

Consolidated Income Statement

For the year ended 31 December 2008 (Amount in millions of Renminbi, unless otherwise stated)

	Note	2008	2007
Interest income	V.1	**286,927**	261,871
Interest expense	V.1	**(123,991)**	(109,126)
Net interest income		**162,936**	152,745
Fee and commission income	V.2	**43,712**	39,601
Fee and commission expense	V.2	**(3,765)**	(4,066)
Net fee and commission income		**39,947**	35,535
Net trading gains/(losses)	V.3	**5,045**	(8,709)
Net gains/(losses) on investment securities	V.4	**2,009**	(3,263)
Other operating income	V.5	**18,959**	18,667
Operating income		**228,896**	194,975
Operating expenses	V.6	**(97,412)**	(85,278)
Impairment losses on assets	V.9	**(45,031)**	(20,263)
Operating profit		**86,453**	89,434
Share of results of associates and joint ventures	V.21	**726**	1,263
Profit before income tax		**87,179**	90,697
Income tax expense	V.10	**(21,285)**	(28,661)
Profit for the year		**65,894**	62,036
Attribute to:			
Equity holders of the Bank		**64,360**	56,248
Minority interest		**1,534**	5,788
		65,894	62,036
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.11	**0.25**	0.22
Dividends			
Final dividends proposed after the balance sheet date	V.40	**32,999**	25,384

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

Consolidated Balance Sheet

As at 31 December 2008 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	**2008**	2007
ASSETS			
Cash and due from banks and other financial institutions	V.12	**72,533**	71,221
Balances with central banks	V.13	**1,207,613**	751,344
Placements with banks and other financial institutions	V.14	**488,465**	386,648
Government certificates of indebtedness for bank notes issued	V.28	**32,039**	32,478
Precious metals		**42,479**	44,412
Financial assets at fair value through profit or loss	V.15	**87,814**	124,665
Derivative financial assets	V.16	**76,124**	45,839
Loans and advances to customers, net	V.17	**3,189,652**	2,754,493
Investment securities	V.18		
– available for sale		**752,602**	682,995
– held to maturity		**365,838**	446,647
– loans and receivables		**439,954**	458,620
Investment in associates and joint ventures	V.21	**7,376**	6,779
Property and equipment	V.22	**92,236**	83,805
Investment property	V.23	**9,637**	9,986
Deferred income tax assets	V.37	**17,405**	17,647
Other assets	V.24	**69,913**	73,638
Total assets		**6,951,680**	5,991,217

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

	Note	As at 31 December	
		2008	2007
LIABILITIES			
Due to banks and other financial institutions	V.26	**603,393**	324,848
Due to central banks	V.27	**55,596**	90,485
Bank notes in circulation	V.28	**32,064**	32,605
Certificates of deposit and placements from banks and other financial institutions	V.29	**200,354**	248,482
Financial liabilities at fair value through profit or loss	V.30	**67,549**	86,655
Derivative financial liabilities	V.16	**59,482**	27,262
Due to customers	V.31	**5,102,111**	4,400,111
Bonds issued	V.32	**65,393**	64,391
Other borrowings	V.33	**42,838**	51,708
Current tax liabilities	V.34	**24,827**	21,045
Retirement benefit obligations	V.35	**7,363**	7,231
Deferred income tax liabilities	V.37	**2,093**	2,894
Other liabilities	V.38	**198,730**	182,843
Total liabilities		**6,461,793**	5,540,560
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.39	**253,839**	253,839
Capital reserve	V.39	**66,166**	66,592
Treasury shares	V.39	**(17)**	(45)
Statutory reserves	V.40	**23,429**	15,448
General and regulatory reserves	V.40	**40,973**	24,911
Undistributed profits	V.40	**83,427**	68,480
Reserve for fair value changes of available for sale securities	V.41	**7,534**	(1,506)
Currency translation differences		**(11,093)**	(7,289)
		464,258	420,430
Minority interest	V.42	**25,629**	30,227
Total equity		**489,887**	450,657
Total equity and liabilities		**6,951,680**	5,991,217

Approved and authorised for issue by the Board of Directors on 24 March 2009.

Xiao Gang
Director

Li Lihui
Director

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

Balance Sheet

As at 31 December 2008 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2008	As at 31 December 2007
ASSETS			
Cash and due from banks and other financial institutions	V.12	**78,606**	66,348
Balances with central banks	V.13	**1,146,955**	721,433
Placements with banks and other financial institutions	V.14	**471,287**	285,357
Government certificates of indebtedness for bank notes issued	V.28	**1,878**	1,792
Precious metals		**41,290**	42,782
Financial assets at fair value through profit or loss	V.15	**45,323**	82,682
Derivative financial assets	V.16	**58,565**	30,971
Loans and advances to customers, net	V.17	**2,751,482**	2,336,067
Investment securities	V.18		
– available for sale		**590,196**	568,887
– held to maturity		**268,389**	285,067
– loans and receivables		**426,488**	424,289
Investment in subsidiaries	V.20	**69,595**	49,014
Investment in associates and joint ventures	V.21	**18**	19
Property and equipment	V.22	**55,001**	50,453
Investment property	V.23	**1,239**	1,362
Deferred income tax assets	V.37	**17,763**	18,080
Other assets	V.24	**45,733**	41,312
Total assets		**6,069,808**	5,005,915

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

	Note	As at 31 December	
		2008	2007
LIABILITIES			
Due to banks and other financial institutions	V.26	**571,235**	311,831
Due to central banks	V.27	**55,590**	90,454
Bank notes in circulation	V.28	**1,903**	1,919
Certificates of deposit and placements from banks and other financial institutions	V.29	**279,264**	251,890
Financial liabilities at fair value through profit or loss	V.30	**45,287**	72,755
Derivative financial liabilities	V.16	**41,512**	16,001
Due to customers	V.31	**4,354,643**	3,617,889
Bonds issued	V.32	**66,152**	63,162
Other borrowings	V.33	**30,249**	38,121
Current tax liabilities	V.34	**23,928**	19,454
Retirement benefit obligations	V.35	**7,363**	7,231
Deferred income tax liabilities	V.37	**54**	44
Other liabilities	V.38	**140,630**	128,684
Total liabilities		**5,617,810**	4,619,435
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.39	**253,839**	253,839
Capital reserve	V.39	**65,724**	66,162
Statutory reserves	V.40	**22,080**	14,348
General and regulatory reserves	V.40	**37,839**	22,025
Undistributed profits	V.40	**64,308**	35,234
Reserve for fair value changes of available for sale securities	V.41	**8,170**	(5,704)
Currency translation differences		**38**	576
Total equity		**451,998**	386,480
Total equity and liabilities		**6,069,808**	5,005,915

Approved and authorised for issue by the Board of Directors on 24 March 2009.

Xiao Gang
Director

Li Lihui
Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	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 2008		**253,839**	**66,592**	**15,448**	**24,911**	**68,480**	**(1,506)**	**(7,289)**	**(45)**	**30,227**	**450,657**
Profit for the year		**–**	**–**	**–**	**–**	**64,360**	**–**	**–**	**–**	**1,534**	**65,894**
Appropriation to statutory reserves	V.40	**–**	**–**	**7,981**	**–**	**(7,981)**	**–**	**–**	**–**	**–**	**–**
Appropriation to general reserve and regulatory reserve	V.40	**–**	**–**	**–**	**16,062**	**(16,062)**	**–**	**–**	**–**	**–**	**–**
Net change in fair value of available for sale securities, net of tax	V.41	**–**	**–**	**–**	**–**	**–**	**9,040**	**–**	**–**	**(1,100)**	**7,940**
Exercise of subsidiary share options		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20**	**20**
Net change in treasury shares	V.39	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**28**	**–**	**28**
Dividends	V.40	**–**	**–**	**–**	**–**	**(25,384)**	**–**	**–**	**–**	**(3,769)**	**(29,153)**
Currency translation differences		**–**	**–**	**–**	**–**	**–**	**–**	**(3,804)**	**–**	**(1,360)**	**(5,164)**
Other	V.39	**–**	**(426)**	**–**	**–**	**14**	**–**	**–**	**–**	**77**	**(335)**
As at 31 December 2008		**253,839**	**66,166**	**23,429**	**40,973**	**83,427**	**7,534**	**(11,093)**	**(17)**	**25,629**	**489,887**

		Attributable to equity holders of the Bank									
	Note	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
Profit for the year		–	–	–	–	56,248	–	–	–	5,788	62,036
Appropriation to statutory reserves	V.40	–	–	5,068	–	(5,068)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	V.40	–	–	–	10,977	(10,977)	–	–	–	–	–
Net change in fair value of available for sale securities, net of tax	V.41	–	–	–	–	–	(3,515)	–	–	(111)	(3,626)
Exercise of subsidiary share options		–	–	–	–	–	–	–	–	30	30
Net change in treasury shares	V.39	–	–	–	–	–	–	–	171	–	171
Dividends	V.40	–	–	–	–	(10,154)	–	–	–	(3,584)	(13,738)
Currency translation differences		–	–	–	–	–	–	(5,218)	–	(1,984)	(7,202)
Other		–	(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

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

Consolidated Cash Flow Statement

For the year ended 31 December 2008 (Amount in millions of Renminbi, unless otherwise stated)

	Note	2008	2007
Cash flows from operating activities			
Profit before income tax		**87,179**	90,697
Adjustments:			
Impairment losses on assets		**45,031**	20,263
Depreciation of property and equipment		**6,760**	5,981
Amortisation of intangible assets and other assets		**1,056**	1,113
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(870)**	(626)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		**(6)**	(222)
Share of results of associates and joint ventures		**(726)**	(1,263)
Interest income arising from investment securities		**(55,963)**	(68,283)
Dividends arising from investment securities		**(243)**	(258)
Net (gains)/losses on derecognition of investment securities		**(2,009)**	3,263
Interest expense arising from bonds issued		**3,185**	2,933
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		**(135,383)**	(316,782)
Net increase in due from banks and placements with banks and other financial institutions		**(47,120)**	(10,256)
Net decrease/(increase) in precious metals		**1,933**	(2,329)
Net decrease/(increase) in financial assets at fair value through profit or loss		**35,870**	(4,932)
Net increase in loans and advances to customers		**(451,951)**	(425,019)
Net decrease/(increase) in other assets		**45,492**	(24,906)
Net increase in due to banks and other financial institutions		**278,545**	146,071
Net (decrease)/increase in due to central banks		**(34,889)**	48,111
Net (decrease)/increase in certificates of deposit and placements from banks and other financial institutions		**(48,128)**	101,574
Net increase in due to customers		**702,000**	308,993
Net decrease in other borrowings		**(8,870)**	(11,690)
Net increase in other liabilities		**24,870**	15,147
Net cash flows from operating activities		**445,763**	(122,420)
Income tax paid		**(20,996)**	(22,396)
Net cash inflows/(outflows) from operating activities	V.44.2	**424,767**	(144,816)

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

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2008 (Amount in millions of Renminbi, unless otherwise stated)

	Note	2008	2007
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**4,855**	4,179
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		**34**	466
Dividends received		**618**	523
Interest income received from investment securities		**54,836**	65,151
Proceeds from disposal of investment securities		**1,274,336**	1,594,437
Payment for increase of investment in subsidiaries, associates and joint ventures		**(456)**	(172)
Purchase of property and equipment, intangible assets and other long-term assets		**(21,778)**	(12,346)
Purchase of investment securities		**(1,287,405)**	(1,463,389)
Net cash inflows from investing activities	V.44.2	**25,040**	188,849
Cash flows from financing activities			
Cash received from issuance of bonds		**3,160**	4,229
Proceeds from minority equity holders of a subsidiary upon exercise of subsidiary share options		**20**	30
Proceeds from minority equity holders of subsidiaries		**40**	16
Net sale of treasury shares		**28**	171
Cash payments for debts		**(2,103)**	–
Cash payments for interest on bonds issued		**(3,137)**	(2,963)
Dividend payments to equity holders of the Bank		**(25,384)**	(10,154)
Dividend payments to minority equity holders		**(3,769)**	(3,584)
Other cash outflows from financing activities		**(16)**	(20)
Net cash outflows from financing activities		**(31,161)**	(12,275)
Effect of exchange rate changes on cash and cash equivalents		**(26,176)**	(22,765)
Net increase in cash and cash equivalents		**392,470**	8,993
Cash and cash equivalents at beginning of year		**528,937**	519,944
Cash and cash equivalents at end of year	V.44.1	**921,407**	528,937

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

Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited ("the Bank"), formerly 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. 100000000001349].

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 67.52% of the ordinary shares of the Bank at 31 December 2008.

These consolidated financial statements have been approved by the Board of Directors on 24 March 2009.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

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 the revaluation of available for sale securities, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment property.

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 high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

1.1 Amendments and interpretations to existing standards effective in 2008

IAS 39 Amendment – Financial Instruments: Recognition and Measurement permits reclassification of certain financial assets out of the held for trading and available for sale categories if specified conditions are met. The related amendment to IFRS 7, "Financial instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held for trading and available for sale categories. These amendments are effective prospectively from 1 July 2008. They have no impact on the Group's consolidated financial statements, as the Group has not reclassified any financial assets under these amendments.

IFRIC 11 – Group and Treasury Share Transactions, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The application of this interpretation had no material effect on the Group's operating results or financial position.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 *Interpretations effective in 2008 but not relevant to the Group's operations*

IFRIC 12 – Service Concession Arrangements applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. As the Group has not been involved in service concession arrangements, IFRIC 12 is not relevant to the Group's operations.

IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, provides guidance on the amount of pension scheme surplus that companies can include as a defined benefit asset in their balance sheets and on the circumstances in which a minimum funding requirement may give rise to additional liabilities. This interpretation does not have any impact on the Group's financial statements, as the Group does not hold defined benefit assets.

1.3 *Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group*

	Effective date
IAS 1 Revised – Presentation of Financial Statements	1 January 2009
IAS 23 Revised – Borrowing Costs	1 January 2009
IAS 27 Revised – Consolidated and Separate Financial Statements	1 July 2009
IAS 32 Amendment – Financial Instruments: Presentation and IAS 1 Amendment – Puttable financial instruments and obligations arising on liquidation	1 January 2009
IAS 39 – Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items	1 July 2009
IFRS 1 and IAS 27 Amendment – Cost of an investment on first-time adoption	1 January 2009
IFRS 7 Amendment – Financial Instruments: Disclosure	1 January 2009
IFRS 2 Amendment – Share-based Payment	1 January 2009
IFRS 3 Revised – Business Combinations	1 July 2009
IFRS 8 – Operating Segments	1 January 2009
IFRIC 13 – Customer Loyalty Programmes	1 January 2009
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation	1 January 2009

The application of these standards, amendments and interpretations is not expected to have a material effect on the Group's operating results or financial position.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group (Continued)

In addition to the standards, amendments and interpretations listed above, the IASB has published amendments to IFRS as part of the May 2008 Annual improvement project. The Group will adopt these amendments where applicable.

	Effective date
IAS 1 Amendment – Presentation of Financial Statements	1 January 2009
IAS 16 Amendment – Property, Plant and Equipment	1 January 2009
IAS 19 Amendment – Employee Benefits	1 January 2009
IAS 20 Amendment – Accounting for Government Grants and Disclosure of Government Assistance	1 January 2009
IAS 23 Amendment – Borrowing Costs	1 January 2009
IAS 27 Amendment – Consolidated and Separate Financial statements	1 January 2009
IAS 28 Amendment – Investments in Associates	1 January 2009
IAS 29 Amendment – Financial Reporting in Hyperinflationary Economies	1 January 2009
IAS 31 Amendment – Interests in Joint Ventures	1 January 2009
IAS 36 Amendment – Impairment of Assets	1 January 2009
IAS 38 Amendment – Intangible Assets	1 January 2009
IAS 39 Amendment – Financial Instruments: Recognition and Measurement	1 January 2009
IAS 40 Amendment – Investment Property	1 January 2009
IAS 41 Amendment – Agriculture	1 January 2009
IFRS 5 Amendment – Non-current Assets Held for Sale and Discontinued Operations	1 July 2009

The application of these amendments is not expected to have a material effect on the Group's operating results or financial position.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation

2.1 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.

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. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. 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.

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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.2 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.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. 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 interests in the associates and 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 investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

In the Bank's balance sheets, the investments in associates and joint ventures are initially recognised at cost and are accounted for using the cost method of accounting. The results of associates and joint ventures are accounted for by the Bank on the basis of dividend received and receivable.

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of domestic operation is Renminbi ("RMB"). Items included in the financial statements of each of the Group's overseas operations are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is Renminbi ("RMB").

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 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.

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 disposed, these exchange differences are recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments

4.1 Classification

The Group classifies its financial assets into the following categories:

– financial assets at fair value through profit or loss, including financial assets held for trading, and those designated at fair value through profit or loss at inception;

– held to maturity investments;

– loans and receivables; and

– available for sale investments.

Financial liabilities are classified into two categories:

– financial liabilities at fair value through profit or loss, including financial liabilities held for trading, and those designated at fair value through profit or loss at inception; and

– other financial liabilities.

Management determines the classification of its financial assets and financial liabilities at initial recognition.

(1) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are financial guarantee contracts or designated and effective as hedging instruments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments (Continued)

4.1 Classification (Continued)

(1) Financial assets and financial liabilities at fair value through profit or loss (Continued)

A financial asset or financial liability is classified at 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; or

- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or

- Financial assets and financial liabilities containing one or more embedded derivatives which significantly modify the cash flows and for which separation of the embedded derivative is not prohibited on initial consideration.

(2) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and 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 as available for sale.

The Group shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than sales or reclassifications due to a significant deterioration in the issuer's creditworthiness.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments (Continued)

4.1 Classification (Continued)

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss; (b) those that the Group 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.

(4) Available for sale investments

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

(5) Other financial liabilities

Other financial liabilities are non-derivatives that are not classified or designated as financial liabilities at fair value through profit or loss.

4.2 Initial recognition

Regular way purchases and sales of financial assets and financial liabilities are recognised on trade-date, the date on which the Group commits to purchase or sell the asset or liability.

Financial assets and financial liabilities are initially recognised at fair value together with or net of transaction costs for all financial assets and financial liabilities not carried at fair value through profit or loss. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments (Continued)

4.3 *Subsequent measurement*

Available for sale financial assets and financial assets and liabilities at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets and liabilities at fair value through profit or loss" category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in reserve for fair value changes of available for sale securities, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in the equity is recognised in the income statement. Interest calculated using the effective interest method is recognised in the income statement.

4.4 *Determination of fair value*

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation technique and tests for validity using prices from any observable current market transactions in the same instruments.

4.5 *Derecognition of financial instruments*

Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments (Continued)

4.6 Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments (Continued)

4.6 Impairment of financial assets (Continued)

(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 investments in equity instruments may not be recovered;

(viii) a significant or prolonged decline in the fair value of equity instrument investments; or

(ix) other objective evidence indicating impairment of the financial asset.

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 financial assets carried at amortised cost 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 effective interest rate is computed at initial recognition. 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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments (Continued)

4.6 Impairment of financial assets (Continued)

(1) Assets carried at amortised cost (Continued)

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.

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 financial asset is uncollectible, it is written off against the related allowances for impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses on assets 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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments (Continued)

4.6 Impairment of financial assets (Continued)

(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. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss should not be reversed.

4.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. 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.

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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial Instruments (Continued)

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

i) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

4.9 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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

5 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 initially measured at acquisition cost and subsequently measured 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 subsequent changes in fair value included in "Net trading gains/(losses)" are recognised in the income statement.

The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. This obligation is measured at cost unless the Group does not possess sufficient precious metals 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.

According to the nature of transaction, precious metals swaps are treated as precious metals subject to repurchase agreements. Precious metals sold are not derecognised and the related counter-party liability is recorded in "Placements from banks and other financial institutions", as appropriate.

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Investment securities" or "Loans and advances to customers, net" as appropriate. 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 not recognised, and 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 recorded in the financial statements. Securities borrowed from counterparties by the Group are not recognised in the financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the financial statements.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent costs are included in an asset's carrying amount, 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. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Property and equipment are reviewed for impairment at each balance sheet date. 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, after deduction of relevant taxes and expenses. These are included in the income statement.

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branches and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Buildings	15-50 years	3%	1.94% – 6.47%
Equipment	3-15 years	3%	6.47% – 32.33%
Motor vehicles	4-6 years	3%	16.17% – 24.25%

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

7.2 Aircraft

Aircraft are used in the Group's operating lease business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate of 15%.

7.3 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.

8 Leases

8.1 Lease classification

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

8.2 Finance lease

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. 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.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If the Group cannot reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.2 Finance lease (Continued)

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. The difference between the receivable and the present value of the receivable 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.

8.3 Operating lease

When the Group is the lessee under an operating lease, rental expenses are charged in "Operating expenses" in 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 accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

9 Investment property

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 the income statement, representing the open market value determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including options and firm orders for aircraft, computer software and other intangible assets.

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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

10 Intangible assets (Continued)

Computer software and other intangible assets are stated at acquisition 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.

The value of intangible assets is reviewed for impairment at each balance sheet date. 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 of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. When there are indicators that the carrying amount is lower than recoverable amount, they are subsequently measured at the lower of carrying amount and fair value less cost to sell.

12 Employee benefits

12.1 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 retire 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 recognised as "Operating expenses" 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)

12 Employee benefits (Continued)

12.2 Retirement benefit obligations

The Group pays 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 balance sheet date, is calculated by 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 discounting the 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 "Operating expenses" when they occur.

12.3 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 recognised as "Operating expenses" in the income statement as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.4 Share-based compensation

(1) 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 over the remaining vesting period, with a corresponding adjustment to equity.

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.

(2) 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 as “Operating expenses” in the income statement for the period and derecognised when 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, as “Operating expenses” in the income statement, with a corresponding adjustment to liability.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.5 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.

13 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.

14 Insurance contracts

14.1 Insurance contracts classification

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 non-life insurance contracts, which cover casualty and property insurance risk, and life 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)

14 Insurance contracts (Continued)

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance

Premiums on non-life 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 in "Other liabilities". Premiums are recognised before the deduction of commissions in "Other operating income".

Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when 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.

(2) Life insurance

Premiums on life 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.

14.3 Insurance acquisition costs

Costs in relation to insurance contracts are recognised as expenses when incurred in "Fee and commission expense".

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.4 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 non-life 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 and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

15 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.

16 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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

17 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.

18 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 not included in the balance sheet of the Group, 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)

19 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. Interest income and expense for derivatives is recognised in "Net trading gains/(losses)" in the income statement.

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.

20 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognised when the transactions are completed.

21 Income taxes

Income taxes comprise current income tax and deferred income tax. Current income tax and movements in deferred tax balances are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes (Continued)

21.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

21.2 Deferred income tax

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, revaluation of investment property, 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 is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or 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).

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes (Continued)

21.2 Deferred income tax (Continued)

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures 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.

22 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.

23 Comparatives

Certain comparatives in the consolidated financial statements have been reclassified in line with industry practice and regulatory guidance, these changes in classification affect "Fee and commission income" and "Net trading gains/(losses)" as detailed in Notes V.2 and V.3, "Net gains/(losses) on investment securities" and "Impairment losses on assets" as detailed in Note V.4 and Note V.9, and cash flows from investment securities classified as available for sale, held to maturity, loans and receivables which have been reclassified from "Cash flows from operating activities" to "Cash flows from investing activities" in the consolidated cash flow statements as detailed in Note V.44.These reclassifications did not impact the operating results and cash flow of the Group.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements 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.

In 2008 there was significant dislocation in financial markets globally. There was dramatic liquidity squeeze, rise in funding costs for financial institutions and reluctance or inability of market participants to transact which adversely affected the performance of most financial institutions globally. Stock markets have experienced extraordinary falls, levels of volatility have been at record highs and credit spreads continued to widen. Sustained falls globally in both residential and commercial real estate, deterioration of financial market and worsening loan performance combined with a lack of liquidity in the market, resulted in a greater amount of assets being valued at significantly lower prices. The Group has analysed the impact of the dislocation in the financial market and has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in essential estimates and judgements, 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 and judgements referred to below.

1 Impairment allowances on loans and advances

The Group reviews its loan portfolio 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 judgements 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 similar 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. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the balance sheet date.

With respect to PRC government obligations related to large-scale policy directed financing transactions fair value is determined using the stated terms of the related instrument and with reference to terms 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.

3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment securities 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, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Impairment of available for sale investment securities and held to maturity investment securities (Continued)

The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities (ABS) and mortgage backed securities (MBS) during the year, the Group continued to use a significant decline in market price to be a key indicator of impairment. The Group also considered other objective evidence of impairment, taking into account that during the year market prices were significantly impacted by liquidity and a wide range of indicative prices was obtained for certain ABS and MBS held by the Group. In particular, the Group considered the movement in loss coverage ratio of individual ABS and MBS securities held by the Group to identify impairment.

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.

5 Provisions

The Group uses judgment to assess whether the Group has a present legal or constructive obligation as a result of past events at each balance sheet date, and judgment is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.35, 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.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

7 Income taxes

The Group is subject to income taxes in numerous jurisdictions; principally, in the Chinese Mainland and Hong Kong. The Corporate Income Tax Law of the Peoples' Republic of China, passed by the National People's Congress on 16 March 2007, took effect 1 January 2008. However, there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business, partly as the supplementary legislation under new CIT Law is not finalised. The Group has made estimates over items of uncertainty taking into account existing tax legislation and past practice, in particular, the rate of supplementary PRC tax applied to results of overseas operations and the deductibility of certain items in the Chinese Mainland which is subject to government approval, such as write-off and disposal of non-performing loans.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and 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. When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principle assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

IV TAXATION

The principal taxes to which the Group is subject are listed below:

	Tax basis	2008	2007
Corporate Income Tax	Taxable income	25%	33%
Business Tax	Business income	5%	5%
City Construction and Maintenance Tax	Turnover tax paid	1% – 7%	1% – 7%
Educational Surcharges	Turnover tax paid	3% – 3.5%	3% – 3.5%
Hong Kong Profits Tax	Assessable profits	16.5%	17.5%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2008	2007
Interest income		
Loans and advances to customers	**194,916**	158,390
Investment securities and financial assets at fair value through profit or loss	**59,915**	73,500
Due from central banks	**18,388**	7,645
Due from and placements with banks and other financial institutions	**13,708**	22,336
Subtotal	**286,927**	261,871
Interest expense		
Due to customers	**(104,429)**	(89,170)
Due to and placements from banks and other financial institutions	**(14,580)**	(14,584)
Other borrowed funds	**(4,982)**	(5,372)
Subtotal	**(123,991)**	(109,126)
Net interest income	**162,936**	152,745
Included within interest income is interest income accrued on impaired financial assets:	**2,246**	342

Included within interest income and interest expenses are RMB282,934 million (2007: RMB256,654 million) and RMB122,063 million (2007: RMB104,558 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

For the year ended 31 December 2008, the interest income from listed investments and unlisted investments is RMB25,401 million and RMB34,514 million respectively (2007: RMB26,480 million and RMB47,020 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December	
	2008	2007
Spread income from foreign exchange business[1]	**9,360**	8,047
Agency commissions	**8,440**	14,383
Settlement and clearing fees	**7,912**	4,849
Credit commitment fees	**6,411**	3,590
Bank card fees	**4,828**	3,721
Consultancy and advisory fees	**2,548**	672
Custodian and other fiduciary service fees	**1,520**	1,380
Other	**2,693**	2,959
Fee and commission income	**43,712**	39,601
Fee and commission expense	**(3,765)**	(4,066)
Net fee and commission income	**39,947**	35,535

(1) Spread income earned from foreign exchange business for the year ended 31 December 2008 of RMB9,360 million (2007: RMB8,047 million) has been reclassified from "Net trading gains/(losses)" to "Fee and commission income" (See Note V.3).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 Net trading gains/(losses)

	Year ended 31 December	
	2008	2007
Net gains/(losses) from foreign exchange and foreign exchange products[(1)]	**10,971**	(8,995)
Net losses from interest rate products	**(5,324)**	(1,290)
Net (losses)/gains from equity products	**(827)**	1,442
Net gains from precious metals and other commodity products	**225**	134
Total[(2)]	**5,045**	(8,709)

(1) The net gains/(losses) from foreign exchange and foreign exchange products include losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB25,695 million (2007: RMB26,923 million), and net realised and unrealised gains on foreign exchange derivatives (including those entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB36,666 million (2007: RMB16,800 million).

Spread income earned from foreign exchange business in 2008 of RMB9,360 million (2007: RMB8,047 million) has been reclassified from "Net trading gains/(losses)" to "Fee and commission income" (See Note V.2).

(2) Included in "Net trading gains/(losses)" above for the year ended 31 December 2008 are gains of RMB1,142 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2007: losses of RMB2,800 million). The related fair value of derivative instruments managed in conjunction with the financial assets and financial liabilities designated at fair value through profit or loss is also reported in "Net trading gains/(losses)".

4 Net gains/(losses) on investment securities

Net gains/(losses) on investment securities related to disposal gains/(losses) on available for sale investment securities. The losses on investment securities in 2007 included losses from disposal of a portion of the US subprime mortgage related asset-backed securities and all US subprime mortgage related collateralised debt obligations.

Impairment losses on investment securities in 2008 of RMB27,146 million (2007: RMB12,263 million) have been reclassified from "Net gains/(losses) on investment securities" to "Impairment losses on assets" (See Note V.9).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Other operating income

	Year ended 31 December	
	2008	2007
Insurance premiums[(1)]	**7,018**	9,171
Aircraft leasing income	**1,996**	2,055
Gains on disposal of property and equipment, intangible assets and other assets	**961**	744
Dividend income	**305**	258
Changes in fair value of investment properties	**44**	2,070
Gains on disposal of subsidiaries, associates and joint ventures	**6**	222
Other[(2)]	**8,629**	4,147
Total	**18,959**	18,667

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2008	2007
Life insurance		
Gross earned premiums	**5,268**	8,197
Less: Gross written premiums ceded to reinsurers	**(26)**	–
Net insurance premium income	**5,242**	8,197
Non-life insurance		
Gross earned premiums	**2,082**	1,241
Less: Gross written premiums ceded to reinsurers	**(306)**	(267)
Net insurance premium income	**1,776**	974
Total	**7,018**	9,171

(2) Other mainly includes sale revenue on Olympic licensed products and precious metals.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Operating expenses

	Year ended 31 December	
	2008	2007
Staff costs (Note V.7)	**39,365**	36,261
General operating and administrative expenses[(1)]	**23,932**	21,736
Business and other taxes	**11,367**	8,726
Depreciation and amortisation	**7,816**	7,094
Insurance benefits and claims		
– Life insurance contracts	**6,859**	9,185
– Non-life insurance contracts	**1,384**	652
Allowance for litigation losses	**200**	199
Losses on disposal of property and equipment	**91**	49
Other[(2)]	**6,398**	1,376
Total	**97,412**	85,278

(1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB221 million for the year ended 31 December 2008 (2007: RMB216 million).

Included in the general operating and administrative expenses are operating lease rental expenses of RMB2,824 million and other premises and equipment related expenses of RMB5,852 million (2007: RMB2,362 million and RMB5,262 million) respectively.

(2) Other mainly includes expenses on Olympic licensed products and precious metals.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Staff costs

	Year ended 31 December	
	2008	2007
Salary, bonus and subsidy	**27,689**	26,138
Staff welfare	**2,315**	2,068
Retirement benefits (Note V.35)	**1,143**	802
Social insurance, including:		
Medical	**1,048**	831
Pension	**2,540**	2,164
Annuity	**612**	506
Unemployment	**220**	177
Injury at work	**58**	47
Maternity insurance	**62**	47
Housing funds	**1,852**	1,551
Labour union fee and staff education fee	**987**	847
Reimbursement for cancellation of labour contract	**30**	–
Other(1)	**809**	1,083
Total	**39,365**	36,261

(1) Staff costs for the years ended 31 December 2008 and 2007 include the effect of deduction of forfeited contributions of approximately RMB11 million and RMB17 million, respectively.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments

The total remuneration of the directors and supervisors for the years ended 31 December 2008 and 2007 are approximately RMB13.06 million and RMB12.72 million, respectively.

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2008 (Amount in thousands of Renminbi)

	Fees	Basic salaries, allowances and benefits in kind	Contributions to pension schemes	Discretionary bonuses	Total
Executive directors					
Xiao Gang[5]	–[3]	692	49	766[4]	1,507
Li Lihui[5]	61[3]	682	53	748[4]	1,544
Li Zaohang[5]	53[3]	646	52	730[4]	1,481
Zhou Zaiqun[5]	53[3]	640	55	729[4]	1,477
Independent non-executive directors					
Anthony Francis Neoh	550	–	–	–	550
Patrick de SAINT-AIGNAN[6]	12	–	–	–	12
Alberto TOGNI	450	–	–	–	450
Huang Shizhong	550	–	–	–	550
Huang Danhan	350	–	–	–	350
Non-executive directors					
Zhang Jinghua[1]	–	–	–	–	–
Hong Zhihua[1]	–	–	–	–	–
Huang Haibo[1]	–	–	–	–	–
Cai Haoyi[1]	–	–	–	–	–
Wang Gang[1]	–	–	–	–	–
Lin Yongze[1]	–	–	–	–	–
Frederick Anderson GOODWIN	250	–	–	–	250
Seah Lim Huat Peter	300	–	–	–	300
Supervisors					
Liu Ziqiang[5]	–	650	65	716[4]	1,431
Wang Xueqiang[5]	–	457	41	465[4]	963
Liu Wanming[5]	–	456	41	456[4]	953
Li Chunyu	–	333	35	107	475
Jiang Kuiwei	–	256	19	225	500
Liu Dun	–	145	8	112	265
	2,629	4,957	418	5,054	13,058

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2007 (Amount in thousands of Renminbi)

	Fees	Basic salaries, allowances and benefits in kind	Contributions to pension schemes	Discretionary bonuses	Total
Executive directors					
Xiao Gang	–[3]	668	47	960	1,675
Li Lihui	66[3]	654	47	949	1,716
Hua Qingshan	26[3]	312	23	461	822
Li Zaohang	56[3]	612	45	944	1,657
Independent non-executive directors					
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
Non-executive directors					
Zhang Jinghua[1]	–	–	–	–	–
Yu Erniu[1]	–	–	–	–	–
Zhu Yan[1]	–	–	–	–	–
Zhang Xinze[1]	–	–	–	–	–
Hong Zhihua[1]	–	–	–	–	–
Huang Haibo[1]	–	–	–	–	–
Cai Haoyi[1]	–	–	–	–	–
Wang Gang[1]	–	–	–	–	–
Frederick Anderson GOODWIN[2]	–	–	–	–	–
Seah Lim Huat Peter[2]	–	–	–	–	–
Supervisors					
Liu Ziqiang	–	612	34	944	1,590
Wang Xueqiang	–	443	34	494	971
Liu Wanming	–	440	34	515	989
Li Chunyu	–	318	30	132	480
Liu Dun	–	282	23	289	594
	2,371	4,341	317	5,688	12,717

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

(1) During 2008 and 2007, these full-time non-executive directors of the Bank signed an agreement to waive the emoluments for their services to the Bank.

(2) During 2007, the Bank did not pay any emolument to these non-executive directors.

(3) In addition to the fees disclosed, these executive directors of the Bank waived emoluments amounting to RMB0.65 million for the year ended 31 December 2008 (2007: RMB0.70 million).

(4) 2008 discretionary bonuses for these directors and supervisors have been reviewed by the Board of Directors. The above discretionary bonuses represent the amounts determined according to the relevant remuneration policies.

(5) The amounts of discretionary bonuses payable to these executive directors and supervisors for the year ended 31 December 2008 are subject to approval of the Bank's equity holders in the Annual General Meeting to be held on 18 June 2009.

(6) Mr. Patrick de SAINT-AIGNAN ceased to be an independent non-executive director effective 14 January 2008.

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. During the year 2008 and the year 2007, certain options were exercised 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 as the Group has taken advantage of the transitional provision of IFRS 2 (Note V.36.3).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

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 2008 and 2007 respectively are as follows:

	Year ended 31 December	
	2008	2007
Basic salaries and allowances	**19**	8
Discretionary bonuses	**26**	179
Contributions to pension schemes	**3**	1
	48	188

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2008**	2007
7,000,001-7,500,000	**1**	–
7,500,001-8,000,000	**1**	–
9,000,001-9,500,000	**1**	–
11,500,001-12,000,000	**1**	–
12,000,001-12,500,000	**1**	–
27,500,001-28,000,000	**–**	1
29,000,001-29,500,000	**–**	1
31,000,001-31,500,000	**–**	1
37,000,001-37,500,000	**–**	1
62,000,001-62,500,000	**–**	1

During the years ended 31 December 2008 and 2007, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Impairment losses on assets

	Year ended 31 December	
	2008	2007
Loans and advances[1]		
– Individually assessed	**4,215**	2,559
– Collectively assessed	**12,577**	5,693
Subtotal	**16,792**	8,252
Available for sale[1]		
– Debt securities[2]	**20,178**	10,457
– Equity securities and fund investments	**2,984**	–
Subtotal	**23,162**	10,457
Held to maturity[1] [2]	**3,994**	1,832
Other assets	**1,083**	(278)
Total	**45,031**	20,263

(1) Details of new allowances and release for loans and advances and investment securities are disclosed in Notes V.17 and V.25.

(2) Include in the impairment losses for the year ended 31 December 2008 were impairment charges on US subprime mortgage related debt securities, US Alt-A mortgage-backed securities and US Non-Agency mortgage-backed securities held at 31 December 2008 amounting to RMB7,500 million, RMB4,810 million and RMB10,094 million, respectively (2007: RMB9,506 million, RMB1,185 million and RMB920 million, respectively).

Impairment losses on investment securities in 2008 of RMB27,146 million (2007: RMB12,263 million) have been reclassified from "Net gains/(losses) on investment securities" to "Impairment losses on assets" (See Note V.4).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Income tax expense

	Year ended 31 December	
	2008	2007
Current income tax		
– Chinese Mainland income tax	**22,679**	20,618
– Hong Kong profits tax	**1,257**	2,933
– Overseas taxation	**850**	742
Subtotal	**24,786**	24,293
Deferred income tax (Note V.37)	**(3,501)**	4,368
Total	**21,285**	28,661

The principal tax rates to which the Group is subject are set out in Note IV.

The provision for Chinese Mainland income tax is calculated based on the statutory rate of 25% and 33% of the assessable income of the Bank and each of the subsidiaries established in the Chinese Mainland for the year ended 31 December 2008 and 31 December 2007 year respectively as determined in accordance with the relevant PRC income tax rules and regulations. In addition, the Bank's Overseas Operations are subject to supplementary PRC tax at a rate determined by the relevant PRC authority (Note III.7).

The Group's operations in Hong Kong are subject to Hong Kong profits tax. From 1 January 2008, the Hong Kong corporation profits tax rate applied was 16.5% (2007: 17.5%).

Taxation on overseas profits has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Income tax expense (Continued)

The tax rate 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	
	2008	2007
Profit before income tax	**87,179**	90,697
Tax calculated at applicable statutory tax rate	**21,794**	29,930
Effect of different tax rates on Overseas Operations	**(500)**	(4,580)
Supplementary PRC tax on overseas income	**809**	2,468
Income not subject to tax(1)	**(2,045)**	(2,863)
Items not deductible for tax purposes(2)	**2,093**	1,143
Other(3)	**(866)**	2,563
Income tax expense	**21,285**	28,661

(1) Income not subject to tax mainly comprises interest income from PRC treasury bills.

(2) Non-deductible items primarily included loan written-off losses which are not deductable before tax, marketing and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.

(3) Others in 2007 included the effect of the reduction of the PRC corporate 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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Earnings per share (basic and diluted)

Basic earnings per share were computed by dividing the profit attributable to the equity holders of the Bank for the year ended 31 December 2008 and 31 December 2007 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 2008 and 2007.

	Year ended 31 December	
	2008	2007
Profit attributable to equity holders of the Bank	**64,360**	56,248
Weighted average number of ordinary shares in issue (in millions)	**253,833**	253,821
Basic and diluted earnings per share (in RMB)	**0.25**	0.22

Weighted average number of ordinary shares (in million shares)

	Year ended 31 December	
	2008	2007
Issued ordinary shares at 1 January	**253,839**	253,839
Net change of weighted average number of treasury shares	**(6)**	(18)
Weighted average number of ordinary shares at 31 December	**253,833**	253,821

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Cash and due from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Cash	**35,489**	33,965	**31,349**	30,400
Due from domestic banks	**6,661**	1,652	**6,390**	1,583
Due from domestic other financial institutions	**268**	139	**268**	139
Due from overseas banks	**30,115**	35,465	**40,599**	34,226
Total	**72,533**	71,221	**78,606**	66,348

13 Balances with central banks

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Mandatory reserves(1)	**600,911**	484,515	**599,480**	477,551
Surplus reserves(2)	**136,969**	91,249	**135,081**	89,839
Balance under reverse repo agreements(3)	**145,631**	148,122	**145,631**	148,122
Other deposits(4)	**324,102**	27,458	**266,763**	5,921
Total	**1,207,613**	751,344	**1,146,955**	721,433

(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 2008, mandatory reserve funds placed with the PBOC were calculated at 15.5% (2007: 14.5%) and 5% (2007: 5%) 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.

(2) This mainly represented the surplus reserve funds placed with PBOC by domestic branches of the Bank.

(3) The Group accepted treasury bonds as collateral in connection with its reverse repo agreements with the PBOC. The Group is not permitted to sell or re-pledge such collateral accepted.

(4) This mainly represented balances placed with central banks of other countries by Overseas Operations.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Placements with banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Placements with:				
Domestic banks	**110,742**	46,842	**103,630**	38,180
Other domestic financial institutions	**73,525**	18,044	**73,525**	18,044
Overseas banks	**304,597**	321,786	**222,046**	204,968
Other overseas financial institutions	**–**	366	**72,485**	24,555
Subtotal	**488,864**	387,038	**471,686**	285,747
Allowance for impairment losses	**(399)**	(390)	**(399)**	(390)
Total	**488,465**	386,648	**471,287**	285,357
Impaired placements	**399**	390	**399**	390
Percentage of impaired placements to total placements with banks and other financial institutions	**0.08%**	0.10%	**0.08%**	0.14%

Placements with banks and other financial institutions include balances arising from reverse repo agreements as follows:

Group and Bank

	As at 31 December	
	2008	2007
Bills under reverse repos	**29**	193
Bonds under reverse repos		
– Government	**51,935**	11,924
– Financial institution	**50,753**	14,026
Total	**102,717**	26,143

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Financial assets at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Trading financial assets				
Trading debt securities				
Government	**23,780**	36,325	**12,455**	32,741
Public sector and quasi-government	**30**	1,452	**–**	1,267
Financial institution	**15,949**	21,260	**13,263**	14,830
Corporate	**1,302**	4,059	**202**	1,299
	41,061	63,096	**25,920**	50,137
Other trading financial assets				
Fund investments	**508**	234	**–**	–
Equity securities	**1,485**	4,283	**–**	–
Subtotal	**43,054**	67,613	**25,920**	50,137
Financial assets designated at fair value through profit or loss				
Debt securities designated at fair value through profit or loss				
Government	**3,146**	10,315	**2,824**	9,911
Public sector and quasi-government	**2,454**	4,593	**1,134**	3,747
Financial institution	**28,118**	32,217	**9,055**	15,096
Corporate	**7,599**	6,852	**4,968**	3,791
	41,317	53,977	**17,981**	32,545
Other financial assets designated at fair value through profit or loss				
Fund investments	**1,912**	2,635	**–**	–
Loans	**1,422**	–	**1,422**	–
Equity securities	**109**	440	**–**	–
Subtotal	**44,760**	57,052	**19,403**	32,545
Total [(1)]	**87,814**	124,665	**45,323**	82,682
Analysed as:				
Listed in Hong Kong	**2,883**	4,525	**943**	1,472
Listed outside Hong Kong	**40,933**	81,095	**36,391**	71,026
Unlisted	**43,998**	39,045	**7,989**	10,184
Total	**87,814**	124,665	**45,323**	82,682

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Financial assets at fair value through profit or loss (Continued)

(1) As at 31 December 2008, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in financial assets at fair value through profit or loss with the amount and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Amount	**9,800**	40,360	**9,510**	40,198
Interest rate range	**0.93%-6.02%**	2.34%-9.00%	**0.93%-4.64%**	2.34%-7.30%

16 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, asset and liability management and on behalf of customers.

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.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments (Continued)

Group

	As at 31 December 2008			As at 31 December 2007		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps (1)	1,510,772	62,814	(40,111)	1,563,450	37,985	(17,789)
Currency options	9,285	110	(94)	68,004	238	(362)
Subtotal	1,520,057	62,924	(40,205)	1,631,454	38,223	(18,151)
Interest rate derivatives						
Interest rate swaps	430,473	10,668	(16,159)	460,881	4,237	(5,375)
Interest rate options	21,521	93	(708)	31,117	55	(153)
Interest rate futures	8,016	17	(19)	13,576	24	(33)
Subtotal	460,010	10,778	(16,886)	505,574	4,316	(5,561)
Equity derivatives	7,794	1,199	(988)	12,736	1,050	(719)
Precious metals and other commodity derivatives	20,101	1,025	(924)	33,664	2,180	(2,504)
Credit derivatives	5,272	198	(479)	11,753	70	(327)
Total	2,013,234	76,124	(59,482)	2,195,181	45,839	(27,262)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments (Continued)

Bank

	As at 31 December 2008			As at 31 December 2007		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps (1)	**1,172,269**	**48,245**	**(27,506)**	1,194,439	25,512	(9,660)
Currency options	**4,661**	**91**	**(73)**	57,255	193	(314)
Subtotal	**1,176,930**	**48,336**	**(27,579)**	1,251,694	25,705	(9,974)
Interest rate derivatives						
Interest rate swaps	**334,631**	**9,337**	**(12,134)**	408,227	3,689	(4,155)
Interest rate options	**19,545**	**73**	**(667)**	29,094	53	(115)
Interest rate futures	**863**	**1**	**(4)**	5,869	3	(2)
Subtotal	**355,039**	**9,411**	**(12,805)**	443,190	3,745	(4,272)
Precious metals and other commodity derivatives	**16,584**	**805**	**(843)**	21,538	1,455	(1,465)
Credit derivatives	**4,479**	**13**	**(285)**	10,475	66	(290)
Total	**1,553,032**	**58,565**	**(41,512)**	1,726,897	30,971	(16,001)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange 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.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net

17.1 Analysis of loans and advances to customers

	As at 31 December					
	Group		Bank		Chinese Mainland	
	2008	2007	**2008**	2007	**2008**	2007
Corporate loans and advances						
Loans and advances	**2,353,896**	2,027,279	**2,053,109**	1,748,465	**1,870,883**	1,640,352
Discounted bills	**138,818**	90,698	**138,626**	90,404	**137,688**	89,820
Subtotal	**2,492,714**	2,117,977	**2,191,735**	1,838,869	**2,008,571**	1,730,172
Personal loans						
Mortgages	**635,000**	577,655	**514,973**	459,523	**507,571**	454,984
Credit cards	**16,495**	10,677	**10,808**	5,389	**10,649**	5,307
Other	**151,937**	144,252	**137,277**	126,772	**136,013**	125,242
Subtotal	**803,432**	732,584	**663,058**	591,684	**654,233**	585,533
Gross loans and advances	**3,296,146**	2,850,561	**2,854,793**	2,430,553	**2,662,804**	2,315,705
Allowance for impairment losses						
Individually assessed	**(51,146)**	(51,837)	**(49,615)**	(51,452)	**(49,087)**	(51,349)
Collectively assessed	**(55,348)**	(44,231)	**(53,696)**	(43,034)	**(51,670)**	(41,934)
Gross allowance for impairment losses	**(106,494)**	(96,068)	**(103,311)**	(94,486)	**(100,757)**	(93,283)
Loans and advances to customers, net	**3,189,652**	2,754,493	**2,751,482**	2,336,067	**2,562,047**	2,222,422

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net (Continued)

17.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI. 3.5.

17.3 Analysis of loans and advances to customers by collective and individual assessment

Group

		Identified impaired loans and advances[(2)]				
	Loans and advances for which allowance is collectively assessed[(1)]	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	Identified impaired loans and advances as % of gross total loans and advances
As at 31 December 2008						
Gross loans and advances	**3,205,267**	**18,340**	**72,539**	**90,879**	**3,296,146**	**2.76%**
Allowance for impairment losses	**(43,192)**	**(12,156)**	**(51,146)**	**(63,302)**	**(106,494)**	
Loans and advances to customers, net	**3,162,075**	**6,184**	**21,393**	**27,577**	**3,189,652**	
As at 31 December 2007						
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)	
Loans and advances to customers, net	2,728,347	6,262	19,884	26,146	2,754,493	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net (Continued)

17.3 Analysis of loans and advances to customers by collective and individual assessment (Continued)

Bank

	Loans and advances for which allowance is collectively assessed(1)	Identified impaired loans and advances(2)				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	Total	
As at 31 December 2008						
Gross loans and advances	**2,766,594**	**18,286**	**69,913**	**88,199**	**2,854,793**	**3.09%**
Allowance for impairment losses	**(41,579)**	**(12,117)**	**(49,615)**	**(61,732)**	**(103,311)**	
Loans and advances to customers, net	**2,725,015**	**6,169**	**20,298**	**26,467**	**2,751,482**	
As at 31 December 2007						
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)	
Loans and advances to customers, net	2,310,185	6,249	19,633	25,882	2,336,067	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net (Continued)

17.3 Analysis of loans and advances to customers by collective and individual assessment (Continued)

Chinese Mainland

		Identified impaired loans and advances(2)				
	Loans and advances for which allowance is collectively assessed(1)	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	Identified impaired loans and advances as % of gross total loans and advances
As at 31 December 2008						
Gross loans and advances	**2,575,452**	**18,207**	**69,145**	**87,352**	**2,662,804**	**3.28%**
Allowance for impairment losses	**(39,608)**	**(12,062)**	**(49,087)**	**(61,149)**	**(100,757)**	
Loans and advances to customers, net	**2,535,844**	**6,145**	**20,058**	**26,203**	**2,562,047**	
As at 31 December 2007						
Gross loans and advances	2,226,268	18,469	70,968	89,437	2,315,705	3.86%
Allowance for impairment losses	(29,693)	(12,241)	(51,349)	(63,590)	(93,283)	
Loans and advances to customers, net	2,196,575	6,228	19,619	25,847	2,222,422	

(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 are 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 (portfolios of insignificant homogenous loans, which includes insignificant corporate loans and advances and all personal loans which are impaired).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net (Continued)

17.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessment

	2008			2007		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**	Individually assessed allowance	Collectively assessed allowance	Total
Group						
As at 1 January	**51,837**	**44,231**	**96,068**	53,846	40,447	94,293
New allowances	**15,871**	**18,589**	**34,460**	13,748	8,329	22,077
Releases	**(11,656)**	**(6,012)**	**(17,668)**	(11,189)	(2,636)	(13,825)
Written off	**(4,524)**	**(1,051)**	**(5,575)**	(5,236)	(1,562)	(6,798)
Recovery of loans and advances written off in previous year	**642**	**260**	**902**	1,217	454	1,671
Unwind of discount on allowance	**(456)**	**(310)**	**(766)**	(18)	(266)	(284)
Exchange difference	**(568)**	**(359)**	**(927)**	(531)	(535)	(1,066)
As at 31 December	**51,146**	**55,348**	**106,494**	51,837	44,231	96,068
Bank						
As at 1 January	**51,452**	**43,034**	**94,486**	53,231	39,731	92,962
New allowances	**14,634**	**17,896**	**32,530**	13,347	7,615	20,962
Releases	**(10,934)**	**(5,978)**	**(16,912)**	(9,567)	(2,562)	(12,129)
Written off	**(4,578)**	**(895)**	**(5,473)**	(5,069)	(1,409)	(6,478)
Recovery of loans and advances written off in previous year	**–**	**193**	**193**	–	368	368
Unwind of discount on allowance	**(417)**	**(296)**	**(713)**	–	(257)	(257)
Exchange difference	**(542)**	**(258)**	**(800)**	(490)	(452)	(942)
As at 31 December	**49,615**	**53,696**	**103,311**	51,452	43,034	94,486
Chinese Mainland						
As at 1 January	**51,349**	**41,934**	**93,283**	53,118	38,892	92,010
New allowances	**14,126**	**16,981**	**31,107**	13,272	7,615	20,887
Releases	**(10,873)**	**(5,978)**	**(16,851)**	(9,509)	(2,547)	(12,056)
Written off	**(4,578)**	**(852)**	**(5,430)**	(5,069)	(1,388)	(6,457)
Recovery of loans and advances written off in previous year	**–**	**27**	**27**	–	19	19
Unwind of discount on allowance	**(408)**	**(296)**	**(704)**	–	(257)	(257)
Exchange difference	**(529)**	**(146)**	**(675)**	(463)	(400)	(863)
As at 31 December	**49,087**	**51,670**	**100,757**	51,349	41,934	93,283

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net (Continued)

17.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type

	2008			2007		
	Corporate	**Personal**	**Total**	Corporate	Personal	Total
Group						
As at 1 January	**76,634**	**19,434**	**96,068**	75,142	19,151	94,293
New allowances	**32,157**	**2,303**	**34,460**	21,217	860	22,077
Releases	**(17,578)**	**(90)**	**(17,668)**	(13,708)	(117)	(13,825)
Written off	**(5,099)**	**(476)**	**(5,575)**	(6,444)	(354)	(6,798)
Recovery of loans and advances written off in previous year	**848**	**54**	**902**	1,596	75	1,671
Unwind of discount on allowance	**(564)**	**(202)**	**(766)**	(120)	(164)	(284)
Exchange difference	**(879)**	**(48)**	**(927)**	(1,049)	(17)	(1,066)
As at 31 December	**85,519**	**20,975**	**106,494**	76,634	19,434	96,068
Bank						
As at 1 January	**75,295**	**19,191**	**94,486**	74,036	18,926	92,962
New allowances	**30,542**	**1,988**	**32,530**	20,363	599	20,962
Releases	**(16,912)**	**–**	**(16,912)**	(12,129)	–	(12,129)
Written off	**(5,162)**	**(311)**	**(5,473)**	(6,299)	(179)	(6,478)
Recovery of loans and advances written off in previous year	**193**	**–**	**193**	368	–	368
Unwind of discount on allowance	**(518)**	**(195)**	**(713)**	(102)	(155)	(257)
Exchange difference	**(785)**	**(15)**	**(800)**	(942)	–	(942)
As at 31 December	**82,653**	**20,658**	**103,311**	75,295	19,191	94,486
Chinese Mainland						
As at 1 January	**74,093**	**19,190**	**93,283**	73,085	18,925	92,010
New allowances	**29,272**	**1,835**	**31,107**	20,288	599	20,887
Releases	**(16,851)**	**–**	**(16,851)**	(12,056)	–	(12,056)
Written off	**(5,120)**	**(310)**	**(5,430)**	(6,278)	(179)	(6,457)
Recovery of loans and advances written off in previous year	**27**	**–**	**27**	19	–	19
Unwind of discount on allowance	**(509)**	**(195)**	**(704)**	(102)	(155)	(257)
Exchange difference	**(675)**	**–**	**(675)**	(863)	–	(863)
As at 31 December	**80,237**	**20,520**	**100,757**	74,093	19,190	93,283

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Investment securities

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Investment securities available for sale				
Debt securities available for sale				
Government	**393,081**	219,913	**331,099**	206,841
Public sector and quasi-government	**67,421**	136,569	**59,324**	127,559
Financial institution	**222,178**	226,149	**156,831**	179,795
Corporate	**60,745**	85,113	**41,872**	53,412
	743,425	667,744	**589,126**	567,607
Fund investments	**1,079**	517	**–**	–
Equity securities	**8,098**	14,734	**1,070**	1,280
Total securities available for sale (1)	**752,602**	682,995	**590,196**	568,887
Debt securities held to maturity				
Government	**181,218**	172,481	**179,539**	170,184
Public sector and quasi-government	**37,035**	64,178	**26,022**	44,854
Financial institution	**127,591**	174,363	**61,020**	67,076
Corporate	**24,321**	37,237	**2,219**	2,990
	370,165	448,259	**268,800**	285,104
Allowance for impairment losses	**(4,327)**	(1,612)	**(411)**	(37)
Total securities held to maturity	**365,838**	446,647	**268,389**	285,067
Debt securities classified as loans and receivables				
China Orient Bond (2)	**160,000**	160,000	**160,000**	160,000
PBOC Special Bills (3)	**73,512**	73,512	**73,512**	73,512
PBOC Target Bills (4)	**72,000**	89,825	**72,000**	89,825
Special Purpose Treasury Bond (5)	**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	**12,627**	18,525	**10,269**	13,318
Financial institution	**37,125**	29,497	**26,017**	373
Corporate	**–**	60	**–**	60
Certificate Treasury Bonds and others (6)	**27,771**	30,304	**27,771**	30,304
	440,080	458,768	**426,614**	424,437
Allowance for impairment losses	**(126)**	(148)	**(126)**	(148)
Total securities classified as loans and receivables	**439,954**	458,620	**426,488**	424,289
Total (7)	**1,558,394**	1,588,262	**1,285,073**	1,278,243

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Analysed as follows:				
Listed in Hong Kong	**14,154**	17,465	**3,699**	1,922
Listed outside Hong Kong	**759,545**	622,553	**697,417**	577,409
Unlisted	**784,695**	948,244	**583,957**	698,912
Total (7)	**1,558,394**	1,588,262	**1,285,073**	1,278,243

Group

	As at 31 December			
	2008		2007	
	Carrying value	**Market value**	Carrying value	Market value
Investment securities held to maturity				
Listed in Hong Kong	**5,089**	**5,105**	4,591	4,613
Listed outside Hong Kong	**237,098**	**244,095**	249,242	247,331

Bank

	As at 31 December			
	2008		2007	
	Carrying value	**Market value**	Carrying value	Market value
Investment securities held to maturity				
Listed in Hong Kong	**1,132**	**1,167**	384	384
Listed outside Hong Kong	**218,181**	**225,859**	229,180	227,354

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Investment securities (Continued)

(1) Fair value changes relating to impaired available for sale investment securities have been taken to the income statement. As at 31 December 2008, the Group's accumulated impairment allowance on available for sale investment securities amounted to RMB31,437 million (2007: RMB10,836 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.

(3) 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) As at 31 December 2008, the Bank held the following PBOC Bills for commercial banks:

Issue date	Tenor	Interest rate per annum	Carrying value
09 March 2007	3 years	3.07%	16,000
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
			72,000

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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Investment securities (Continued)

(5) On 18 August 1998, a Special Purpose Treasury Bond was 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.

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. 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 2008 amounted to RMB27,645 million (2007: RMB30,156 million) and during the year the total distribution of Certificate Treasury Bonds amounted to RMB16,900 million (2007: RMB20,800 million) and commission income amounted to RMB189 million (2007: RMB222 million).

(7) As at 31 December 2008, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in investment securities with the amount and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Amount	**662,399**	551,984	**660,831**	550,644
Interest rate range	**1.11%-6.80%**	1.89%-7.30%	**1.11%-6.80%**	1.89%-7.30%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Investment securities (Continued)

Movements of investment securities are as follows:

Group

	Available for sale	Held to maturity	Loans and receivables	Total
As at 1 January 2008	**682,995**	**446,647**	**458,620**	**1,588,262**
Additions	**669,613**	**357,495**	**269,255**	**1,296,363**
Sales and redemptions	**(566,909)**	**(418,970)**	**(286,467)**	**(1,272,346)**
Accretion, net	**2,575**	**2,597**	**2,167**	**7,339**
Fair value changes	**(8,946)**	**–**	**–**	**(8,946)**
Exchange differences	**(26,726)**	**(17,937)**	**(3,631)**	**(48,294)**
Impairment (charges)/reversal	**–**	**(3,994)**	**10**	**(3,984)**
As at 31 December 2008	**752,602**	**365,838**	**439,954**	**1,558,394**
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)	(500,582)	(1,597,619)
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	–	(1,832)	–	(1,832)
As at 31 December 2007	682,995	446,647	458,620	1,588,262

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Investment securities (Continued)

Bank

	Available for sale	Held to maturity	Loans and receivables	Total
As at 1 January 2008	**568,887**	**285,067**	**424,289**	**1,278,243**
Additions	**504,105**	**305,504**	**236,713**	**1,046,322**
Sales and redemptions	**(472,274)**	**(320,010)**	**(234,652)**	**(1,026,936)**
Accretion, net	**2,498**	**2,609**	**1,539**	**6,646**
Fair value changes	**3,705**	**–**	**–**	**3,705**
Exchange differences	**(16,725)**	**(4,399)**	**(1,411)**	**(22,535)**
Impairment (charges)/reversal	**–**	**(382)**	**10**	**(372)**
As at 31 December 2008	**590,196**	**268,389**	**426,488**	**1,285,073**
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)	(431,209)	(1,324,827)
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	–	(37)	–	(37)
As at 31 December 2007	568,887	285,067	424,289	1,278,243

The Group has not reclassified any financial assets measured at amortised cost or fair value during the year (2007: nil).

The Group has disposed held to maturity debt securities before the maturity date for the year ended 31 December 2008 amounting to RMB4,366 million due to a significant deterioration in the creditworthiness of such debt securities (2007: RMB866 million). The book value of debt securities held to maturity before the disposal was not material. No held to maturity securities were disposed by the Bank in either 2008 or 2007.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Certificates of deposit held

Certificates of deposit held are included within the following balance sheet captions:

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Financial assets at fair value through profit or loss	**3,160**	4,349	**–**	1,419
Investment securities				
Available for sale	**7,524**	6,942	**1,041**	–
Held to maturity	**12,486**	14,122	**–**	–
Loans and receivables	**72**	373	**72**	373
	20,082	21,437	**1,113**	373
Total	**23,242**	25,786	**1,113**	1,792
Analysed as follows:				
Listed in Hong Kong	**–**	–	**–**	–
Listed outside Hong Kong	**809**	354	**–**	–
Unlisted	**22,433**	25,432	**1,113**	1,792
	23,242	25,786	**1,113**	1,792
Market value of listed certificates of deposit held	**795**	352	**–**	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Investment in subsidiaries

The carrying amounts by principal investees are as follows, and further details are disclosed in Note V.45.6. These principal subsidiaries are private companies. All holdings are in the ordinary share capital of the undertaking concerned.

	As at 31 December	
	2008	2007
BOC Hong Kong (Group) Limited	**36,915**	36,915
Bank of China Group Investment Limited ("BOCGI")[1]	**19,452**	212
Bank of China Group Insurance Company Limited	**3,861**	3,646
BOC International Holdings Limited	**3,753**	3,753
Bank of China (UK) Limited	**2,126**	2,126
Tai Fung Bank Limited	**82**	82
Other	**3,406**	2,280
Total	**69,595**	49,014

(1) In 2008 the Bank made a capital injection of RMB19,240 million to BOCGI.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment in associates and joint ventures

	Group		Bank	
	2008	2007	**2008**	2007
As at 1 January	**6,779**	5,931	**19**	21
Addition	**270**	172	**–**	–
Disposal	**(28)**	(262)	**–**	(1)
Share of results net of tax	**726**	1,263	**–**	–
Share of reserve movement	**148**	–	**–**	–
Dividends received	**(375)**	(265)	**–**	–
Transfer from available for sale securities	**–**	77	**–**	–
Foreign exchange and other	**(144)**	(137)	**(1)**	(1)
As at 31 December	**7,376**	6,779	**18**	19

The investment in associates and joint ventures of the Group and the Bank are ordinary shares of unlisted companies, and the carrying amount by principal investees are as follows, and further details are disclosed in Note V.45.3.

	As at 31 December	
	2008	2007
Huaneng International Power Development Corporation	**4,012**	4,454
BOC International (China) Limited	**1,545**	1,274
Silver Union Investments Limited	**291**	228
Dongfeng Peugeot Citroen Auto Finance Company Limited	**263**	254
United Glory Investments Limited	**177**	–
Bohai Industrial Investment Fund Management Company Limited	**126**	67
Other	**962**	502
Total	**7,376**	6,779

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Property and equipment

Group

	Buildings and improvements	Equipment and motor vehicles	Construction in progress	Aircraft	Total
As at 31 December 2008					
Cost	**72,770**	**29,530**	**8,094**	**22,606**	**133,000**
Accumulated depreciation	**(19,783)**	**(18,509)**	**–**	**(1,316)**	**(39,608)**
Allowance for impairment losses	**(840)**	**–**	**(316)**	**–**	**(1,156)**
Net book amount	**52,147**	**11,021**	**7,778**	**21,290**	**92,236**
As at 31 December 2007					
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
Year ended 31 December 2008					
Opening net book amount	**50,962**	**8,733**	**6,848**	**17,262**	**83,805**
Additions	**945**	**4,761**	**8,348**	**7,617**	**21,671**
Transfer to investment property, net (Note V.23)	**(182)**	**–**	**–**	**–**	**(182)**
Reclassification	**4,776**	**1,123**	**(7,224)**	**1,325**	**–**
Disposals	**(1,006)**	**(49)**	**(51)**	**(3,105)**	**(4,211)**
Depreciation charge	**(2,598)**	**(3,423)**	**–**	**(739)**	**(6,760)**
Allowance for impairment losses	**(11)**	**–**	**(3)**	**–**	**(14)**
Exchange differences	**(739)**	**(124)**	**(140)**	**(1,070)**	**(2,073)**
Closing net book amount	**52,147**	**11,021**	**7,778**	**21,290**	**92,236**
Year ended 31 December 2007					
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 property, net (Note V.23)	(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

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Property and equipment (Continued)

As at 31 December 2008, the net book amount of aircraft owned by the Group acquired under finance lease arrangements was RMB2,507 million (2007: RMB579 million).

As at 31 December 2008, the net book amount of aircraft used by the Group under operating leases was RMB21,290 million (2007: RMB17,262 million).

As at 31 December 2008, the net book amount of aircraft owned by the Group that have been pledged for loan facilities was RMB14,479 million (2007: RMB16,249 million) (See Note V.33 (2)).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Property and equipment (Continued)

Bank

	Buildings and improvements	Equipment and motor vehicles	Construction in process	Total
As at 31 December 2008				
Cost	**57,571**	**25,218**	**5,229**	**88,018**
Accumulated depreciation	**(15,915)**	**(15,946)**	**–**	**(31,861)**
Allowance for impairment losses	**(840)**	**–**	**(316)**	**(1,156)**
Net book amount	**40,816**	**9,272**	**4,913**	**55,001**
As at 31 December 2007				
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
Year ended 31 December 2008				
Opening net book amount	**38,702**	**7,094**	**4,657**	**50,453**
Additions	**673**	**4,074**	**6,098**	**10,845**
Transfer to investment property, net (Note V.23)	**(18)**	**–**	**–**	**(18)**
Reclassification	**4,673**	**1,115**	**(5,788)**	**–**
Disposals	**(953)**	**(47)**	**(51)**	**(1,051)**
Depreciation charge	**(2,203)**	**(2,936)**	**–**	**(5,139)**
Allowance for impairment losses	**(11)**	**–**	**(3)**	**(14)**
Exchange differences	**(47)**	**(28)**	**–**	**(75)**
Closing net book amount	**40,816**	**9,272**	**4,913**	**55,001**
Year ended 31 December 2007				
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.23)	(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

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Property and equipment (Continued)

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 2008, 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.

The carrying value of buildings and improvements is analysed based on the remaining terms of the leases as follows:

Group

	As at 31 December	
	2008	2007
Held in Hong Kong		
on long-term lease (over 50 years)	**6,270**	6,820
on medium-term lease (10-50 years)	**3,630**	4,319
on short-term lease (less than 10 years)	**418**	–
Subtotal	**10,318**	11,139
Held outside Hong Kong		
on long-term lease (over 50 years)	**3,430**	3,181
on medium-term lease (10-50 years)	**37,720**	35,733
on short-term lease (less than 10 years)	**679**	909
Subtotal	**41,829**	39,823
Total	**52,147**	50,962

Bank

	As at 31 December	
	2008	2007
Held outside Hong Kong		
on long-term lease (over 50 years)	**3,163**	3,074
on medium-term lease (10-50 years)	**37,083**	35,134
on short-term lease (less than 10 years)	**570**	494
Total	**40,816**	38,702

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Investment property

	Group		Bank	
	2008	2007	**2008**	2007
As at 1 January	**9,986**	8,221	**1,362**	620
Additions	**625**	426	**–**	–
Transfer from property and equipment, net (Note V.22)	**182**	38	**18**	44
Disposals	**(616)**	(201)	**–**	–
Fair value changes (Note V.5)	**44**	2,070	**(64)**	716
Exchange differences	**(584)**	(568)	**(77)**	(18)
As at 31 December	**9,637**	9,986	**1,239**	1,362

The Group's investment properties are located in an active real estate market, and external valuers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

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 2008 and 2007 amounted to RMB6,814 million and RMB7,546 million respectively. The current year valuation was performed as at 31 December 2008 by Knight Frank Petty Limited based on open market price.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 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	
	2008	2007	**2008**	2007
Held in Hong Kong				
on long-term lease				
(over 50 years)	**6,447**	7,114	**–**	–
on medium-term lease				
(10-50 years)	**446**	790	**–**	–
on short-term lease				
(less than 10 years)	**11**	45	**–**	–
Subtotal	**6,904**	7,949	**–**	–
Held outside Hong Kong				
on long-term lease				
(over 50 years)	**1,692**	1,151	**1,034**	1,147
on medium-term lease				
(10-50 years)	**832**	668	**–**	–
on short-term lease				
(less than 10 years)	**209**	218	**205**	215
Subtotal	**2,733**	2,037	**1,239**	1,362
Total	**9,637**	9,986	**1,239**	1,362

24 Other assets

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Interest receivable	**34,690**	31,782	**30,978**	26,643
Accounts receivable and prepayments[(1)]	**22,643**	29,996	**7,150**	8,180
Intangible assets[(2)]	**2,315**	2,859	**1,327**	1,205
Land use rights[(3)]	**3,439**	3,173	**3,309**	3,173
Repossessed assets[(4)]	**2,412**	2,039	**1,439**	999
Goodwill[(5)]	**1,877**	1,752	**–**	–
Other	**2,537**	2,037	**1,530**	1,112
Total	**69,913**	73,638	**45,733**	41,312

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Other assets (Continued)

(1) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Items in the process of clearing and settlement	**14,904**	22,615	**3,846**	7,812
Other	**10,254**	9,364	**5,513**	1,902
	25,158	31,979	**9,359**	9,714
Allowance for impairment losses	**(2,515)**	(1,983)	**(2,209)**	(1,534)
Net value	**22,643**	29,996	**7,150**	8,180

The analysis of the aging of accounts receivable and prepayments is as follows:

Group

	As at 31 December			
	2008		2007	
	Balance	**Impairment**	Balance	Impairment
Within 1 year	**21,506**	**(900)**	28,319	(116)
From 1 year to 3 years	**1,266**	**(422)**	972	(627)
Over 3 years	**2,386**	**(1,193)**	2,688	(1,240)
Total	**25,158**	**(2,515)**	31,979	(1,983)

Bank

	As at 31 December			
	2008		2007	
	Balance	**Impairment**	Balance	Impairment
Within 1year	**6,526**	**(880)**	7,184	(92)
From 1 year to 3 years	**1,012**	**(410)**	654	(615)
Over 3 years	**1,821**	**(919)**	1,876	(827)
Total	**9,359**	**(2,209)**	9,714	(1,534)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Other assets (Continued)

(2) Intangible assets

Group

	Aircraft firm orders and options	Computer software and others	Total
Year ended 31 December 2008			
Opening net book amount	**1,432**	**1,427**	**2,859**
Additions	**–**	**658**	**658**
Amortisation	**–**	**(502)**	**(502)**
Transfer out	**(530)**	**(64)**	**(594)**
Exchange difference	**(82)**	**(24)**	**(106)**
Closing net book amount	**820**	**1,495**	**2,315**
Year ended 31 December 2007			
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

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Other assets (Continued)

(2) *Intangible assets (Continued)*

Bank

Computer software and others

	Year ended 31 December	
	2008	2007
Opening net book amount	**1,205**	1,147
Additions	**581**	625
Amortisation	**(449)**	(577)
Transfer in	**–**	10
Exchange difference	**(10)**	–
Closing net book amount	**1,327**	1,205

(3) *Land use rights*

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Held outside Hong Kong				
on long-term lease				
(over 50 years)	**51**	51	**51**	51
on medium-term lease				
(10-50 years)	**3,359**	3,091	**3,229**	3,091
on short-term lease				
(less than 10 years)	**29**	31	**29**	31
	3,439	3,173	**3,309**	3,173

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Other assets (Continued)

(4) Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Such repossessed assets of the Group are as follows:

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Business property	**3,065**	2,252	**1,496**	1,510
Residential property	**678**	2,301	**534**	1,073
Other	**1,224**	645	**987**	211
	4,967	5,198	**3,017**	2,794
Allowance for impairment losses	**(2,555)**	(3,159)	**(1,578)**	(1,795)
Repossessed assets, net	**2,412**	2,039	**1,439**	999

The total book value of repossessed assets disposed in 2008 amounted to RMB1,840 million (2007: RMB1,629 million). The Group is planning to dispose the repossessed assets held at 31 December 2008 by auction, bidding or transfer.

(5) Goodwill

Group

	2008	2007
As at 1 January	**1,752**	1,875
Addition through acquisition of subsidiaries	**232**	–
Exchange difference	**(107)**	(123)
As at 31 December	**1,877**	1,752

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Impairment allowance

Group

	As at 1 January 2008	Additions	Decrease: Reversal	Decrease: Write-off and disposal	Exchange differences	As at 31 December 2008
Impairment allowance						
– Placements with banks and other financial institutions	390	23	–	(14)	–	399
– Loans and advances to customers	96,068	34,460	(17,668)	(5,439)	(927)	106,494
– Investment securities						
– available for sale (Note V.18(1))	10,836	27,710	(4,605)	(1,457)	(1,047)	31,437
– held to maturity	1,612	5,684	(1,690)	(1,133)	(146)	4,327
– loans and receivables	148	–	(10)	(12)	–	126
– Investment in associates and joint ventures	230	–	–	(97)	(14)	119
– Property and equipment	1,259	14	–	(116)	(1)	1,156
– Repossessed assets	3,159	365	(106)	(838)	(25)	2,555
– Land use rights	59	2	–	(5)	–	56
– Account receivable and prepayment	1,983	1,218	(423)	(218)	(45)	2,515
Total	115,744	69,476	(24,502)	(9,329)	(2,205)	149,184

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Impairment allowance (Continued)

Group

	As at 1 January 2007	Additions	Decrease: Reversal	Decrease: Write-off and disposal	Exchange differences	As at 31 December 2007
Impairment allowance						
– Placements with banks and other financial institutions	499	–	–	(109)	–	390
– Loans and advances to customers	94,293	22,077	(13,825)	(5,411)	(1,066)	96,068
– Investment securities						
– available for sale (Note V.18(1))	957	10,457	(122)	(399)	(57)	10,836
– held to maturity	–	1,834	(2)	(158)	(62)	1,612
– loans and receivables	152	–	–	(4)	–	148
– Investment in associates and joint ventures	390	–	–	(145)	(15)	230
– Property and equipment	1,894	7	–	(645)	3	1,259
– Repossessed assets	3,588	527	(647)	(226)	(83)	3,159
– Land use rights	77	–	–	(18)	–	59
– Account receivable and prepayment	4,182	1,081	(1,246)	(1,968)	(66)	1,983
Total	106,032	35,983	(15,842)	(9,083)	(1,346)	115,744

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Impairment allowance (Continued)

Bank

	As at 1 January 2008	Additions	Decrease: Reversal	Decrease: Write-off and disposal	Exchange differences	As at 31 December 2008
Impairment allowance						
– Placements with banks and other financial institutions	390	23	–	(14)	–	399
– Loans and advances to customers	94,486	32,530	(16,912)	(5,993)	(800)	103,311
– Investment securities						
– available for sale (Note V.18(1))	10,327	18,887	(3,389)	(709)	(920)	24,196
– held to maturity	37	422	(40)	–	(8)	411
– loans and receivables	148	–	(10)	(12)	–	126
– Investment in subsidiaries	19	–	–	–	–	19
– Investment in associates and joint ventures	8	–	–	–	(2)	6
– Property and equipment	1,259	14	–	(116)	(1)	1,156
– Repossessed assets	1,795	305	(106)	(391)	(25)	1,578
– Land use rights	59	2	–	(5)	–	56
– Account receivable and prepayment	1,534	1,195	(417)	(89)	(14)	2,209
Total	110,062	53,378	(20,874)	(7,329)	(1,770)	133,467

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Impairment allowance (Continued)

Bank

	As at 1 January 2007	Additions	Decrease: Reversal	Decrease: Write-off and disposal	Exchange differences	As at 31 December 2007
Impairment allowance						
– Placements with banks and other financial institutions	499	–	–	(109)	–	390
– Loans and advances to customers	92,962	20,962	(12,129)	(6,367)	(942)	94,486
– Investment securities						
– available for sale (Note V.18(1))	73	10,271	–	(24)	7	10,327
– held to maturity	–	37	–	–	–	37
– loans and receivables	152	–	–	(4)	–	148
– Investment in subsidiaries	19	–	–	–	–	19
– Investment in associates and joint ventures	9	–	–	–	(1)	8
– Property and equipment	1,894	7	–	(645)	3	1,259
– Repossessed assets	3,585	523	(647)	(1,583)	(83)	1,795
– Land use rights	77	–	–	(18)	–	59
– Account receivable and prepayment	3,517	1,075	(1,231)	(1,807)	(20)	1,534
Total	102,787	32,875	(14,007)	(10,557)	(1,036)	110,062

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 Due to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Due to:				
Domestic banks	**238,461**	64,509	**227,537**	60,267
Domestic other financial institutions	**331,312**	239,628	**331,312**	239,628
Overseas banks	**33,408**	20,502	**12,174**	11,727
Overseas other financial institutions	**212**	209	**212**	209
Total	**603,393**	324,848	**571,235**	311,831

27 Due to central banks

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Foreign exchange deposits	**55,561**	49,713	**55,561**	49,713
Other	**35**	40,772	**29**	40,741
Total	**55,596**	90,485	**55,590**	90,454

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 with 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.

29 Certificates of deposit and placements from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Certificates of deposit	**1,298**	3,321	**1,298**	1,296
Placements from:				
Domestic banks	**99,855**	123,239	**87,541**	104,918
Domestic other financial institutions	**76,869**	78,140	**76,865**	78,136
Overseas banks	**19,803**	42,370	**43,619**	63,201
Overseas other financial institutions	**2,529**	1,412	**69,941**	4,339
Total placements from banks and other financial institutions	**199,056**	245,161	**277,966**	250,594
Total	**200,354**	248,482	**279,264**	251,890

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Certificates of deposit and placements from banks and other financial institutions (Continued)

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	
	2008	2007
Repurchase of:		
Discounted bills	–	13
Debt securities	**1,402**	103,767
Precious metals	–	6,984
Total	**1,402**	110,764

30 Financial liabilities at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Trading financial liabilities – short position in debt securities	**10,995**	5,371	**289**	2,102
Financial liabilities designated at fair value through profit or loss(1)	**56,554**	81,284	**44,998**	70,653
Total	**67,549**	86,655	**45,287**	72,755

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Financial liabilities at fair value through profit or loss (Continued)

(1) The majority of financial liabilities designated at fair value through profit or loss are structured deposits. Based on risk management strategy, these structured deposits have been designated at fair value through profit or loss.

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 through profit or loss in 2008 and 2007.

As at 31 December 2008, the Group's financial liabilities designated at fair value through profit or loss include certificates of deposit of RMB745 million (2007: nil).

31 Due to customers

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Demand deposits				
Corporate customers	**1,375,251**	1,174,722	**1,237,153**	1,066,740
Individual customers	**901,188**	810,720	**651,620**	600,219
Subtotal	**2,276,439**	1,985,442	**1,888,773**	1,666,959
Time deposits				
Corporate customers	**786,896**	694,995	**652,828**	533,366
Individual customers	**1,822,323**	1,545,001	**1,605,272**	1,251,950
Subtotal	**2,609,219**	2,239,996	**2,258,100**	1,785,316
Security and margin deposits	**216,453**	174,673	**207,770**	165,614
Total	**5,102,111**	4,400,111	**4,354,643**	3,617,889

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Bonds issued

	Issue date	Maturity date	Interest rate	As at 31 December Group 2008	Group 2007	Bank 2008	Bank 2007
Subordinated bonds issued:							
2004 RMB Debt Securities[1]							
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[2]							
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 interest 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%	**152**	162	**152**	162
2007 RMB Debt Securities issued in Hong Kong							
Tranche A	28 September 2007	28 September 2009	3.15%	**1,688**	1,581	**2,000**	2,000
Tranche B	28 September 2007	28 September 2010	3.35%	**690**	695	**1,000**	1,000
2008 RMB Debt Securities issued in Hong Kong							
Tranche A	22 September 2008	22 September 2010	3.25%	**1,273**	–	**2,000**	–
Tranche B	22 September 2008	22 September 2011	3.40%	**672**	–	**1,000**	–
Other				**918**	1,953	**–**	–
Subtotal				**5,393**	4,391	**6,152**	3,162
Total[3]				**65,393**	64,391	**66,152**	63,162

V NOTES TO THE CONSOLIDATED 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.

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) During 2008, the Group has not had any default of principal, interest or redemption amounts with respect to its bonds issued (2007: nil).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Other borrowings

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Special purpose borrowings[1]				
Export credit loans	**7,083**	10,646	**7,083**	10,646
Foreign government loans	**13,773**	16,186	**13,773**	16,186
Other subsidized loans	**9,393**	11,289	**9,393**	11,289
	30,249	38,121	**30,249**	38,121
Term loans and other borrowings[2]	**12,589**	13,587	**–**	–
Total[3]	**42,838**	51,708	**30,249**	38,121

(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 2008, the maturity of special purpose borrowings ranges from within 1 month to 39 years. The interest bearing special purpose borrowings bear floating and fixed interest rates ranging from 0.20% to 7.95% (2007: 0.20% to 7.95%). 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 2008, these term loans and other borrowings have a maturity ranging from within 1 month to 12 years and bear floating and fixed interest rates ranging from 2.28% to 7.56% (2007: 5.05% to 7.56%). The term loans and other borrowings of RMB11,838 million (2007: 13,440 million) are secured by aircraft of the Group (See Note V.22).

(3) During 2008, the Group has not had any default of principal, interest or redemption amounts with respect to the other borrowings (2007: nil).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Current tax liabilities

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Corporate Income Tax	**21,345**	17,585	**20,594**	16,142
Business Tax	**2,844**	2,635	**2,779**	2,607
City Construction and Maintenance Tax	**193**	174	**193**	174
Education Surcharges	**105**	95	**105**	95
Other	**340**	556	**257**	436
Total	**24,827**	21,045	**23,928**	19,454

35 Retirement benefit obligations

As of 31 December 2008 and 2007, the actuarial liabilities existing at the respective year-end dates in relation to the retirement benefit obligation for employees who retired prior to 31 December 2003 and early retirement obligation for employees who early retired were RMB2,660 million (2007: RMB2,234 million) and RMB4,703 million (2007: RMB4,997 million), which were assessed by Hewitt Associates LLC, using the projected unit credit method.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Retirement benefit obligations (Continued)

The movements of the net liabilities recognised in the balance sheets are as follow:

Group and Bank

	2008	2007
As at 1 January	**7,231**	7,444
Amounts recognised in the income statement	**1,143**	802
Including: Interest cost	**298**	250
Net actuarial loss recognised in the year	**845**	552
Benefits paid	**(1,011)**	(1,015)
As at 31 December	**7,363**	7,231

Primary assumptions used:

	As at 31 December	
	2008	2007
Discount rate	**2.61%**	4.43%
Pension benefit inflation rate		
– Normal retiree	**6.0%~4.0%**	8.0%~4.0%
– Early retiree	**6.0%~4.0%**	4.5%~4.0%
Medical benefit inflation rate	**5.50%**	5.50%
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).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Share option schemes

36.1 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 since the inception of the plan.

36.2 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.

36.3 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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Share option schemes (Continued)

36.3 BOCHK Holdings Pre-listing Share Option Scheme (Continued)

Details of the movement of share options outstanding are as follows:

Unit: Share

	Directors and key management	Other employees	Other*	Total number of share options
As at 1 January 2008	**4,816,000**	**4,088,700**	**1,446,000**	**10,350,700**
Transferred	**(239,000)**	**239,000**	**–**	**–**
Less: Share options exercised during the year	**(361,500)**	**(891,900)**	**(1,446,000)**	**(2,699,400)**
As at 31 December 2008	**4,215,500**	**3,435,800**	**–**	**7,651,300**
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 exercised during 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

* 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 2008 and 2007 the weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD18.65 (equivalent to RMB16.60), and HKD19.38 (equivalent to RMB18.85) respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 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 are 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	
	2008	2007	**2008**	2007
Deferred income tax assets	**17,405**	17,647	**17,763**	18,080
Deferred income tax liabilities	**(2,093)**	(2,894)	**(54)**	(44)
	15,312	14,753	**17,709**	18,036

The movements of the deferred income tax asset and liability account are as follows:

	Group		Bank	
	2008	2007	**2008**	2007
As at 1 January	**14,753**	18,367	**18,036**	21,811
Credited/(charged)to income statement (Note V.10)	**3,501**	(4,368)	**3,377**	(4,246)
(Charged)/credited to equity	**(3,103)**	569	**(3,695)**	465
Acquisition of subsidiaries	**(73)**	–	**–**	–
Exchange differences	**234**	185	**(9)**	6
As at 31 December	**15,312**	14,753	**17,709**	18,036

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Deferred income taxes (Continued)

Deferred income tax assets and liabilities, before offsetting qualifying amounts, are attributable to the following items:

Group

	As at 31 December 2008		As at 31 December 2007	
	Temporary difference	**Deferred tax assets/ (liabilities)**	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**89,351**	**22,303**	71,695	17,840
Fair value changes of financial instruments at fair value through profit or loss, and derivative financial instruments	**39,729**	**9,934**	15,416	3,854
Fair value changes of available for sale investment securities credited to equity	**6,625**	**1,066**	8,217	2,030
Statutory asset revaluation surplus	**5,545**	**1,386**	5,973	1,493
Pension and other benefit costs	**4,805**	**1,201**	5,109	1,278
Other temporary differences	**7,474**	**1,061**	1,815	414
Subtotal	**153,529**	**36,951**	108,225	26,909
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss, and derivative financial instruments	**(58,286)**	**(14,570)**	(30,095)	(7,532)
Fair value changes of available for sale investment securities charged to equity	**(13,033)**	**(3,032)**	(5,024)	(893)
Depreciation of property and equipment	**(6,622)**	**(1,087)**	(6,137)	(1,093)
Revaluation of property and investment property	**(12,162)**	**(2,006)**	(12,295)	(2,089)
Other temporary differences	**(7,623)**	**(944)**	(5,195)	(549)
Subtotal	**(97,726)**	**(21,639)**	(58,746)	(12,156)
Net	**55,803**	**15,312**	49,479	14,753

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Deferred income taxes (Continued)

Bank

	As at 31 December 2008		As at 31 December 2007	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**88,013**	**22,065**	70,740	17,668
Fair value changes of financial instruments at fair value through profit or loss, and derivative financial instruments	**39,723**	**9,932**	15,416	3,854
Fair value changes of available for sale investment securities credited to equity	**139**	**64**	7,507	1,897
Statutory asset revaluation surplus	**5,545**	**1,386**	5,973	1,493
Pension and other benefit costs	**4,805**	**1,201**	5,109	1,278
Other temporary differences	**2,251**	**535**	1,168	298
Subtotal	**140,476**	**35,183**	105,913	26,488
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss, and derivative financial instruments	**(58,255)**	**(14,565)**	(30,095)	(7,532)
Fair value changes of available for sale investment securities charged to equity	**(10,972)**	**(2,750)**	(4,994)	(888)
Other temporary differences	**(970)**	**(159)**	(425)	(32)
Subtotal	**(70,197)**	**(17,474)**	(35,514)	(8,452)
Net	**70,279**	**17,709**	70,399	18,036

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Deferred income taxes (Continued)

The deferred income tax (charge)/credit in the income statement comprises the following temporary differences:

	Year ended 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Asset impairment allowances	**4,463**	(2,365)	**4,397**	(2,435)
Fair value changes of financial instruments at fair value through profit or loss, and derivative financial instruments	**(958)**	(1,468)	**(955)**	(1,468)
Statutory asset revaluation surplus	**(107)**	(1,046)	**(107)**	(1,046)
Pension and other benefit costs	**(77)**	457	**(77)**	457
Other temporary differences	**180**	54	**119**	246
Total	**3,501**	(4,368)	**3,377**	(4,246)

38 Other liabilities

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Items in the process of clearance and Settlement	**69,900**	83,042	**60,220**	68,436
Interest payable	**52,999**	37,869	**52,329**	35,632
Salary and welfare payable[(1)]	**11,031**	10,130	**10,279**	7,957
Payable to the MOF[(2)]	**–**	4,340	**–**	4,340
Provision[(3)]	**2,503**	2,260	**1,961**	2,084
Insurance liabilities				
– Life insurance contract	**24,935**	21,066	**–**	–
– Non-life insurance contract	**3,524**	2,227	**–**	–
Other[(4)]	**33,838**	21,909	**15,841**	10,235
Total	**198,730**	182,843	**140,630**	128,684

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Other liabilities (Continued)

(1) Salary and welfare payable

Group

	As at 1 January 2008	Accrual	Payment	As at 31 December 2008
Salary, bonus and subsidy	9,769	27,689	(27,702)	9,756
Staff welfare	–	2,315	(2,315)	–
Social insurance, including:				
Medical	60	1,048	(932)	176
Pension	22	2,540	(2,513)	49
Annuity	1	612	(613)	–
Unemployment	3	220	(220)	3
Injury at work	–	58	(58)	–
Maternity insurance	–	62	(62)	–
Housing funds	26	1,852	(1,863)	15
Labour union fee and staff education fee	113	987	(246)	854
Reimbursement for cancellation of labour contract	2	30	(21)	11
Other	134	1,309	(1,276)	167
Total	10,130	38,722	(37,821)	11,031

Bank

	As at 1 January 2008	Accrual	Payment	As at 31 December 2008
Salary, bonus and subsidy	7,596	22,811	(21,394)	9,013
Staff welfare	–	2,127	(2,127)	–
Social insurance, including:				
Medical	60	1,048	(932)	176
Pension	22	2,538	(2,511)	49
Annuity	1	612	(613)	–
Unemployment	3	220	(220)	3
Injury at work	–	58	(58)	–
Maternity insurance	–	62	(62)	–
Housing funds	26	1,851	(1,862)	15
Labour union fee and staff education fee	113	987	(246)	854
Reimbursement for cancellation of labour contract	2	29	(20)	11
Other	134	513	(489)	158
Total	7,957	32,856	(30,534)	10,279

There were no overdue payment for staff salary and welfare payables at 31 December 2008.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Other liabilities (Continued)

(2) *Financial restructuring arrangements*

The Group had an outstanding liability of RMB4,340 million as at 31 December 2007 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 was non-interest bearing and fully repaid during the year ended 31 December 2008.

(3) *Provision*

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Allowance for litigation losses (Note V.43.1)	**1,358**	1,614	**1,325**	1,449
Other	**1,145**	646	**636**	635
Total	**2,503**	2,260	**1,961**	2,084

	Group		Bank	
	2008	2007	**2008**	2007
As at 1 January	**2,260**	2,619	**2,084**	2,400
Allowance for the year, net	**699**	211	**168**	209
Utilised during the year	**(456)**	(570)	**(291)**	(525)
As at 31 December	**2,503**	2,260	**1,961**	2,084

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Other liabilities (Continued)

(4) Other

Included in the others, there is financial lease payment mainly related to financial leased aircraft by BOC Aviation as disclosed below.

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Within 1 year (including 1 year)	**141**	48	**1**	1
From 1 year to 2 years (including 2 years)	**177**	47	**1**	1
From 2 year to 3 years (including 3 years)	**177**	47	**–**	–
Over 3 years	**1,643**	552	**–**	–
Total	**2,138**	694	**2**	2
Unrecognised financial lease expense	**305**	185	**–**	–
Financial lease payment, net	**1,833**	509	**2**	2

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Share capital, capital reserve and treasury shares

As at 31 December 2008, the Bank's share capital is as follows:

	Number of shares
Domestic listed A shares, par value RMB1.00 per share	177,818,910,740
Overseas listed H shares, par value RMB1.00 per share	76,020,251,269
Total	253,839,162,009

As at 31 December 2008, 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 2008 was 9.12 million (2007: 11 million).

All A shares and H shares rank pari passu with the same rights and benefits.

During 2008, the initial contribution of RMB500 million made by Huijin to the Annuity Plan in 2005, was repaid and recorded in the capital reserve.

40 Statutory reserves, general and regulatory reserves and undistributed profits

40.1 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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

40.1 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 24 March 2009, the Bank appropriated 10% of the net profit for the year ended 31 December 2008 as reported in the PRC statutory financial statements to the Statutory surplus reserves, amounting to RMB7,718 million (2007: RMB4,626 million).

40.2 General and regulatory reserves

Pursuant to Caijin [2005] No. 49 "Measures on General Provision for Bad and Doubtful Debts for Financial Institutions" and Caijin [2007] No. 23 "Application Guidance of Financing Measures 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.

In accordance with a resolution dated 24 March 2009 and on the basis of the Bank's profit for the year ended 31 December 2008, the Board of Directors of the Bank approved the appropriation of RMB15,806 million (2007: RMB10,626 million) to the general reserves for the year ended 31 December 2008. The total amount of general reserves maintained as at 31 December 2008 has achieved 1% of the aggregate amount of risk assets (as at 31 December 2007: 0.7%).

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 2008 and 2007, the reserve amount set aside by BOC Hong Kong (Group) Limited was RMB3,112 million and RMB2,875 million respectively.

40.3 Dividends

A dividend of RMB25,384 million in respect of 2007 profits was approved by the equity holders of the Bank at the Annual General Meeting held on 19 June 2008.

A dividend of RMB0.13 per share in respect of 2008 profits, amounting to a total dividend of RMB32,999 million is to be proposed for approval at the Annual General Meeting to be held on 18 June 2009. These financial statements do not reflect this dividend payable in liabilities.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Reserve for fair value changes of available for sale securities

	Group		Bank	
	2008	2007	**2008**	2007
As at 1 January	**(1,506)**	2,009	**(5,704)**	(1,038)
Net changes in fair value	**(6,659)**	(17,585)	**3,705**	(22,461)
Share of associates' reserve for fair value changes of available for sale securities	**170**	–	**–**	–
Net impairment charges transferred to income statement	**20,769**	10,368	**15,498**	10,271
Net fair value changes transferred to income statement on derecognition	**(1,960)**	3,166	**(1,634)**	7,059
Deferred income taxes	**(3,280)**	536	**(3,695)**	465
As at 31 December	**7,534**	(1,506)	**8,170**	(5,704)

42 Minority interest

Minority interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2008	2007
BOC Hong Kong (Group) Limited	**23,871**	28,504
Tai Fung Bank Limited	**1,559**	1,573
Other	**199**	150
Total	**25,629**	30,227

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Contingent liabilities and commitments

43.1 Legal proceedings

As at 31 December 2008, the Group was involved in certain lawsuits as defendants arising from its normal business operations. As at 31 December 2008, provisions of RMB1,358 million (2007: RMB1,614 million) were made based on court judgements or the advice of counsel (See Note V.38 (3)). 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.

43.2 Assets pledged

Assets pledged as collateral for repurchase, short positions, precious metals swap agreements with other banks and financial institutions are set forth in the tables below. These transactions are conducted under standard and normal business terms.

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Debt securities	**12,203**	107,046	**1,406**	103,454
Precious metals	**–**	7,982	**–**	7,982
Bills	**–**	714	**–**	714
Total	**12,203**	115,742	**1,406**	112,150

In addition, the debt securities pledged as collateral by the Group and the Bank for local statutory requirement and derivative transactions with other banks and financial institutions as at 31 December 2008 amounted to RMB23,982 million.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Contingent liabilities and commitments (Continued)

43.3 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 2008, the fair value of such cash collateral and security collateral accepted by the Group and the Bank amounted to RMB23,565 million (2007: RMB33,876 million). As at 31 December 2008, both the Group and the Bank had not sold or re-pledged such collateral received (2007: RMB1,890 million). These transactions are conducted under standard and normal business terms.

43.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Property and equipment				
Contracted but not provided for	**43,555**	43,384	**1,239**	622
Authorised but not contracted for	**2,602**	1,260	**2,574**	1,232
Intangible assets				
Contracted but not provided for	**1,149**	1,011	**1,084**	914
Authorised but not contracted for	**14**	255	**3**	119
Total	**47,320**	45,910	**4,900**	2,887

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Contingent liabilities and commitments (Continued)

43.5 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	
	2008	2007	**2008**	2007
Within one year	**2,609**	1,852	**2,097**	1,467
One to two years	**2,000**	1,473	**1,600**	1,213
Two to three years	**1,518**	1,101	**1,330**	991
Above three years	**4,030**	3,033	**3,943**	3,000
Total	**10,157**	7,459	**8,970**	6,671

43.6 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 2008, the principal value of the bonds amounts to RMB51,650 million (2007: RMB61,439 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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Contingent liabilities and commitments (Continued)

43.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Loan commitments[1]				
with an original maturity of under one year	**274,078**	228,484	**126,143**	101,186
with an original maturity of one year or over	**467,949**	337,515	**413,531**	279,408
Letters of credit issued	**109,636**	130,334	**95,438**	109,783
Letters of guarantee issued[2]	**532,845**	423,771	**533,343**	424,343
Bank bill acceptance	**195,082**	173,162	**195,082**	173,162
Accepted bill of exchange under letter of credit	**32,855**	41,596	**27,477**	34,825
Other	**1,618**	685	**1,625**	568
Total	**1,614,063**	1,335,547	**1,392,639**	1,123,275

(1) Loan commitments represent general credit facility limits for customers. These credit facilities may be drawn in the form of loans and advances or the issuance of letters of credit, acceptances or letters of guarantee.

(2) Letters of guarantee issued include financial guarantees and performance guarantees. These are obligations on the Group to make payment depending on the outcome of a future event.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Contingent liabilities and commitments (Continued)

43.7 Credit commitments (Continued)

Credit risk weighted amounts of credit commitments

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Credit commitments	**573,950**	484,879	**550,806**	459,302

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.

43.8 Underwriting obligations

At the balance sheet date, the unexpired underwriting obligations of securities are as follows:

Group and Bank

	As at 31 December	
	2008	2007
Underwriting obligations	**17,440**	10,350

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Note to cash flow statement

44.1 For the purposes of the consolidated 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	
	2008	2007
Cash and due from banks and other financial institutions	**71,441**	70,249
Balances with central banks	**477,593**	156,707
Placements with banks and other financial institutions	**337,654**	282,837
Short term bills and notes	**34,719**	19,144
Total	**921,407**	528,937

44.2 Cash inflows from investment securities classified as available for sale, held to maturity and loans and receivables for the year ended 31 December 2008 of RMB41,767 million (2007: RMB196,199 million) have been reclassified from "Cash flows from operating activities" to "Cash flows from investing activities".

45 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.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.1 Transactions with the parent company and other companies controlled by the parent

(1) General information of parent company

Huijin is registered in Beijing and the national organisation code is 71093296-1. The registered capital is RMB552,117 million and the legal representative is Lou Jiwei (pending finalisation of legal process). As at 31 December 2008, Huijin owned 67.52% of the issued share capital and 67.52% of the voting right of the Bank respectively (2007: 67.49% and 67.49% respectively). Huijin is a wholly state-owned company established as an investor on behalf of the State Council in key state-owned financial institutions.

(2) Transactions with the parent company

Due to Huijin

	2008	2007
As at 1 January	**21,592**	22,060
Received during the year	**112,503**	99,619
Repaid during the year	**(89,427)**	(100,087)
As at 31 December	**44,668**	21,592

(3) 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 financial assets at fair value through profit or loss, investment securities and money market transactions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.1 Transactions with the parent company and other companies controlled by the parent (Continued)

(3) Transactions with other companies controlled by the parent company (Continued)

The related interest rate range and the outstanding balances with these companies as of 31 December 2008 and 2007 are as follows:

	As at 31 December	
	2008	2007
Due from banks and other financial institutions	**904**	332
Placements with banks and other financial institutions	**11,152**	1,669
Financial assets at fair value through profit or loss and investment securities	**5,428**	2,742
Due to banks and other financial institutions	**(43,875)**	(5,159)
Placements from banks and other financial institutions	**(15,880)**	(20,638)
Interest rate ranges at the end of the year:		
Due from banks and other financial institutions	**0.36%-6.83%**	0.72%-5.33%
Placements with banks and other financial institutions	**0.07%-7.50%**	1.00%-7.04%
Financial assets at fair value through profit or loss and investment securities	**1.00%-5.62%**	1.00%-7.16%
Due to banks and other financial institutions	**0.00%-5.00%**	0.00%-3.45%
Placements from banks and other financial institutions	**0.01%-5.07%**	0.01%-6.07%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.2 Transactions with government authorities, agencies, affiliates 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, affiliates and other state controlled entities. 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 authorities, agencies, affiliates 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 authorities, agencies, affiliates 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.

	As at 31 December	
	2008	2007
Due from banks and other financial institutions	**3,121**	1,995
Placements with banks and other financial institutions	**99,390**	44,270
Financial assets at fair value through profit or loss and investment securities	**374,274**	355,225
Loans and advances to customers(1)	**735,136**	593,487
Due to banks and other financial institutions	**(243,028)**	(219,191)
Placements from banks and other financial institutions	**(80,234)**	(166,020)
Due to customers(2)	**(585,439)**	(537,307)
Allowance for impairment losses:		
Placements with banks and other financial institutions	**(375)**	(390)
Financial assets at fair value through profit or loss and investment securities	**(126)**	(148)
Individually assessed loans and advances(1)	**(9,482)**	(10,176)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.2 Transactions with government authorities, agencies, affiliates and other state controlled entities (Continued)

	As at 31 December	
	2008	2007
Interest rate ranges at the end of the year:		
Due from banks and other financial institutions	**0.36%-6.83%**	0.72%-9.75%
Placements with banks and other financial institutions	**0.14%-6.97%**	0.30%-10.20%
Financial assets at fair value through profit or loss and investment securities	**0.25%-8.29%**	1.00%-8.25%
Loans and advances to customers(1)	**0.45%-18.00%**	0.20%-18.00%
Due to banks and other financial institutions	**0.00%-5.50%**	0.00%-6.00%
Placements from banks and other financial institutions	**0.001%-9.00%**	0.01%-8.58%
Due to customers(2)	**0.00%-7.94%**	0.00%-7.85%

(1) 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. The maturity analysis set out in Note VI.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.

(2) 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.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.3 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:

	As at 31 December	
	2008	2007
Placements with banks and other financial institutions	**2,305**	520
Loans and advances to customers	**277**	908
Placements from banks and other financial institutions	**–**	(2)
Due to customers	**(5,577)**	(11,367)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.3 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follow:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	1100600003248	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	49.00	49.00	RMB1,500	Securities underwriting, investment advisory, and brokerage services
Silver Union Investments Limited	Cayman	NA	70.00	Note 1	USD30	Investment holding
Dongfeng Peugeot Citroen Auto Finance Company Limited	PRC	63498851-6	50.00	50.00	RMB500	Car loan and financing services
United Glory Investments Limited	Hong Kong	NA	37.50	37.50	HKD0.1	Investment holding
Bohai Industrial Investment Fund Management Company Limited	PRC	1200717867824	53.00	Note 1	RMB200	Investment fund management

Note 1: In accordance with the respective articles of association, the Group and other shareholders of these companies have joint control over these companies.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.4 Transactions with the Annuity Plan

The Annuity Plan was established on 29 December 2005. As at 31 December 2008, the deposit balance of the Annuity Plan in the Bank is RMB4,370 million (2007: RMB2,331 million).

45.5 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 2008 and 2007, 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 2008 and 2007 is detailed as follows:

	Year ended 31 December	
	2008	2007
Short-term employment benefits	**32**	31
Post-employment benefits	**1**	1
Total	**33**	32

45.6 Balances with subsidiaries

Included in the following captions of the Bank's balance sheets are balances with subsidiaries:

	As at 31 December	
	2008	2007
Due from banks and other financial institutions	**11,677**	557
Placements with banks and other financial institutions	**115,272**	44,136
Due to banks and other financial institutions	**(5,519)**	(7,322)
Placements from banks and other financial institutions	**(91,629)**	(27,871)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.6 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follow:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
Directly held						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited (iii)	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,018	100.00	100.00	Insurance services
Bank of China Group Investment Limited ("BOCGI")	Hong Kong	18 May 1993	HKD22,160	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP 1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP 172	100.00	100.00	Commercial banking
Indirectly held						
BOC Hong Kong (Holdings) Limited ("BOCHK Holdings") (i)	Hong Kong	12 September 2001	HKD52,864	65.77	65.77	Holding company
Bank of China (Hong Kong) Limited (ii) (iii)	Hong Kong	16 October 1964	HKD43,043	65.77	100.00	Commercial banking
Nanyang Commercial Bank, Limited (iii)	Hong Kong	2 February 1948	HKD600	65.77	100.00	Commercial banking
Chiyu Banking Corporation Limited (ii), (iii)	Hong Kong	24 April 1947	HKD300	46.36	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	65.77	100.00	Credit card services
BOC Group Trustee Company, Limited (iii)	Hong Kong	1 December 1997	HKD200	76.24	100.00	Provision of trustee services
BOC Aviation Pte. Limited ("BOC Aviation")	Singapore	25 November 1993	USD308	100.00	100.00	Aircraft leasing

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

45.6 Balances with subsidiaries (Continued)

(i) BOCHK Holdings is listed on the Stock Exchange of Hong Kong Limited.

(ii) 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.

(iii) 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.

For the year ended 31 December 2008, the financial statements of all the principal subsidiaries as stated above, except for BOC Aviation Pte. Ltd., were audited by PricewaterhouseCoopers.

For some investees listed above, the voting rights ratio does not equal to the effective equity held ratio, and this is mainly due to the impact of the indirect holdings.

46 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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Segment information (Continued)

As at and for the year ended 31 December 2008

		Hong Kong and Macau					
	Chinese Mainland	BOC Hong Kong Group	Other	Subtotal	Other overseas locations	Elimination	Total
Interest income	246,814	31,095	6,923	38,018	14,175	(12,080)	286,927
Interest expense	(107,402)	(13,033)	(5,556)	(18,589)	(10,080)	12,080	(123,991)
Net interest income	139,412	18,062	1,367	19,429	4,095	–	162,936
Fee and commission income	33,791	6,459	2,407	8,866	1,394	(339)	43,712
Fee and commission expense	(1,000)	(1,699)	(1,082)	(2,781)	(219)	235	(3,765)
Net fee and commission income	32,791	4,760	1,325	6,085	1,175	(104)	39,947
Net trading gains/(losses)	5,549	1,034	(1,073)	(39)	(465)	–	5,045
Net gains/(losses) on investment securities	1,651	(13)	311	298	60	–	2,009
Other operating income*	6,918	5,765	6,304	12,069	151	(179)	18,959
Operating income	186,321	29,608	8,234	37,842	5,016	(283)	228,896
Operating expenses*	(75,683)	(14,603)	(5,420)	(20,023)	(1,935)	229	(97,412)
Impairment losses on assets	(30,357)	(11,184)	(1,461)	(12,645)	(2,029)	–	(45,031)
Operating profit	80,281	3,821	1,353	5,174	1,052	(54)	86,453
Share of results of associates and joint ventures	–	4	829	833	–	(107)	726
Profit before income tax	80,281	3,825	2,182	6,007	1,052	(161)	87,179
Income tax expense	(19,502)	(999)	(373)	(1,372)	(411)	–	(21,285)
Profit for the year	60,779	2,826	1,809	4,635	641	(161)	65,894
Segment assets	5,570,992	1,004,479	238,454	1,242,933	585,365	(454,986)	6,944,304
Investment in associates and joint ventures	–	54	7,322	7,376	–	–	7,376
Total assets	5,570,992	1,004,533	245,776	1,250,309	585,365	(454,986)	6,951,680
Segment liabilities	5,198,840	936,878	207,896	1,144,774	573,004	(454,825)	6,461,793
Other segment items:							
Capital expenditure	10,113	722	10,765	11,487	174	–	21,774
Depreciation and amortisation	6,005	701	992	1,693	118	–	7,816
Credit commitments	1,323,648	223,463	22,033	245,496	94,817	(49.898)	1,614,063

* Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Segment information (Continued)

As at and for the year ended 31 December 2007

		Hong Kong and Macau					
	Chinese Mainland	BOC Hong Kong Group	Other	Subtotal	Other overseas locations	Elimination	Total
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)
Net interest income	130,533	19,055	943	19,998	2,214	–	152,745
Fee and commission income	26,552	8,049	3,983	12,032	1,148	(131)	39,601
Fee and commission expense	(970)	(1,752)	(1,309)	(3,061)	(166)	131	(4,066)
Net fee and commission income	25,582	6,297	2,674	8,971	982	–	35,535
Net trading (losses)/gains	(10,923)	1,473	720	2,193	21	–	(8,709)
Net (losses)/gains on investment securities	(7,145)	(146)	3,966	3,820	62	–	(3,263)
Other operating income*	2,625	9,962	5,640	15,602	512	(72)	18,667
Operating income	140,672	36,641	13,943	50,584	3,791	(72)	194,975
Operating expenses*	(61,369)	(16,708)	(5,550)	(22,258)	(1,723)	72	(85,278)
Impairment losses on assets	(18,895)	(1,323)	50	(1,273)	(95)	–	(20,263)
Operating profit	60,408	18,610	8,443	27,053	1,973	–	89,434
Share of results of associates and joint ventures	–	4	1,259	1,263	–	–	1,263
Profit before income tax	60,408	18,614	9,702	28,316	1,973	–	90,697
Income tax expense	(24,577)	(3,213)	(462)	(3,675)	(409)	–	(28,661)
Profit for the year	35,831	15,401	9,240	24,641	1,564	–	62,036
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
Total assets	4,778,855	987,515	171,198	1,158,713	236,754	(183,105)	5,991,217
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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 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, government authorities and financial institutions including current accounts, deposits, overdrafts, lending, custody, trade related products and other credit facilities, 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 and 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.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Segment information (Continued)

As at and for the year ended 31 December 2008

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	145,345	103,081	93,295	3,064	1,161	588	(59,607)	286,927
Interest expense	(58,595)	(58,400)	(62,101)	(2,677)	(18)	(1,807)	59,607	(123,991)
Net interest income/(expenses)	86,750	44,681	31,194	387	1,143	(1,219)	–	162,936
Fee and commission income	25,846	12,171	3,812	2,154	2	229	(502)	43,712
Fee and commission expense	(1,061)	(1,223)	(382)	(450)	(921)	(130)	402	(3,765)
Net fee and commission income	24,785	10,948	3,430	1,704	(919)	99	(100)	39,947
Net trading gains/(losses)	928	377	5,174	(1,079)	(210)	(145)	–	5,045
Net gains/(losses) on investment securities	–	–	1,677	(5)	(49)	386	–	2,009
Other operating income	293	6,044	347	202	7,666	5,858	(1,451)	18,959
Operating income	112,756	62,050	41,822	1,209	7,631	4,979	(1,551)	228,896
Operating expenses	(37,865)	(36,283)	(11,410)	(905)	(8,952)	(3,494)	1,497	(97,412)
Impairment losses on assets	(14,337)	(2,320)	(24,373)	(18)	(7)	(3,976)	–	(45,031)
Operating profit	60,554	23,447	6,039	286	(1,328)	(2,491)	(54)	86,453
Share of results of associates and joint ventures	–	–	–	443	16	384	(117)	726
Profit before income tax	60,554	23,447	6,039	729	(1,312)	(2,107)	(171)	87,179
Income tax expense								(21,285)
Profit for the year								65,894
Segment assets	2,513,321	880,058	3,482,759	79,910	34,286	119,660	(165,690)	6,944,304
Investment in associates and joint ventures	–	–	–	1,673	283	5,462	(42)	7,376
Total assets	2,513,321	880,058	3,482,759	81,583	34,569	125,122	(165,732)	6,951,680
Capital expenditure	3,285	3,619	174	109	77	14,510	–	21,774

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Segment information (Continued)

As at and for the year ended 31 December 2007

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	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)
Net interest income/(expense)	65,617	43,330	45,059	389	871	(2,521)	–	152,745
Fee and commission income	21,142	13,265	2,242	3,292	2	261	(603)	39,601
Fee and commission expense	(932)	(1,593)	(164)	(1,003)	(646)	(227)	499	(4,066)
Net fee and commission income	20,210	11,672	2,078	2,289	(644)	34	(104)	35,535
Net trading gains/(losses)	568	365	(11,173)	436	966	129	–	(8,709)
Net (losses)/gains on investment securities	–	–	(7,230)	–	–	3,967	–	(3,263)
Other operating income	210	1,410	11	80	9,353	8,979	(1,376)	18,667
Operating income	86,605	56,777	28,745	3,194	10,546	10,588	(1,480)	194,975
Operating expenses	(31,652)	(29,357)	(10,541)	(1,822)	(10,297)	(3,089)	1,480	(85,278)
Impairment losses on assets	(7,333)	(713)	(12,209)	12	(16)	(4)	–	(20,263)
Operating profit	47,620	26,707	5,995	1,384	233	7,495	–	89,434
Share of results of associates and joint ventures	–	–	–	606	–	669	(12)	1,263
Profit before income tax	47,620	26,707	5,995	1,990	233	8,164	(12)	90,697
Income tax expense								(28,661)
Profit for the year								62,036
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
Total assets	2,064,142	811,793	2,983,730	34,792	28,467	119,612	(51,319)	5,991,217
Capital expenditure	2,861	3,152	151	99	169	6,316	–	12,748

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Events after the balance sheet date

After the 2008 year end, the effects of the financial crisis spread more widely to other industries. Global financial markets continue to suffer a shortage of liquidity and the ABX indices, reflecting trends in subprime mortgage debt securities prices, continue to fall. Foreign currency denominated debt security prices are fluctuating to a varying extent. The Group will closely monitor future market developments and assess, as appropriate, the related impact on impairment of its debt securities in accordance with IFRS.

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise 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 Financial Management Department and the Legal and Compliance Department.

Risks in branches are managed through departments monitoring risk at branch level reporting to the Head Office Risk Management Department, Credit Administration Department, Financial Management Department and Legal and Compliance Department 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.

VI FINANCIAL RISK MANAGEMENT (Continued)

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.

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, letters of guarantees, bill acceptance and letters of credit.

3.1 Credit risk measurement

(1) 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.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

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.

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.

In addition to the regulatory classifications above, the Bank has developed an internal customer credit rating system using measurements of possibility of default within one year based on regression analysis and other qualitative factors, and using a model to map possibility of default to internal credit ratings. The Bank implemented this model in July 2007 and performed back testing to actual default rates and refined the model according to back testing results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into ten grades as AAA, AA, A, BBB, BB, B, CCC, CC, C, and D. Credit grade D equates to defaulting customers while the others are assigned to performing customers.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

Internal grades are assigned by Head Office and Tier 1 branch management under approved delegated authorities. The Bank performs centralised review and approval of these internal customer credit rating annually and adjusts grading according to the customer's operational and financial conditions.

For placements with banks and other financial institutions, the Group manages the credit quality based on the external credit rating of the banks. In response to the adverse credit market conditions, various initiatives were taken during 2008 to better manage and report credit risk, including establishing a special committee to meet periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

Credit commitments represent unused portions of authorisations to extend credit in the form of loans, guarantees, bill acceptances or letters of credit. Guarantees and bill acceptances and standby letters of credit carry credit risk similar to loans. Documentary and commercial letters of credit 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 and 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.

(2) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and prepayment rates, as well as changes in the credit of underlying assets.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(2) Debt securities and derivatives (Continued)

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, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, 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.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has 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.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(i) 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 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 also be reviewed by the Risk Management Department.

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.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 *Credit risk limit control and mitigation policies (Continued)*

(1) *Credit risk limits and controls (Continued)*

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

(2) *Credit risk mitigation policies*

(i) 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%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(i) Collateral and guarantees (Continued)

Mortgage loans to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

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 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.43.3.

(ii) 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.

VI 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.

(1) Loans and advances

Management determines 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.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(1) 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 data, experience, professional judgement and statistical techniques.

(2) 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, industry and sector performance, loss coverage ratios and counterparty risk.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 *Maximum exposure to credit risk before collateral held or other credit enhancements*

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	**37,044**	37,256	**47,257**	35,948
Balances with central banks	**1,207,613**	751,344	**1,146,955**	721,433
Placements with banks and other financial institutions	**488,465**	386,648	**471,287**	285,357
Government certificates of indebtedness for bank notes issued	**32,039**	32,478	**1,878**	1,792
Financial assets at fair value through profit or loss	**83,800**	117,073	**45,323**	82,682
Derivative financial assets	**76,124**	45,839	**58,565**	30,971
Loans and advances to customers, net	**3,189,652**	2,754,493	**2,751,482**	2,336,067
Investment securities				
– available for sale	**743,425**	667,744	**589,126**	567,607
– held to maturity	**365,838**	446,647	**268,389**	285,067
– loans and receivables	**439,954**	458,620	**426,488**	424,289
Other assets	**57,292**	61,826	**38,143**	34,871
Subtotal	**6,721,246**	5,759,968	**5,844,893**	4,806,084
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	**532,845**	423,771	**533,343**	424,343
Loan commitments and other credit commitments	**1,081,218**	911,776	**859,296**	698,932
Subtotal	**1,614,063**	1,335,547	**1,392,639**	1,123,275
Total	**8,335,309**	7,095,515	**7,237,532**	5,929,359

VI 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 represent a worst case scenario of credit risk exposure to the Group and the Bank at 31 December 2008 and 2007, 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 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 at 31 December 2008, 38.27% of the Group's total maximum credit exposure is derived from loans and advances to customers (2007: 38.82%); 19.57% represents investments in debt securities (2007: 23.82%).

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances

(1) Concentrations of risk for loans and advances to customers

The gross loans and advances of the Group and the Bank are set out below:

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 31 December 2008		As at 31 December 2007	
	Amount	% of total	Amount	% of total
Chinese Mainland	2,662,804	80.79%	2,315,705	81.24%
Hong Kong, Macau	466,893	14.16%	431,257	15.13%
Other overseas operations	166,449	5.05%	103,599	3.63%
Gross loans and advances to customers	3,296,146	100.00%	2,850,561	100.00%

Bank

	As at 31 December 2008		As at 31 December 2007	
	Amount	% of total	Amount	% of total
Chinese Mainland	2,662,804	93.27%	2,315,705	95.27%
Hong Kong, Macau	35,971	1.26%	21,131	0.87%
Other overseas operations	156,018	5.47%	93,717	3.86%
Gross loans and advances to customers	2,854,793	100.00%	2,430,553	100.00%

Chinese Mainland

	As at 31 December 2008		As at 31 December 2007	
	Amount	% of total	Amount	% of total
Northern China	459,249	17.25%	387,527	16.73%
North eastern China	165,279	6.21%	146,106	6.31%
Eastern China	1,088,512	40.88%	965,810	41.71%
Central and Southern China	669,521	25.14%	587,995	25.39%
Western China	280,243	10.52%	228,267	9.86%
Gross loans and advances to customers	2,662,804	100.00%	2,315,705	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(ii) Analysis of loans and advances to customers by customer type

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Chinese Mainland				
Corporate loans				
– Trade bills	**275,110**	202,015	**275,110**	202,015
– Other	**1,733,461**	1,528,157	**1,733,461**	1,528,157
Personal loans	**654,233**	585,533	**654,233**	585,533
Subtotal	**2,662,804**	2,315,705	**2,662,804**	2,315,705
Hong Kong, Macau				
Corporate loans				
– Trade bills	**31,234**	7,334	**3,018**	2,215
– Other	**288,627**	279,034	**24,809**	13,314
Personal loans	**147,032**	144,889	**8,144**	5,602
Subtotal	**466,893**	431,257	**35,971**	21,131
Other overseas operations				
Corporate loans				
– Trade bills	**44,411**	33,050	**43,769**	32,598
– Other	**119,871**	68,387	**111,568**	60,570
Personal loans	**2,167**	2,162	**681**	549
Subtotal	**166,449**	103,599	**156,018**	93,717
Gross loans and advances to customers	**3,296,146**	2,850,561	**2,854,793**	2,430,553

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group

	As at 31 December 2008		As at 31 December 2007	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	778,219	23.61%	687,925	24.13%
Commerce and services	410,830	12.46%	357,702	12.55%
Transportation and logistics	318,328	9.66%	266,905	9.36%
Production and supply of electronic power, gas and water	310,806	9.43%	229,411	8.05%
Real estate	271,484	8.24%	247,481	8.68%
Mining	103,938	3.15%	70,438	2.47%
Financial services	74,321	2.25%	53,474	1.88%
Public utilities	68,589	2.08%	70,601	2.48%
Water, environment and public utility management	54,448	1.65%	42,754	1.50%
Construction	51,606	1.57%	45,343	1.59%
Other	50,145	1.53%	45,943	1.61%
Subtotal	2,492,714	75.63%	2,117,977	74.30%
Personal loans				
Mortgages	635,000	19.26%	577,655	20.26%
Credit cards	16,495	0.50%	10,677	0.38%
Other	151,937	4.61%	144,252	5.06%
Subtotal	803,432	24.37%	732,584	25.70%
Gross loans and advances to customers	3,296,146	100.00%	2,850,561	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Bank

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**740,553**	**25.94%**	655,529	26.97%
Commerce and services	**342,089**	**11.98%**	295,344	12.15%
Transportation and logistics	**285,817**	**10.01%**	234,311	9.64%
Production and supply of electronic power, gas and water	**297,173**	**10.41%**	215,660	8.87%
Real estate	**178,460**	**6.25%**	159,411	6.56%
Mining	**94,432**	**3.31%**	61,564	2.53%
Financial services	**66,864**	**2.34%**	44,781	1.84%
Public utilities	**67,007**	**2.35%**	70,413	2.90%
Water, environment and public utility management	**54,448**	**1.91%**	42,754	1.76%
Construction	**44,674**	**1.56%**	39,276	1.62%
Other	**20,218**	**0.71%**	19,826	0.82%
Subtotal	**2,191,735**	**76.77%**	1,838,869	75.66%
Personal loans				
Mortgages	**514,973**	**18.04%**	459,523	18.91%
Credit cards	**10,808**	**0.38%**	5,389	0.22%
Other	**137,277**	**4.81%**	126,772	5.21%
Subtotal	**663,058**	**23.23%**	591,684	24.34%
Gross loans and advances to customers	**2,854,793**	**100.00%**	2,430,553	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 *Loans and advances (Continued)*

(1) *Concentrations of risk for loans and advances to customers (Continued)*

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese Mainland

	As at 31 December 2008		As at 31 December 2007	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	706,734	26.54%	629,327	27.18%
Commerce and services	307,219	11.54%	280,465	12.11%
Transportation and logistics	264,005	9.91%	223,355	9.65%
Production and supply of electronic power, gas and water	297,173	11.16%	215,660	9.31%
Real estate	154,416	5.80%	143,613	6.20%
Mining	55,251	2.07%	45,279	1.96%
Financial services	53,150	2.00%	33,897	1.46%
Public utilities	66,278	2.49%	69,477	3.00%
Water, environment and public utility management	54,448	2.04%	42,754	1.85%
Construction	42,278	1.59%	38,560	1.67%
Other	7,619	0.29%	7,785	0.32%
Subtotal	2,008,571	75.43%	1,730,172	74.71%
Personal loans				
Mortgages	507,571	19.06%	454,984	19.65%
Credit cards	10,649	0.40%	5,307	0.23%
Other	136,013	5.11%	125,242	5.41%
Subtotal	654,233	24.57%	585,533	25.29%
Gross loans and advances to customers	2,662,804	100.00%	2,315,705	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group

	As at 31 December 2008		As at 31 December 2007	
	Amount	% of total	Amount	% of total
Unsecured loans	**970,737**	**29.45%**	747,923	26.24%
Guaranteed loans	**789,641**	**23.96%**	708,039	24.84%
Collateralised and other secured loans				
– mortgage loans	**1,117,159**	**33.89%**	1,018,198	35.72%
– pledged loans	**418,609**	**12.70%**	376,401	13.20%
Gross loans and advances to customers	**3,296,146**	**100.00%**	2,850,561	100.00%

Bank

	As at 31 December 2008		As at 31 December 2007	
	Amount	% of total	Amount	% of total
Unsecured loans	**801,174**	**28.06%**	596,181	24.53%
Guaranteed loans	**767,553**	**26.89%**	688,430	28.32%
Collateralised and other secured loans				
– mortgage loans	**946,221**	**33.15%**	858,556	35.33%
– pledged loans	**339,845**	**11.90%**	287,386	11.82%
Gross loans and advances to customers	**2,854,793**	**100.00%**	2,430,553	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type (Continued)

Chinese Mainland

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**706,588**	**26.54%**	542,450	23.42%
Guaranteed loans	**710,702**	**26.69%**	652,635	28.18%
Collateralised and other secured loans				
– mortgage loans	**915,589**	**34.38%**	835,108	36.07%
– pledged loans	**329,925**	**12.39%**	285,512	12.33%
Gross loans and advances to customers	**2,662,804**	**100.00%**	2,315,705	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December					
	Group		Bank		Chinese Mainland	
	2008	2007	**2008**	2007	**2008**	2007
Corporate loans and advances						
– Neither past due nor impaired	**2,403,331**	2,030,746	**2,105,877**	1,754,593	**1,924,453**	1,646,736
– Past due but not impaired	**9,083**	6,776	**8,105**	4,313	**7,212**	3,670
– Impaired	**80,300**	80,455	**77,753**	79,963	**76,906**	79,766
Subtotal	**2,492,714**	2,117,977	**2,191,735**	1,838,869	**2,008,571**	1,730,172
Personal loans						
– Neither past due nor impaired	**770,188**	697,655	**632,452**	560,498	**623,888**	554,611
– Past due but not impaired	**22,665**	25,067	**20,160**	21,514	**19,899**	21,251
– Impaired	**10,579**	9,862	**10,446**	9,672	**10,446**	9,671
Subtotal	**803,432**	732,584	**663,058**	591,684	**654,233**	585,533
Gross loans and advances to customers	**3,296,146**	2,850,561	**2,854,793**	2,430,553	**2,662,804**	2,315,705

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the "Guiding Principles on Classification of Loan Risk Management" issued by the CBRC as set out in Note VI.3.1 (1). The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group

	As at 31 December 2008			As at 31 December 2007		
	Pass	**Special -mention**	**Total**	Pass	Special -mention	Total
Corporate loans and advances	**2,270,206**	**133,125**	**2,403,331**	1,908,460	122,286	2,030,746
Personal loans	**768,694**	**1,494**	**770,188**	695,911	1,744	697,655
Total	**3,038,900**	**134,619**	**3,173,519**	2,604,371	124,030	2,728,401

Bank

	As at 31 December 2008			As at 31 December 2007		
	Pass	**Special -mention**	**Total**	Pass	Special -mention	Total
Corporate loans and advances	**1,981,131**	**124,746**	**2,105,877**	1,634,313	120,280	1,754,593
Personal loans	**631,247**	**1,205**	**632,452**	559,173	1,325	560,498
Total	**2,612,378**	**125,951**	**2,738,329**	2,193,486	121,605	2,315,091

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

Chinese Mainland

	As at 31 December 2008			As at 31 December 2007		
	Pass	Special -mention	Total	Pass	Special -mention	Total
Corporate loans and advances	1,806,418	118,035	1,924,453	1,527,618	119,118	1,646,736
Personal loans	622,863	1,025	623,888	553,437	1,174	554,611
Total	2,429,281	119,060	2,548,341	2,081,055	120,292	2,201,347

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to record losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (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 2008			
	Within 1 month	**1-3 months**	**More than 3 months**	**Total**
Corporate loans and advances	**7,032**	**1,503**	**548**	**9,083**
Personal loans	**15,304**	**7,264**	**97**	**22,665**
Total	**22,336**	**8,767**	**645**	**31,748**

	As at 31 December 2007			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	4,695	1,563	518	6,776
Personal loans	18,063	6,818	186	25,067
Total	22,758	8,381	704	31,843

Bank

	As at 31 December 2008			
	Within 1 month	**1-3 months**	**More than 3 months**	**Total**
Corporate loans and advances	**6,297**	**1,407**	**401**	**8,105**
Personal loans	**13,166**	**6,994**	**–**	**20,160**
Total	**19,463**	**8,401**	**401**	**28,265**

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired (Continued)

	As at 31 December 2007			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	2,754	1,283	276	4,313
Personal loans	15,078	6,434	2	21,514
Total	17,832	7,717	278	25,827

Chinese Mainland

	As at 31 December 2008			
	Within 1 month	**1-3 months**	**More than 3 months**	**Total**
Corporate loans and advances	**5,887**	**925**	**400**	**7,212**
Personal loans	**12,947**	**6,952**	**–**	**19,899**
Total	**18,834**	**7,877**	**400**	**27,111**

	As at 31 December 2007			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	2,121	1,274	275	3,670
Personal loans	14,858	6,393	–	21,251
Total	16,979	7,667	275	24,921

Collateral held against loans and advances to customers which have been overdue for more than 3 months mainly includes cash deposits and mortgages over properties.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans

(a) Impaired loans by geographical area

Group

	As at 31 December 2008			As at 31 December 2007		
	Impaired loans	**% of total**	**Impaired loan ratio**	Impaired loans	% of total	Impaired loan ratio
Chinese Mainland	**87,352**	**96.12%**	**3.28%**	89,437	99.03%	3.86%
Hong Kong and Macau	**2,813**	**3.09%**	**0.60%**	695	0.77%	0.16%
Other overseas operations	**714**	**0.79%**	**0.43%**	185	0.20%	0.18%
Total	**90,879**	**100.00%**	**2.76%**	90,317	100.00%	3.17%

Bank

	As at 31 December 2008			As at 31 December 2007		
	Impaired loans	**% of total**	**Impaired loan ratio**	Impaired loans	% of total	Impaired loan ratio
Chinese Mainland	**87,352**	**99.04%**	**3.28%**	89,437	99.78%	3.86%
Hong Kong and Macau	**156**	**0.18%**	**0.43%**	75	0.08%	0.35%
Other overseas operations	**691**	**0.78%**	**0.44%**	123	0.14%	0.13%
Total	**88,199**	**100.00%**	**3.09%**	89,635	100.00%	3.69%

Chinese Mainland

	As at 31 December 2008			As at 31 December 2007		
	Impaired loans	**% of total**	**Impaired loan ratio**	Impaired loans	% of total	Impaired loan ratio
Northern China	**19,395**	**22.20%**	**4.22%**	20,820	23.28%	5.37%
Northeastern China	**9,867**	**11.30%**	**5.97%**	10,592	11.84%	7.25%
Eastern China	**22,413**	**25.66%**	**2.06%**	20,132	22.51%	2.08%
Central and Southern China	**20,574**	**23.55%**	**3.07%**	24,663	27.58%	4.19%
Western China	**15,103**	**17.29%**	**5.39%**	13,230	14.79%	5.80%
Total	**87,352**	**100.00%**	**3.28%**	89,437	100.00%	3.86%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans (Continued)

(b) Impaired loans by customer type

Group

	As at 31 December 2008			As at 31 December 2007		
	Impaired loans	**% of total**	**Impaired loan ratio**	Impaired loans	% of total	Impaired loan ratio
Corporate loans and advances	**80,300**	**88.36%**	**3.22%**	80,455	89.08%	3.80%
Personal loans	**10,579**	**11.64%**	**1.32%**	9,862	10.92%	1.35%
Total	**90,879**	**100.00%**	**2.76%**	90,317	100.00%	3.17%

Bank

	As at 31 December 2008			As at 31 December 2007		
	Impaired loans	**% of total**	**Impaired loan ratio**	Impaired loans	% of total	Impaired loan ratio
Corporate loans and advances	**77,753**	**88.16%**	**3.55%**	79,963	89.21%	4.35%
Personal loans	**10,446**	**11.84%**	**1.58%**	9,672	10.79%	1.63%
Total	**88,199**	**100.00%**	**3.09%**	89,635	100.00%	3.69%

Chinese Mainland

	As at 31 December 2008			As at 31 December 2007		
	Impaired loans	**% of total**	**Impaired loan ratio**	Impaired loans	% of total	Impaired loan ratio
Corporate loans and advances	**76,906**	**88.04%**	**3.83%**	79,766	89.19%	4.61%
Personal loans	**10,446**	**11.96%**	**1.60%**	9,671	10.81%	1.65%
Total	**87,352**	**100.00%**	**3.28%**	89,437	100.00%	3.86%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans (Continued)

(c) Impaired loans by geography and industry

	As at 31 December 2008			As at 31 December 2007		
	Impaired loans	% of total	Impaired loan ratio	Impaired loans	% of total	Impaired loan ratio
Chinese Mainland						
Corporate loans and advances						
Manufacturing	33,614	36.99%	4.76%	32,873	36.40%	5.22%
Commerce and services	17,443	19.19%	5.68%	18,912	20.94%	6.74%
Transportation and logistics	9,522	10.48%	3.61%	8,922	9.88%	3.99%
Production and supply of electronic power, gas and water	4,804	5.29%	1.62%	3,972	4.40%	1.84%
Real estate	5,870	6.46%	3.80%	6,992	7.74%	4.87%
Mining	423	0.46%	0.77%	731	0.81%	1.61%
Financial services	66	0.07%	0.12%	255	0.28%	0.75%
Public utilities	2,152	2.37%	3.25%	2,875	3.18%	4.14%
Water, environment and public utility management	1,298	1.43%	2.38%	1,672	1.85%	3.91%
Construction	1,026	1.13%	2.43%	1,651	1.83%	4.28%
Other	688	0.75%	9.03%	911	1.01%	11.70%
Subtotal	76,906	84.62%	3.83%	79,766	88.32%	4.61%
Personal loans						
Mortgage loans	5,031	5.54%	0.99%	4,066	4.50%	0.89%
Credit cards	445	0.49%	4.18%	279	0.31%	5.26%
Other	4,970	5.47%	3.65%	5,326	5.90%	4.25%
Subtotal	10,446	11.50%	1.60%	9,671	10.71%	1.65%
Total for Chinese Mainland	87,352	96.12%	3.28%	89,437	99.03%	3.86%
Overseas operations	3,527	3.88%	0.56%	880	0.97%	0.16%
Total	90,879	100.00%	2.76%	90,317	100.00%	3.17%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans (Continued)

(d) Impaired loans and related allowance by geographical area

	As at 31 December 2008			As at 31 December 2007		
	Impaired loans	**Individually assessed allowance**	**Collectively assessed allowance**	Impaired loans	Individually assessed allowance	Collectively assessed allowance
Chinese Mainland	**87,352**	**49,087**	**12,062**	89,437	51,349	12,241
Hong Kong and Macau	**2,813**	**1,637**	**53**	695	393	60
Other overseas operations	**714**	**422**	**41**	185	95	33
Total	**90,879**	**51,146**	**12,156**	90,317	51,837	12,334

For description of allowances on identified impaired loans, refer to Note V 17.3 (2).

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 *Loans and advances (Continued)*

(3) 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 rescheduled loans that would otherwise be past due or impaired are nil at 31 December 2008 (2007: nil).

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			
	2008		2007	
	Amount	**% of total loans and advances to customers**	Amount	% of total loans and advances to customers
Loans and advances to customers (overdue for 90 days or less)	**151**	**0.00%**	1,843	0.06%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled (Continued)

Bank

	As at 31 December			
	2008		2007	
	Amount	**% of total loans and advances to customers**	Amount	% of total loans and advances to customers
Loans and advances to customers (overdue for 90 days or less)	**144**	**0.01%**	1,670	0.07%

Chinese Mainland

	As at 31 December			
	2008		2007	
	Amount	**% of total loans and advances to customers**	Amount	% of total loans and advances to customers
Loans and advances to customers (overdue for 90 days or less)	**144**	**0.01%**	1,670	0.07%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 *Loans and advances (Continued)*

(4) Overdue loans and advances to customers

(i) Analysis of overdue loans and advances to customers by collateral type

Group

	As at 31 December 2008				
	Past due up to 90 days (inclusive)	**Past due 91-360 days (inclusive)**	**Past due 361 days-3 years (inclusive)**	**Past due over 3 years**	**Total**
Unsecured loans	**5,034**	**1,256**	**1,346**	**2,815**	**10,451**
Guaranteed loans	**9,345**	**6,209**	**12,405**	**11,144**	**39,103**
Collateralised and other secured loans					
– mortgage loans	**22,696**	**4,773**	**7,594**	**7,496**	**42,559**
– pledged loans	**1,642**	**555**	**1,778**	**1,842**	**5,817**
Total	**38,717**	**12,793**	**23,123**	**23,297**	**97,930**

	As at 31 December 2007				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	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					
– mortgage loans	24,700	5,948	10,823	4,684	46,155
– pledged loans	1,944	1,031	2,615	883	6,473
Total	33,407	14,286	34,389	14,519	96,601

Bank

	As at 31 December 2008				
	Past due up to 90 days (inclusive)	**Past due 91-360 days (inclusive)**	**Past due 361 days-3 years (inclusive)**	**Past due over 3 years**	**Total**
Unsecured loans	**4,406**	**1,066**	**1,106**	**2,798**	**9,376**
Guaranteed loans	**9,336**	**5,925**	**12,050**	**10,860**	**38,171**
Collateralised and other secured loans					
– mortgage loans	**20,404**	**4,549**	**7,372**	**7,447**	**39,772**
– pledged loans	**908**	**508**	**1,742**	**1,652**	**4,810**
Total	**35,054**	**12,048**	**22,270**	**22,757**	**92,129**

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(i) Analysis of overdue loans and advances to customers by collateral type (Continued)

	As at 31 December 2007				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	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 secured loans					
– mortgage loans	21,652	5,744	10,762	4,644	42,802
– pledged loans	392	968	2,579	627	4,566
Total	27,701	13,917	34,245	14,161	90,024

Chinese Mainland

	As at 31 December 2008				
	Past due up to 90 days (inclusive)	**Past due 91-360 days (inclusive)**	**Past due 361 days-3 years (inclusive)**	**Past due over 3 years**	**Total**
Unsecured loans	**4,373**	**722**	**1,105**	**2,764**	**8,964**
Guaranteed loans	**8,938**	**5,885**	**12,037**	**10,856**	**37,716**
Collateralised and other secured loans					
– mortgage loans	**19,728**	**4,543**	**7,369**	**7,434**	**39,074**
– pledged loans	**815**	**508**	**1,742**	**1,652**	**4,717**
Total	**33,854**	**11,658**	**22,253**	**22,706**	**90,471**

	As at 31 December 2007				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	1,753	979	1,213	2,882	6,827
Guaranteed loans	3,610	6,213	19,628	5,973	35,424
Collateralised and other secured loans					
– mortgage loans	21,056	5,731	10,759	4,618	42,164
– pledged loans	369	968	2,577	627	4,541
Total	26,788	13,891	34,177	14,100	88,956

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical sector

	As at 31 December	
	2008	2007
Chinese Mainland	**90,471**	88,956
Hong Kong and Macau	**6,880**	7,409
Other overseas locations	**579**	236
Total	**97,930**	96,601
Less: gross loans and advances to customers which have been overdue for less than 3 months	**(38,717)**	(33,407)
Gross loans and advances to customers which have been overdue for more than 3 months	**59,213**	63,194
Individually assessed impairment allowance – for loans and advances to customers which have been overdue for more than 3 months	**(35,566)**	(38,119)

3.6 Due from banks and other financial institutions

Due from banks and other financial institutions includes balances due from and placement with banks and other financial institutions.

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Individually assessed and impaired				
Gross amount	**399**	390	**399**	390
Allowances for impairment	**(399)**	(390)	**(399)**	(390)
Subtotal	**–**	–	**–**	–
Neither overdue nor impaired				
– A to AAA	**350,685**	354,175	**350,251**	257,589
– B to BBB	**45,932**	14,056	**43,841**	12,273
– Unrated[(1)]	**128,892**	55,673	**124,452**	51,443
Subtotal	**525,509**	423,904	**518,544**	321,305
Total	**525,509**	423,904	**518,544**	321,305

(1) Unrated balances with Chinese financial institutions amounted to RMB106,127 million and RMB103,268 million for the Group and the Bank respectively, as at 31 December 2008 (2007: RMB36,527 million and RMB33,969 million respectively).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 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 2008							
					Unrated[(1)]			
	AAA	AA	A	Lower than A	PRC government and government bodies	Other governments and government agencies	Other	Total
Investment debt securities								
US subprime mortgage related debt securities	6,874	4,670	1,880	4,209	–	69	–	17,702
US Alt-A mortgage-backed securities	3,714	728	764	2,639	–	–	–	7,845
US Non-Agency mortgage-backed securities	14,557	2,441	3,350	3,652	–	–	–	24,000
US Freddie Mac and Fannie Mae								
– issued debt securities	33,944	141	–	–	–	147	–	34,232
– mortgage-backed securities	529	–	–	–	–	24,831	–	25,360
Other debt securities	95,357	100,090	47,287	5,503	981,670	119,372	90,799	1,440,078
Subtotal	154,975	108,070	53,281	16,003	981,670	144,419	90,799	1,549,217
Financial assets at fair value through profit or loss								
US Freddie Mac and Fannie Mae								
– issued debt securities	251	–	–	–	–	–	–	251
Other debt securities	2,931	16,824	18,570	2,391	22,721	15,418	3,272	82,127
Subtotal	3,182	16,824	18,570	2,391	22,721	15,418	3,272	82,378
Total	158,157	124,894	71,851	18,394	1,004,391	159,837	94,071	1,631,595

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Group

	As at 31 December 2007							
					Unrated[(1)]			
	AAA	AA	A	Lower than A	PRC government and government bodies	Other governments and government agencies	Other	Total
Investment debt securities								
US subprime mortgage related debt securities	25,968	9,453	400	557	–	76	–	36,454
US Alt-A mortgage-backed securities	17,718	–	–	–	–	–	322	18,040
US Non-Agency mortgage-backed securities	45,096	21	–	–	–	–	–	45,117
US Freddie Mac and Fannie Mae								
– issued debt securities	105,699	152	87	–	–	17	–	105,955
– mortgage-backed securities	2,497	293	–	–	–	50,084	–	52,874
Other debt securities	104,503	121,188	59,359	6,399	895,592	30,460	97,070	1,314,571
Subtotal	301,481	131,107	59,846	6,956	895,592	80,637	97,392	1,573,011
Financial assets at fair value through profit or loss								
US Freddie Mac and Fannie Mae								
– issued debt securities	625	–	–	–	–	–	–	625
Other debt securities	7,442	20,125	19,019	3,883	54,952	4,909	6,118	116,448
Subtotal	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

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2008							
					Unrated[1]			
	AAA	AA	A	Lower than A	PRC government and government bodies	Other governments and government agencies	Other	Total
Investment debt securities								
US subprime mortgage related debt securities	6,071	4,670	1,853	4,118	–	69	–	16,781
US Alt-A mortgage-backed securities	2,621	392	524	2,261	–	–	–	5,798
US Non-Agency mortgage-backed securities	6,183	1,075	826	1,945	–	–	–	10,029
US Freddie Mac and Fannie Mae								
– issued debt securities	31,883	–	–	–	–	147	–	32,030
– mortgage-backed securities	529	–	–	–	–	23,317	–	23,846
Other debt securities	53,107	23,994	21,495	968	981,670	57,087	57,198	1,195,519
Subtotal	100,394	30,131	24,698	9,292	981,670	80,620	57,198	1,284,003
Financial assets at fair value through profit or loss								
US Freddie Mac and Fannie Mae								
– issued debt securities	–	–	–	–	–	–	–	–
Other debt securities	824	3,295	9,092	605	22,502	5,402	2,181	43,901
Subtotal	824	3,295	9,092	605	22,502	5,402	2,181	43,901
Total	101,218	33,426	33,790	9,897	1,004,172	86,022	59,379	1,327,904

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2007							
					Unrated(1)			
	AAA	AA	A	Lower than A	PRC government and government bodies	Other governments and government agencies	Other	Total
Investment debt securities								
US subprime mortgage related debt securities	22,119	9,453	400	557	–	76	–	32,605
US Alt-A mortgage-backed securities	11,590	–	–	–	–	–	322	11,912
US Non-Agency mortgage-backed securities	18,036	21	–	–	–	–	–	18,057
US Freddie Mac and Fannie Mae								
– issued debt securities	99,227	–	87	–	–	17	–	99,331
– mortgage-backed securities	829	220	–	–	–	50,084	–	51,133
Other debt securities	60,391	26,881	29,829	2,047	895,592	23,608	25,577	1,063,925
Subtotal	212,192	36,575	30,316	2,604	895,592	73,785	25,899	1,276,963
Financial assets at fair value through profit or loss								
US Freddie Mac and Fannie Mae								
– issued debt securities	376	–	–	–	–	–	–	376
Other debt securities	4,777	8,158	10,592	721	54,952	1,535	1,571	82,306
Subtotal	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

(1) 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").

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

The Group's available for sale and held to maturity debt securities held are individually assessed for impairment. The Group's accumulated impairment allowance on available for sale and held to maturity debt securities held at 31 December 2008 amounted to RMB28,288 million and RMB4,327 million, respectively (2007: RMB10,451 million and RMB1,612 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 31 December 2008 were RMB32,720 million and RMB7,524 million, respectively (2007: RMB20,634 million and RMB3,738 million).

3.8 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V 24 (4).

3.9 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 VI.3.4.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.9 Derivatives (Continued)

	As at 31 December			
	Group		Bank	
	2008	2007	**2008**	2007
Exchange rate contracts				
Currency forwards and swaps, and cross-currency interest rate swaps	**11,245**	8,925	**9,392**	7,165
Currency options	**61**	228	**57**	210
Interest rate contracts				
Interest rate swaps	**8,447**	3,741	**7,864**	3,611
Interest rate options	**35**	9	**15**	6
Interest rate futures	**10**	10	**–**	2
Equity derivatives	**102**	46	**–**	–
Precious metals and other commodity derivatives	**665**	1,060	**658**	1,001
Credit derivatives	**44**	22	**6**	20
	20,609	14,041	**17,992**	12,015

The credit risk weighted amounts stated above have not taken into account any effects of netting arrangements.

VI FINANCIAL RISK MANAGEMENT (Continued)

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 Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are 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).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives. The Risk Management Department is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business units.

4.2 Market risk measurement techniques and limits

(1) Trading book

Market risk in trading books is managed by establishing Value at Risk (VaR) limits. Total exposures and utilisation of VaR are monitored on a daily basis for each trading desk and dealer. Stress testing is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. In response to the financial market fluctuation, the Group continues to adjust and enhance the scenarios for stress testing, capturing the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market Risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR 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 VaR methodology has been enhanced to be consistent across the Group. Since 1 April 2008, the Bank has used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and historical simulation approach to calculate the VaR estimate, prior to this a 95% level of confidence and Monte Carlo Simulation approach were used. Consistent with year 2007, BOCHK and BOCI use a 99% level of confidence and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day.

Accuracy and reliability of the VaR model is verified by daily back-testing the VaR result on trading books. The back-testing results are regularly reported to senior management.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market Risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The chart below shows the VaR of the trading book by types of risk during 2008 and 2007:

Unit: USD million

	2008(i)			2007(ii)		
	Average	**High**	**Low**	Average	High	Low
Bank trading VaR						
Interest rate risk	**5.58**	**15.07**	**0.94**	5.12	11.30	1.26
Foreign exchange risk	**1.25**	**7.23**	**0.13**	2.13	8.24	0.18
Volatility risk	**1.83**	**8.18**	**0.07**	0.55	1.48	0.08
Total Bank trading VaR	**6.77**	**19.30**	**1.13**	5.79	10.51	1.29

(i) The Bank's VaR for the year ended 31 December 2008 was calculated on head office and domestic branch foreign currency and RMB trading positions, excluding customer driven foreign currency transactions against RMB.

(ii) The Bank's VaR for the year ended 31 December 2007 was calculated on head office and domestic branch foreign currency trading positions only.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market Risk (Continued)

4.2 *Market risk measurement techniques and limits (Continued)*

(1) Trading book (Continued)

Unit: USD million

	2008			2007		
	Average	**High**	**Low**	Average	High	Low
BOCHK trading VaR						
Interest rate risk	**0.38**	**0.76**	**0.12**	0.21	0.50	0.06
Foreign exchange risk	**0.78**	**1.87**	**0.33**	0.51	1.20	0.13
Equity risk	**0.04**	**0.32**	**–**	0.05	0.14	0.01
Commodity risk	**0.00**	**0.06**	**–**	0.01	0.05	–
Total BOCHK trading VaR	**0.84**	**1.74**	**0.39**	**0.53**	**1.33**	**0.18**
BOCI trading VaR*						
Equity derivatives unit	**2.40**	**5.51**	**1.48**	1.64	2.91	0.71
Fixed income unit	**3.15**	**4.23**	**2.44**	1.90	3.67	0.91

* BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which includes the interest rate risk, foreign exchange risk and price risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level 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.

VI 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, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities.

The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's 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 and 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 and extent 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 repricing gap analysis. Interest rate repricing 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 VI.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 assumes that yield curve change in parallel while the structure of assets and liabilities remains unchanged, and 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 move 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 Risk Management Department on a monthly basis.

(Amount in millions of Renminbi, unless otherwise stated)

VI 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 25 basis point interest rate move on the net interest income of the Group:

	Increase/(decrease) in net interest income	
	2008	2007
+ 25 basis points parallel move in all yield curves	**(1,695)**	(2,177)
- 25 basis points parallel move in all yield curves	**1,695**	2,177

VI 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 2008						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	36,567	–	–	–	–	35,966	72,533
Balances with central banks	1,046,056	40,160	80,171	–	–	41,226	1,207,613
Placements with banks and other financial institutions	242,970	162,620	82,499	376	–	–	488,465
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	32,039	32,039
Precious metals	–	–	–	–	–	42,479	42,479
Financial assets at fair value through profit or loss	6,909	11,335	11,708	25,178	28,469	4,215	87,814
Derivative financial assets	–	–	–	–	–	76,124	76,124
Loans and advances to customers, net	843,445	507,398	1,789,527	24,172	10,421	14,689	3,189,652
Investment securities							
– available for sale	70,177	86,823	190,587	294,676	101,162	9,177	752,602
– held to maturity	65,617	45,578	88,635	127,289	38,719	–	365,838
– loans and receivables	11,194	33,302	95,153	257,705	42,600	–	439,954
Investment in associates and joint ventures	–	–	–	–	–	7,376	7,376
Property and equipment	–	–	–	–	–	92,236	92,236
Investment property	–	–	–	–	–	9,637	9,637
Deferred income tax assets	–	–	–	–	–	17,405	17,405
Other assets	231	–	–	–	–	69,682	69,913
Total assets	2,323,166	887,216	2,338,280	729,396	221,371	452,251	6,951,680

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP Analysis (Continued)

Group

	As at 31 December 2008						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	545,139	–	–	–	–	58,254	603,393
Due to central banks	17,336	3,555	34,634	–	–	71	55,596
Bank notes in circulation	–	–	–	–	–	32,064	32,064
Certificates of deposit and placements from banks and other financial institutions	81,429	48,978	64,950	1,776	–	3,221	200,354
Financial liabilities at fair value through profit or loss	33,087	21,342	9,785	11	289	3,035	67,549
Derivative financial liabilities	–	–	–	–	–	59,482	59,482
Due to customers	2,981,811	576,844	1,198,586	287,136	8,188	49,546	5,102,111
Bonds issued	405	9,130	28,142	18,565	9,151	–	65,393
Other borrowings	2,921	6,360	12,774	9,424	8,798	2,561	42,838
Current tax liabilities	–	–	–	–	–	24,827	24,827
Retirement benefit obligations	–	–	–	–	–	7,363	7,363
Deferred income tax liabilities	–	–	–	–	–	2,093	2,093
Other liabilities	–	–	–	–	–	198,730	198,730
Total liabilities	3,662,128	666,209	1,348,871	316,912	26,426	441,247	6,461,793
Total interest repricing gap	(1,338,962)	221,007	989,409	412,484	194,945	11,004	489,887

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP Analysis (Continued)

Group

	As at 31 December 2007						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	36,281	–	–	–	–	34,940	71,221
Balances with central banks	618,952	25,431	80,171	–	–	26,790	751,344
Placements with banks and other financial institutions	277,395	79,593	29,660	–	–	–	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	12,425	25,096	29,116	25,015	25,422	7,591	124,665
Derivative financial assets	–	–	–	–	–	45,839	45,839
Loans and advances to 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 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
Total assets	1,893,174	755,012	1,865,670	705,906	365,828	405,627	5,991,217

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP Analysis (Continued)

Group

	As at 31 December 2007						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
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 liabilities	–	–	–	–	–	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
Total liabilities	3,291,497	551,427	1,032,728	264,830	21,447	378,631	5,540,560
Total interest repricing gap	(1,398,323)	203,585	832,942	441,076	344,381	26,996	450,657

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP Analysis (Continued)

Bank

	As at 31 December 2008						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	47,240	–	–	–	–	31,366	78,606
Balances with central banks	998,944	40,160	80,171	–	–	27,680	1,146,955
Placements with banks and other financial institutions	227,875	166,118	76,346	948	–	–	471,287
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	1,878	1,878
Precious metals	–	–	–	–	–	41,290	41,290
Financial assets at fair value through profit or loss	1,928	4,406	9,271	16,769	12,748	201	45,323
Derivative financial assets	–	–	–	–	–	58,565	58,565
Loans and advances to customers, net	502,484	437,788	1,769,745	22,870	9,113	9,482	2,751,482
Investment securities							
– available for sale	41,812	60,617	153,153	252,678	80,866	1,070	590,196
– held to maturity	42,399	10,958	75,745	112,193	27,094	–	268,389
– loans and receivables	8,027	30,601	87,555	257,705	42,600	–	426,488
Investment in subsidiaries	–	–	–	–	–	69,595	69,595
Investment in associates and joint ventures	–	–	–	–	–	18	18
Property and equipment	–	–	–	–	–	55,001	55,001
Investment property	–	–	–	–	–	1,239	1,239
Deferred income tax assets	–	–	–	–	–	17,763	17,763
Other assets	231	–	–	–	–	45,502	45,733
Total assets	1,870,940	750,648	2,251,986	663,163	172,421	360,650	6,069,808

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP Analysis (Continued)

Bank

	As at 31 December 2008						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	527,798	–	–	–	–	43,437	571,235
Due to central banks	17,336	3,555	34,630	–	–	69	55,590
Bank notes in circulation	–	–	–	–	–	1,903	1,903
Certificates of deposit and placements from banks and other financial institutions	126,025	73,434	78,029	1,776	–	–	279,264
Financial liabilities at fair value through profit or loss	27,118	9,542	8,190	4	289	144	45,287
Derivative financial liabilities	–	–	–	–	–	41,512	41,512
Due to customers	2,399,586	479,603	1,167,103	286,650	8,188	13,513	4,354,643
Bonds issued	–	9,000	28,070	19,931	9,151	–	66,152
Other borrowings	821	617	7,838	9,424	8,798	2,751	30,249
Current tax liabilities	–	–	–	–	–	23,928	23,928
Retirement benefit obligations	–	–	–	–	–	7,363	7,363
Deferred income tax liabilities	–	–	–	–	–	54	54
Other liabilities	–	–	–	–	–	140,630	140,630
Total liabilities	3,098,684	575,751	1,323,860	317,785	26,426	275,304	5,617,810
Total interest repricing gap	(1,227,744)	174,897	928,126	345,378	145,995	85,346	451,998

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP Analysis (Continued)

Bank

	As at 31 December 2007						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	35,915	–	–	–	–	30,433	66,348
Balances with central banks	589,967	25,431	80,171	–	–	25,864	721,433
Placements with banks and other financial institutions	203,199	52,467	22,237	7,454	–	–	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	8,433	22,224	26,257	18,246	7,522	–	82,682
Derivative financial assets	–	–	–	–	–	30,971	30,971
Loans and advances to 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 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
Total assets	1,425,290	588,622	1,797,052	628,348	270,484	296,119	5,005,915

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP Analysis (Continued)

Bank

	As at 31 December 2007						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other 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 placements from banks and other financial institutions	181,745	40,181	28,680	1,284	–	–	251,890
Financial liabilities at fair value through profit or loss	48,145	11,870	10,436	1,519	785	–	72,755
Derivative financial liabilities	–	–	–	–	–	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
Total liabilities	2,665,899	453,785	995,796	259,483	20,839	223,633	4,619,435
Total interest repricing gap	(1,240,609)	134,837	801,256	368,865	249,645	72,486	386,480

VI 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 (Group) Limited, 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 6.88% against the USD during the year ended 31 December 2008 (2007: 6.90%). The PRC Government may make further adjustments to the exchange rate system in the future.

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 entered into certain foreign exchange derivative transactions as part of asset and liability management and funding requirements (see Note V.16). The Bank entered into foreign exchange spot transactions to reduce its net foreign currency position by USD3,053 million in 2008 (2007: USD17,300 million).

The Group conducts sensitivity analysis to the net 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.

(Amount in millions of Renminbi, unless otherwise stated)

VI 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 2008 and 31 December 2007. The Group exposure to RMB is provided in the tables below for comparison purposes. 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 2008							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	29,289	31,159	4,454	2,999	2,056	409	2,167	72,533
Balances with central banks	904,590	221,930	14,254	59,001	3,839	–	3,999	1,207,613
Placements with banks and other financial institutions	157,849	193,622	62,686	30,885	946	15,501	26,976	488,465
Government certificates of indebtedness for bank notes issued	–	–	30,161	–	–	–	1,878	32,039
Precious metals	–	–	1,188	–	–	–	41,291	42,479
Financial assets at fair value through profit or loss	25,413	26,238	32,576	722	–	–	2,865	87,814
Derivative financial assets	38,290	19,066	16,471	889	97	423	888	76,124
Loans and advances to customers, net	2,264,695	461,158	354,765	50,330	28,898	4,963	24,843	3,189,652
Investment securities								
– available for sale	404,853	206,380	40,468	40,297	42,125	1,580	16,899	752,602
– held to maturity	210,457	95,214	36,680	11,398	1,604	680	9,805	365,838
– loans and receivables	390,202	25,548	7,970	1,061	–	97	15,076	439,954
Investment in associates and joint ventures	2,485	951	3,915	–	–	–	25	7,376
Property and equipment	53,050	23,808	12,389	186	1,213	345	1,245	92,236
Investment property	1,263	–	7,135	–	–	–	1,239	9,637
Deferred income tax assets	16,815	232	232	–	–	59	67	17,405
Other assets	36,156	15,805	12,670	2,360	519	572	1,831	69,913
Total assets	4,535,407	1,321,111	638,014	200,128	81,297	24,629	151,094	6,951,680

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2008							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	241,243	296,521	8,054	5,948	7,568	796	43,263	603,393
Due to central banks	–	50,243	5,321	–	–	–	32	55,596
Bank notes in circulation	–	–	30,161	–	–	–	1,903	32,064
Certificates of deposit and placements from banks and other financial institutions	97,440	87,630	1,336	10,086	2,404	249	1,209	200,354
Financial liabilities at fair value through profit or loss	24,226	14,933	20,468	3,555	–	266	4,101	67,549
Derivative financial liabilities	1,362	39,165	17,181	1,056	34	233	451	59,482
Due to customers	3,960,531	409,106	517,786	66,464	16,570	24,058	107,596	5,102,111
Bonds issued	64,324	281	745	–	–	–	43	65,393
Other borrowings	–	27,651	–	10,362	3,020	185	1,620	42,838
Current tax liabilities	23,257	295	622	142	23	49	439	24,827
Retirement benefit obligations	7,363	–	–	–	–	–	–	7,363
Deferred income tax liabilities	240	620	1,186	–	13	–	34	2,093
Other liabilities	110,744	37,480	37,335	2,440	7,908	913	1,910	198,730
Total liabilities	4,530,730	963,925	640,195	100,053	37,540	26,749	162,601	6,461,793
Net on-balance sheet position	4,677	357,186	(2,181)	100,075	43,757	(2,120)	(11,507)	489,887
Net off-balance sheet position	422,058	(336,970)	69,435	(93,283)	(40,870)	2,992	14,830	38,192
Credit commitments	796,585	535,680	178,771	71,184	13,215	3,380	15,248	1,614,063

(Amount in millions of Renminbi, unless otherwise stated)

VI 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	Other	Total
Assets								
Cash and due from banks and other financial institutions	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 assets	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
Total assets	3,760,605	1,205,700	722,580	106,360	38,450	16,493	141,029	5,991,217

VI 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	Other	Total
Liabilities								
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 liabilities	–	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
Total liabilities	3,906,822	642,568	711,108	71,418	37,530	26,823	144,291	5,540,560
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

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2008							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	28,579	30,820	12,372	2,895	1,881	327	1,732	78,606
Balances with central banks	859,219	221,165	1,748	59,001	3,839	–	1,983	1,146,955
Placements with banks and other financial institutions	162,173	232,669	5,199	38,432	1,019	11,164	20,631	471,287
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	1,878	1,878
Precious metals	–	–	–	–	–	–	41,290	41,290
Financial assets at fair value through profit or loss	24,417	18,203	–	406	–	–	2,297	45,323
Derivative financial assets	38,290	18,219	–	798	96	1,005	157	58,565
Loans and advances to customers, net	2,249,845	372,072	38,095	46,022	27,137	2,661	15,650	2,751,482
Investment securities								
– available for sale	405,029	142,037	11,581	19,199	6,049	18	6,283	590,196
– held to maturity	209,572	49,019	3,005	6,010	–	–	783	268,389
– loans and receivables	390,202	23,568	–	965	–	–	11,753	426,488
Investment in subsidiaries	317	10,014	55,716	584	–	2,126	838	69,595
Investment in associates and joint ventures	–	–	–	–	–	–	18	18
Property and equipment	52,301	171	–	176	1,213	319	821	55,001
Investment property	–	–	–	–	–	–	1,239	1,239
Deferred income tax assets	17,482	232	–	–	–	–	49	17,763
Other assets	31,768	10,560	653	1,304	311	271	866	45,733
Total assets	4,469,194	1,128,749	128,369	175,792	41,545	17,891	108,268	6,069,808

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2008							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	215,695	292,552	4,740	6,433	7,676	859	43,280	571,235
Due to central banks	–	50,240	5,321	–	–	–	29	55,590
Bank notes in circulation	–	–	–	–	–	–	1,903	1,903
Certificates of deposit and placements from banks and other financial institutions	97,928	147,163	13,369	14,201	2,379	1,694	2,530	279,264
Financial liabilities at fair value through profit or loss	24,225	12,232	1,089	3,555	–	266	3,920	45,287
Derivative financial liabilities	1,362	38,211	198	758	33	863	87	41,512
Due to customers	3,932,589	229,176	60,913	52,214	14,645	10,320	54,786	4,354,643
Bonds issued	66,001	151	–	–	–	–	–	66,152
Other borrowings	–	15,062	–	10,362	3,020	185	1,620	30,249
Current tax liabilities	23,095	293	–	129	23	24	364	23,928
Retirement benefit obligations	7,363	–	–	–	–	–	–	7,363
Deferred income tax liabilities	–	35	–	–	13	–	6	54
Other liabilities	109,762	24,097	1,841	2,114	833	515	1,468	140,630
Total Liabilities	4,478,020	809,212	87,471	89,766	28,622	14,726	109,993	5,617,810
Net on-balance sheet position	(8,826)	319,537	40,898	86,026	12,923	3,165	(1,725)	451,998
Net off-balance sheet position	423,194	(309,790)	11,068	(79,020)	(10,165)	(1,700)	2,903	36,490
Credit commitments	789,721	487,875	21,716	67,998	12,724	1,944	10,661	1,392,639

(Amount in millions of Renminbi, unless otherwise stated)

VI 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	Other	Total
Assets								
Cash and due from banks and other financial institutions	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 assets	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
Total assets	3,708,350	917,308	139,918	91,560	38,341	13,256	97,182	5,005,915

VI 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	Other	Total
Liabilities								
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 liabilities	–	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
Total liabilities	3,856,397	458,047	96,608	64,048	35,062	14,088	95,185	4,619,435
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

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.5 Price risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2008, a 5 per cent variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB153 million (2007: RMB480 million). For those available for sale equities considered impaired, the impact would be taken to the income statement.

VI 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 within a certain time. The Group's objective in liquidity management is to maintain liquidity at a reasonable level, to ensure the due debt repayment and the demand of business development pursuant to development strategy, as well as to acquire adequate readily convertible assets and funding in order to respond to emergencies.

5.1 Liquidity risk management policy and process

The Bank adopts centralised liquidity management through development of a centralised pool of liquid assets.

The Bank adopts a proactive liquidity management strategy. The asset liquidity management strategies encourage careful use of funding, diversified sources of funding, asset and liability matching and an appropriate level of highly liquid assets. The strategies relating to liabilities are intended to increase the proportion of core deposits and to maintain the stability of liabilities and financing ability. The Bank manages and monitors RMB and FX liquidity separately, and develops the RMB and FX liquidity portfolios to ensure that sources of different currencies and the usage are in accordance with its liquidity management requirements.

Sources of liquidity are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management 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 the tables set forth, 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)

VI 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 2008							
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	72,533	–	–	–	–	–	72,533
Balances with central banks	–	248,372	838,910	40,160	80,171	–	–	1,207,613
Placements with banks and other financial institutions	–	–	242,707	162,714	82,642	402	–	488,465
Government certificates of indebtedness for bank notes issued	–	32,039	–	–	–	–	–	32,039
Precious metals	–	42,479	–	–	–	–	–	42,479
Financial assets at fair value through profit or loss	4	1,921	6,090	9,113	11,977	26,879	31,830	87,814
Derivative financial assets	–	27,151	2,305	14,247	20,789	5,972	5,660	76,124
Loans and advances to customers, net	26,037	24,912	161,036	297,196	885,270	926,058	869,143	3,189,652
Investment securities								
– available for sale	–	–	24,025	57,731	169,976	351,167	149,703	752,602
– held to maturity	–	–	41,059	12,749	64,304	184,694	63,032	365,838
– loans and receivables	–	–	11,195	33,302	88,708	258,004	48,745	439,954
Investment in associates and joint ventures	–	–	–	–	–	1,330	6,046	7,376
Property and equipment	–	–	–	–	–	–	92,236	92,236
Investment property	–	–	–	–	–	–	9,637	9,637
Deferred income tax assets	–	–	–	–	28	17,377	–	17,405
Other assets	235	8,228	15,634	16,193	15,602	4,700	9,321	69,913
Total assets	26,276	457,635	1,342,961	643,405	1,419,467	1,776,583	1,285,353	6,951,680

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	603,393	–	–	–	–	–	603,393
Due to central banks	–	13,550	3,858	3,555	34,633	–	–	55,596
Bank notes in circulation	–	32,064	–	–	–	–	–	32,064
Certificates of deposit and placements from banks and other financial institutions	–	180	83,930	48,597	65,871	1,776	–	200,354
Financial liabilities at fair value through profit or loss	–	–	33,020	15,335	16,675	1,789	730	67,549
Derivative financial liabilities	–	22,207	3,627	12,904	4,169	8,055	8,520	59,482
Due to customers	–	2,302,936	691,168	589,914	1,219,512	290,326	8,255	5,102,111
Bonds issued	–	–	405	130	2,071	2,635	60,152	65,393
Other borrowings	–	–	583	908	4,216	17,243	19,888	42,838
Current tax liabilities	–	–	50	–	24,777	–	–	24,827
Retirement benefit obligations	–	–	77	155	697	2,932	3,502	7,363
Deferred income tax liabilities	–	–	–	–	–	2,093	–	2,093
Other liabilities	–	77,884	25,380	17,860	42,712	24,227	10,667	198,730
Total liabilities	–	3,052,214	842,098	689,358	1,415,333	351,076	111,714	6,461,793
Net Liquidity Gap	26,276	(2,594,579)	500,863	(45,953)	4,134	1,425,507	1,173,639	489,887

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	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
Assets								
Cash and due from banks and other financial institutions	–	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 assets	–	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
Total assets	25,062	322,417	1,058,240	508,344	1,133,871	1,601,999	1,341,284	5,991,217

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	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
Liabilities								
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 liabilities	–	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
Total liabilities	–	2,486,581	1,011,564	532,297	1,139,206	267,013	103,899	5,540,560
Net liquidity gap	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)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 *Maturity analysis (Continued)*

Bank

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	78,606	–	–	–	–	–	78,606
Balances with central banks	–	189,450	837,174	40,160	80,171	–	–	1,146,955
Placements with banks and other financial institutions	–	–	227,620	166,309	76,331	975	52	471,287
Government certificates of indebtedness for bank notes issued	–	1,878	–	–	–	–	–	1,878
Precious metals	–	41,290	–	–	–	–	–	41,290
Financial assets at fair value through profit or loss	–	–	1,539	2,656	9,844	17,862	13,422	45,323
Derivative financial assets	–	14,060	1,634	13,687	19,200	4,427	5,557	58,565
Loans and advances to customers, net	20,859	6,816	141,883	264,845	835,609	736,924	744,546	2,751,482
Investment securities								
– available for sale	–	–	6,449	45,945	129,934	289,560	118,308	590,196
– held to maturity	–	–	36,946	6,027	47,567	135,229	42,620	268,389
– loans and receivables	–	–	8,027	30,602	81,110	258,004	48,745	426,488
Investment in subsidiaries	–	–	–	–	–	299	69,296	69,595
Investment in associates and joint ventures	–	–	–	–	–	–	18	18
Property and equipment	–	–	–	–	–	–	55,001	55,001
Investment property	–	–	–	–	–	–	1,239	1,239
Deferred income tax assets	–	–	–	–	7	17,756	–	17,763
Other assets	232	3,636	4,616	15,948	13,624	1,802	5,875	45,733
Total assets	21,091	335,736	1,265,888	586,179	1,293,397	1,462,838	1,104,679	6,069,808

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	571,235	–	–	–	–	–	571,235
Due to central banks	–	13,547	3,858	3,555	34,630	–	–	55,590
Bank notes in circulation	–	1,903	–	–	–	–	–	1,903
Certificates of deposit and placements from banks and other financial institutions	–	–	126,055	73,294	78,139	1,776	–	279,264
Financial liabilities at fair value through profit or loss	–	–	27,072	9,333	8,361	28	493	45,287
Derivative financial liabilities	–	12,898	1,783	11,972	2,425	5,090	7,344	41,512
Due to customers	–	1,903,938	471,862	493,876	1,188,286	288,426	8,255	4,354,643
Bonds issued	–	–	–	–	2,000	4,000	60,152	66,152
Other borrowings	–	–	332	409	3,564	12,671	13,273	30,249
Current tax liabilities	–	–	11	–	23,917	–	–	23,928
Retirement benefit obligations	–	–	77	155	697	2,932	3,502	7,363
Deferred income tax liabilities	–	–	–	–	–	54	–	54
Other liabilities	–	65,315	9,539	17,383	39,790	6,536	2,067	140,630
Total liabilities	–	2,568,836	640,589	609,977	1,381,809	321,513	95,086	5,617,810
Net liquidity gap	21,091	(2,233,100)	625,299	(23,798)	(88,412)	1,141,325	1,009,593	451,998

(Amount in millions of Renminbi, unless otherwise stated)

VI 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
Assets								
Cash and due from banks and other financial institutions	–	66,348	–	–	–	–	–	66,348
Balances with central banks	–	90,280	525,551	25,431	80,171	–	–	721,433
Placements with banks and other financial institutions	–	–	201,509	49,352	26,915	7,464	117	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	–	–	7,349	17,863	22,258	21,828	13,384	82,682
Derivative financial assets	–	–	3,952	5,523	15,102	3,695	2,699	30,971
Loans and advances to 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 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
Total assets	19,367	209,613	929,074	420,715	1,033,201	1,290,569	1,103,376	5,005,915

VI 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
Liabilities								
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 liabilities	–	–	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
Total liabilities	–	2,089,257	682,648	435,359	1,086,137	239,538	86,496	4,619,435
Net liquidity gap	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)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 *Undiscounted cash flows by contractual maturities*

The table below presents the cash flows of the Group and the Bank of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows. Customer driven derivatives are disclosed at fair value (i.e. discounted cash flows basis), other derivatives are disclosed by undiscounted cash flows.

Group

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	72,631	–	–	–	–	–	72,631
Balances with central banks	–	248,689	838,948	40,579	83,201	–	–	1,211,417
Placements with banks and other financial institutions	–	–	243,463	163,908	84,486	421	–	492,278
Financial assets at fair value through profit or loss	4	1,921	6,597	19,547	32,753	42,730	40,442	143,994
Loans and advances to customers, net	27,808	25,333	175,124	331,618	976,436	1,169,416	1,110,563	3,816,298
Investment securities								
– available for sale	–	–	25,289	65,325	188,137	379,221	208,383	866,355
– held to maturity	–	–	41,714	14,365	69,800	197,635	85,674	409,188
– loans and receivables	–	–	11,200	42,722	105,644	309,822	48,745	518,133
Other assets	–	5,902	10,686	465	1,826	156	1,329	20,364
Total financial assets	27,812	354,476	1,353,021	678,529	1,542,283	2,099,401	1,495,136	7,550,658

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Group

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
Due to banks and other financial institutions	–	603,752	–	–	–	–	–	603,752
Due to central banks	–	13,550	3,899	3,568	35,766	–	–	56,783
Certificates of deposit and placements from banks and other financial institutions	–	180	85,321	49,063	67,802	2,154	–	204,520
Financial liabilities at fair value through profit or loss	–	–	33,026	15,421	16,793	1,924	972	68,136
Due to customers	–	2,337,930	700,345	601,881	1,270,127	327,498	9,763	5,247,544
Bonds issued	–	–	405	1,647	3,731	19,150	70,045	94,978
Other borrowings	–	–	694	1,057	5,244	20,718	21,751	49,464
Other liabilities	–	60,822	14,277	366	13,717	1,958	3,453	94,593
Total financial liabilities	–	3,016,234	837,967	673,003	1,413,180	373,402	105,984	6,419,770
Derivative cash flow								
Derivative financial instruments settled on a net basis								
Derivative financial assets	–	–	13,217	1,407	2,083	3,860	4,745	25,312
Derivative financial liabilities	–	–	(9,529)	(2,172)	(2,363)	(6,720)	(5,112)	(25,896)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	295,822	399,641	744,542	10,881	128	1,451,014
Total outflow	–	–	(296,885)	(397,313)	(729,432)	(10,475)	(130)	(1,434,235)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 *Undiscounted cash flows by contractual maturities (Continued)*

Group

	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
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	71,268	–	–	–	–	–	71,268
Balances with central banks	–	121,942	524,214	25,787	82,898	–	–	754,841
Placements with banks and other financial institutions	–	–	277,483	78,109	35,297	11	–	390,900
Financial assets at fair value through profit or loss	–	4,235	8,588	19,615	28,651	38,293	41,414	140,796
Loans and advances to customers, net	29,574	31,922	150,295	299,600	866,426	1,060,685	1,017,537	3,456,039
Investment securities								
– available for sale	–	–	46,136	65,475	86,561	270,547	370,817	839,536
– held to maturity	–	–	30,176	32,759	107,827	235,803	126,439	533,004
– loans and receivables	–	–	18,489	17,618	48,309	365,530	98,757	548,703
Other assets	3	6,780	13,945	330	4,540	673	2,311	28,582
Total financial assets	29,577	236,147	1,069,326	539,293	1,260,509	1,971,542	1,657,275	6,763,669

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Group

	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
Due to banks and other financial institutions	–	325,317	–	–	–	–	–	325,317
Due to central banks	–	11,425	44,250	5,464	30,905	–	–	92,044
Certificates of deposit and placements from banks and other financial institutions	–	924	172,230	36,708	34,790	8,010	–	252,662
Financial liabilities at fair value through profit or loss	–	–	51,443	12,205	17,267	7,037	2,046	89,998
Due to customers	–	2,027,707	725,083	475,413	1,020,528	225,926	546	4,475,203
Bonds issued	–	–	7	2,959	4,930	26,039	79,240	113,175
Other borrowings	–	–	1,312	816	6,135	25,388	29,917	63,568
Other liabilities	–	58,927	14,174	1,008	14,723	2,254	390	91,476
Total financial liabilities	–	2,424,300	1,008,499	534,573	1,129,278	294,654	112,139	5,503,443
Derivative cash flow								
Derivative financial instruments settled on a net basis								
Derivative financial assets	–	–	12,201	247	539	971	1,993	15,951
Derivative financial liabilities	–	–	(7,973)	(438)	(316)	(925)	(2,035)	(11,687)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	300,932	279,213	774,661	56,991	515	1,412,312
Total outflow	–	–	(311,497)	(273,132)	(767,743)	(55,733)	(538)	(1,408,643)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 *Undiscounted cash flows by contractual maturities (Continued)*

Bank

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	78,648	–	–	–	–	–	78,648
Balances with central banks	–	189,764	837,212	40,579	83,201	–	–	1,150,756
Placements with banks and other financial institutions	–	–	228,348	167,552	77,937	1,015	52	474,904
Financial assets at fair value through profit or loss	–	–	1,987	12,880	29,399	30,168	17,350	91,784
Loans and advances to customers, net	22,627	7,156	155,528	298,126	923,078	978,123	983,741	3,368,379
Investment securities								
– available for sale	–	–	7,387	52,873	144,605	303,965	156,930	665,760
– held to maturity	–	–	37,181	6,920	50,370	140,245	51,416	286,132
– loans and receivables	–	–	8,028	40,016	98,023	309,822	48,745	504,634
Other assets	–	2,340	1,281	454	1,741	7	1,141	6,964
Total financial assets	22,627	277,908	1,276,952	619,400	1,408,354	1,763,345	1,259,375	6,627,961

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
Due to banks and other financial institutions	–	571,594	–	–	–	–	–	571,594
Due to central banks	–	13,547	3,899	3,568	35,762	–	–	56,776
Certificates of deposit and placements from banks and other financial institutions	–	–	127,691	74,024	80,258	2,154	–	284,127
Financial liabilities at fair value through profit or loss	–	–	27,072	9,382	8,397	87	713	45,651
Due to customers	–	1,938,829	480,555	505,413	1,238,447	325,575	9,763	4,498,582
Bonds issued	–	–	–	1,544	3,659	20,525	70,045	95,773
Other borrowings	–	–	405	482	4,247	14,611	14,320	34,065
Other liabilities	–	57,462	444	9	11,379	296	1,942	71,532
Total financial liabilities	–	2,581,432	640,066	594,422	1,382,149	363,248	96,783	5,658,100
Derivative cash flow								
Derivative financial instruments settled on a net basis								
Derivative financial assets	–	–	143	1,217	850	3,076	4,677	9,963
Derivative financial liabilities	–	–	(219)	(1,909)	(1,315)	(3,945)	(4,475)	(11,863)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	178,948	346,065	687,948	6,999	127	1,220,087
Total outflow	–	–	(179,141)	(343,706)	(672,582)	(6,517)	(127)	(1,202,073)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (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
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	66,399	–	–	–	–	–	66,399
Balances with central banks	–	90,542	525,705	25,786	82,897	–	–	724,930
Placements with banks and other financial institutions	–	–	202,498	50,236	28,073	8,561	117	289,485
Financial assets at fair value through profit or loss	–	–	7,445	18,149	23,631	24,479	14,341	88,045
Loans and advances to customers, net	28,588	6,854	127,476	266,796	807,863	870,281	887,040	2,994,898
Investment securities								
– available for sale	–	–	39,482	60,676	72,879	211,650	283,125	667,812
– held to maturity	–	–	23,491	17,456	82,108	131,110	57,545	311,710
– loans and receivables	–	–	9,215	5,583	34,995	365,530	98,757	514,080
Other assets	–	58	1,531	330	4,358	94	962	7,333
Total financial assets	28,588	163,853	936,843	445,012	1,136,804	1,611,705	1,341,887	5,664,692

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (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
Due to banks and other financial institutions	–	312,305	–	–	–	–	–	312,305
Due to central banks	–	11,394	44,250	5,464	30,904	–	–	92,012
Certificates of deposit and placements from banks and other financial institutions	–	–	176,563	40,727	31,204	7,165	–	255,659
Financial liabilities at fair value through profit or loss	–	–	48,868	10,215	11,039	3,880	1,705	75,707
Due to customers	–	1,697,690	404,699	377,824	983,569	225,207	546	3,689,535
Bonds issued	–	–	1	2,958	3,049	26,688	79,239	111,935
Other borrowings	–	–	1,312	801	6,135	21,797	19,936	49,981
Other liabilities	–	52,619	3,984	9	13,520	88	49	70,269
Total financial liabilities	–	2,074,008	679,677	437,998	1,079,420	284,825	101,475	4,657,403
Derivative cash flow								
Derivative financial instruments settled on a net basis								
Derivative financial assets	–	–	266	141	246	766	1,992	3,411
Derivative financial liabilities	–	–	(42)	(234)	(258)	(532)	(1,967)	(3,033)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	221,581	230,816	750,747	52,746	515	1,256,405
Total outflow	–	–	(233,809)	(224,469)	(743,050)	(51,424)	(538)	(1,253,290)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 *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 are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.43.5, are summarised in the table below.

Group

	As at 31 December 2008			
	Less than 1 year	**Between 1-5 years**	**Over 5 years**	**Total**
Loan commitments	**679,817**	**49,156**	**13,054**	**742,027**
Guarantees, acceptances and other financial facilities	**569,723**	**187,463**	**114,850**	**872,036**
Operating lease commitments	**2,609**	**5,709**	**1,839**	**10,157**
Capital commitments	**9,592**	**37,722**	**6**	**47,320**
Total	**1,261,741**	**280,050**	**129,749**	**1,671,540**

	As at 31 December 2007			
	Less than 1 year	Between 1-5 years	Over 5 years	Total
Loan commitments	512,360	42,427	11,212	565,999
Guarantees, acceptances and 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

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items (Continued)

Bank

	As at 31 December 2008			
	Less than 1 year	**Between 1-5 years**	**Over 5 years**	**Total**
Loan commitments	**477,479**	**49,141**	**13,054**	**539,674**
Guarantees, acceptances and other financial facilities	**544,996**	**190,814**	**117,155**	**852,965**
Operating lease commitments	**2,097**	**5,052**	**1,821**	**8,970**
Capital commitments	**3,217**	**1,677**	**6**	**4,900**
Total	**1,027,789**	**246,684**	**132,036**	**1,406,509**

	As at 31 December 2007			
	Less than 1 year	Between 1-5 years	Over 5 years	Total
Loan commitments	328,344	41,273	10,977	380,594
Guarantees, acceptances and 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

(Amount in millions of Renminbi, unless otherwise stated)

VI 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 majority of the Group and Bank financial instruments measured at fair value using valuation techniques are based on techniques using observable parameters.

6.2 *Financial instruments not measured at fair value*

The tables below summarise 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 as at 31 December		Fair value as at 31 December	
	2008	2007	**2008**	2007
Financial assets				
Loans and advances to customers, net	**3,189,652**	2,754,493	**3,196,553**	2,741,712
Investment securities				
– held to maturity	**365,838**	446,647	**371,024**	443,610
– loans and receivables	**439,954**	458,620	**439,999**	458,665
Financial liabilities				
Certificates of deposit and placements from banks and other financial institutions	**200,354**	248,482	**200,518**	248,552
Due to customers	**5,102,111**	4,400,111	**5,113,279**	4,397,109
Bonds issued	**65,393**	64,391	**67,194**	64,138
Other borrowings	**42,838**	51,708	**38,033**	47,674

VI 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 as at 31 December		Fair value as at 31 December	
	2008	2007	**2008**	2007
Financial assets				
Loans and advances to customers, net	**2,751,482**	2,336,067	**2,758,328**	2,323,269
Investment securities				
– held to maturity	**268,389**	285,067	**276,483**	282,965
– loans and receivables	**426,488**	424,289	**426,489**	424,291
Financial liabilities				
Certificates of deposit and placements from banks and other financial institutions	**279,264**	251,890	**279,428**	251,959
Due to customers	**4,354,643**	3,617,889	**4,365,811**	3,614,887
Bonds issued	**66,152**	63,162	**67,960**	62,910
Other borrowings	**30,249**	38,121	**25,444**	34,087

(1) 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.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 *Financial instruments not measured at fair value (Continued)*

(2) *Investment securities*

Investment securities include interest-bearing assets held to maturity, available for sale securities 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.

(3) *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 is based on discounted cash flows using interest rates for similar transaction with similar remaining maturity quoted in an active market.

(4) *Bonds 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.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

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.

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 Financial Management Department is divided into two tiers:

- Core capital: share capital, capital reserve, specified reserves, retained earnings and minority interest; and
- Supplementary: 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 approach.

The tables below summarise the capital adequacy ratios and the composition of regulatory capital of the Group for the years ended 31 December 2008 and 31 December 2007. The Group complied with the externally imposed capital requirements to which it is subject.

	As at 31 December	
	2008	2007
Capital adequacy ratio	**13.43%**	13.34%
Core capital adequacy ratio	**10.81%**	10.67%

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 ("CAS").

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

Group

	As at 31 December	
	2008	2007
Components of capital base		
Core capital:		
Share capital	**253,822**	253,794
Reserves[1]	**164,529**	126,567
Minority interest	**25,629**	30,227
Total core capital	**443,980**	410,588
Supplementary capital:		
Collective impairment allowances	**43,192**	31,897
Long-term subordinated bonds issued	**60,000**	60,000
Other[1]	**14,203**	16,672
Gross value of supplementary capital	**117,395**	108,569
Total capital base before deductions	**561,375**	519,157
Deductions:		
Goodwill	**(1,877)**	(1,752)
Investments in entities engaged in banking and financial activities which are not consolidated	**(5,677)**	(1,932)
Investment properties	**(9,637)**	(9,986)
Investments in commercial corporations	**(11,391)**	(4,847)
Total capital base after deductions	**532,793**	500,640
Core capital base after deductions[2]	**428,751**	400,454
Risk-weighted assets and market risk capital adjustment		
Risk-weighted assets and market risk capital adjustment	**3,966,943**	3,754,108

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) 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.

(2) Pursuant to the relevant regulations, 100% of goodwill and 50% of other deductions were applied in deriving the core capital base.

8 Insurance risk

Insurance contracts are mainly sold in Chinese Mainland and Hong Kong 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.

Unaudited Supplementary Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

According to Hong Kong Listing Rule and disclosure regulations of banking industry, the Group discloses the following supplementary financial information:

1 Liquidity ratios

	As at 31 December	
	2008	2007
RMB current assets to RMB current liabilities	**48.77%**	32.58%
Foreign currency current assets to foreign currency current liabilities	**76.61%**	75.91%

Liquidity ratio is calculated in accordance with the relevant provisions of PBOC and CBRC. Financial data as at 31 December 2008 and 31 December 2007 are based on the Chinese Accounting Standards 2006.

2 Currency concentrations

The following information is computed in accordance with the provisions of CBRC.

	Equivalent in millions of Renminbi			
	USD	**HKD**	**Other**	**Total**
As at 31 December 2008				
Spot assets	**895,019**	**28,639**	**319,212**	**1,242,870**
Spot liabilities	**(532,785)**	**(115,475)**	**(207,967)**	**(856,227)**
Forward purchases	**551,648**	**197,710**	**381,516**	**1,130,874**
Forward sales	**(888,579)**	**(128,232)**	**(497,926)**	**(1,514,737)**
Net options position*	**107**	**(43)**	**(65)**	**(1)**
Net long/(short) position	**25,410**	**(17,401)**	**(5,230)**	**2,779**
Net structural position	**(5,579)**	**89,192**	**14,319**	**97,932**
As at 31 December 2007				
Spot assets	934,889	70,164	184,233	1,189,286
Spot liabilities	(373,164)	(164,076)	(178,231)	(715,471)
Forward purchases	502,008	140,720	203,885	846,613
Forward sales	(1,046,006)	(42,170)	(211,771)	(1,299,947)
Net options position*	4,212	(816)	(3,487)	(91)
Net long/(short) position	21,939	3,822	(5,371)	20,390
Net structural position	1,407	105,384	16,268	123,059

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

3 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.

	Banks and other financial institutions	Public sector entities	Other	Total
As at 31 December 2008				
Asia Pacific excluding Chinese Mainland				
Hong Kong	93,220	45,016	382,430	520,666
Other Asia Pacific locations	106,419	39,581	94,713	240,713
Subtotal	199,639	84,597	477,143	761,379
North and South America	72,928	104,201	342,597	519,726
Europe	278,810	3,456	102,923	385,189
Middle East and Africa	3,337	–	6,652	9,989
Total	554,714	192,254	929,315	1,676,283

(Amount in millions of Renminbi, unless otherwise stated)

3 Cross-border claims (Continued)

	Banks and other financial institutions	Public sector entities	Other	Total
As at 31 December 2007				
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
Subtotal	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
Total	706,314	272,388	624,208	1,602,910

4 Overdue assets

For the purposes of the table below, loans and advances to customers and placements with banks and other financial institutions are considered overdue if either principal or interest payment is overdue.

(1) Gross amount of overdue loans and advances to customers

	As at 31 December	
	2008	2007
Gross loans and advances to customers which have been overdue for		
below 3 months	**38,717**	33,407
between 3 and 6 months	**6,400**	4,760
between 6 and 12 months	**6,393**	9,526
over 12 months	**46,420**	48,908
Total	**97,930**	96,601
Percentage		
below 3 months	**1.18%**	1.17%
between 3 and 6 months	**0.19%**	0.17%
between 6 and 12 months	**0.19%**	0.33%
over 12 months	**1.41%**	1.72%
Total	**2.97%**	3.39%

(2) 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 2008 and 31 December 2007 is not considered material.

(Amount in millions of Renminbi, unless otherwise stated)

5 Continuing connected transactions

In late November 2007, the Bank and BOCHK Holdings established BOC Services Co., Ltd, which is indirectly held 55% by the Bank and 45% by BOCHK Holdings. Upon the establishment of BOC Services Co., Ltd, BOCHK Holdings became a connected person of the Bank by reason of its being a substantial shareholder of BOC Services Co., Ltd, an indirect subsidiary of the Bank.

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the on-going transactions which pursuant to the Services and Relationship Agreement between the Bank and BOCHK Holdings and its subsidiaries in the ordinary and usual course of its business constitute continuing connected transactions of the Bank. Such transactions include General Connected Transactions, Investment Connected Transactions and Inter-bank Connected Transactions.

On 2 January 2008, the Bank made an announcement to set out annual caps in respect of each continuing connected transaction for the years from 2008 to 2010. The Bank's independent shareholders have approved the annual caps of the Investment Connected Transactions and the Inter-bank Connected Transactions at its annual general meeting held on 19 June 2008.

The annual caps and amounts of these continuing connected transactions occurring in 2008 are set out below.

Type of Transactions*	2008 Annual Caps		2008 Actual Amount	
	HKD million	RMB million equivalent	HKD million	RMB million equivalent
General Connected Transactions				
Information Technology Services	1,100	979	42	37
Property Transactions	1,100	979	104	93
Bank-note Delivery	1,100	979	74	66
Provision of Insurance Cover	1,100	979	97	86
Credit Card Services	1,100	979	87	77
Investment Connected Transactions				
Securities Transactions	2,700	2,402	324	288
Fund Distribution Transactions	2,700	2,402	54	48
Insurance Agency	2,700	2,402	158	141
Inter-bank Connected Transactions				
Foreign Exchange Transactions	2,700	2,402	127	113
Trading of Financial Assets	50,000	44,485	4,150	3,692
Inter-Bank Capital Markets	50,000	44,485	1,709	1,520

* The definition of each type of the transactions is the same as the definition set out in the Bank's announcement "Continuing Connected Transactions" dated 2 January 2008.

Supplementary Information – Financial Statements Prepared in Accordance with CAS

(Amount in millions of Renminbi, unless otherwise stated)

1 CONSOLIDATED INCOME STATEMENT

	2008	2007
Operating income	**228,288**	194,195
Net interest income	**162,936**	152,745
Interest income	**286,927**	261,871
Interest expense	**(123,991)**	(109,126)
Net fee and commission income	**39,947**	35,535
Fee and commission income	**43,712**	39,601
Fee and commission expense	**(3,765)**	(4,066)
Net trading gains/(losses)	**34,438**	9,575
Investment in associates and joint ventures	**726**	1,263
Fair value change gains/(losses)	**(529)**	9,386
Foreign exchange gains and losses	**(25,695)**	(26,923)
Other operating income	**17,191**	13,877
Operating expenses	**(142,135)**	(104,725)
Business tax and surcharges	**(11,367)**	(8,726)
Operating and administration expenses	**(71,957)**	(65,442)
Impairment losses on assets	**(45,031)**	(20,263)
Other operating expenses	**(13,780)**	(10,294)
Operating profit	**86,153**	89,470
Add: Non-operating income	**1,243**	1,654
Less: Non-operating expenses	**(1,145)**	(1,169)
Profit before income tax	**86,251**	89,955
Income tax expense	**(21,178)**	(27,938)
Profit for the period	**65,073**	62,017
Attribute to equity holders of the Bank	**63,539**	56,229
Minority interest	**1,534**	5,788
	65,073	62,017
Earnings per share (expressed in RMB per ordinary share)		
– Basic	**0.25**	0.22
– Diluted	**0.25**	0.22

2 CONSOLIDATED BALANCE SHEET

	As at 31 December	
	2008	2007
ASSETS		
Cash and balances with central banks	**1,097,471**	637,187
Due from banks	**37,044**	37,256
Precious metals	**42,479**	44,412
Placements with banks and other financial institutions	**385,748**	360,505
Financial assets held for trading	**87,814**	124,665
Derivative financial assets	**76,124**	45,839
Agreements to re-sell	**248,348**	174,265
Interest receivable	**34,690**	31,782
Loans and advances to customers	**3,189,652**	2,754,493
Available for sale financial assets	**752,602**	682,995
Held to maturity investments	**365,838**	446,647
Loan and receivable debt securities	**439,954**	458,620
Long-term equity investment	**7,376**	6,779
Investment property	**9,637**	9,986
Fixed assets	**88,898**	81,108
Intangible assets	**12,250**	13,031
Goodwill	**1,877**	1,752
Deferred income tax assets	**16,067**	16,202
Other assets	**61,825**	68,029
Total assets	**6,955,694**	5,995,553

2 CONSOLIDATED BALANCE SHEET (Continued)

	As at 31 December	
	2008	2007
LIABILITIES		
Due to central banks	**55,596**	50,485
Due to banks and other financial institutions	**603,393**	324,848
Placements from banks and other financial institutions	**197,654**	141,382
Financial liabilities held for trading	**67,549**	86,655
Derivative financial liabilities	**59,482**	27,262
Repurchase agreement	**1,402**	143,780
Due to customers	**5,173,352**	4,480,585
Employee Benefit Obligations	**18,394**	17,361
Current tax liabilities	**24,827**	21,045
Interest payable	**52,999**	37,869
Provision	**2,503**	2,260
Debt investment payable	**65,393**	64,391
Deferred income tax liabilities	**2,093**	2,894
Other liabilities	**137,156**	139,743
Total liabilities	**6,461,793**	5,540,560
EQUITY		
Share capital	**253,839**	253,839
Capital reserve	**83,409**	74,295
Less: Treasury shares	**(17)**	(45)
Statutory reserves	**23,429**	15,448
General risk reserves	**40,973**	24,911
Undistributed profits	**79,349**	65,223
Currency translation differences	**(12,710)**	(8,905)
Capital and reserves attributable to equity holders of the Bank	**468,272**	424,766
Minority interest	**25,629**	30,227
Total equity	**493,901**	454,993
Total equity and liabilities	**6,955,694**	5,995,553

3. RECONCILIATION OF DIFFERENCES BETWEEN CAS AND IFRS FINANCIAL INFORMATION

	Equity		Net profit attributed to equity holders of the Bank	
	As at 31 December		Year ended 31 December	
	2008	2007	**2008**	2007
CAS figures	**493,901**	454,993	**63,539**	56,229
Adjustments for accounting standard differences:				
– Reversal of asset revaluation surplus and corresponding depreciation/amortisation and others(1)	**(5,352)**	(5,781)	**428**	742
– Refund to Huijin for initial funding of annuity plan	**–**	–	**500**	–
– Deferred tax impact(2)	**1,338**	1,445	**(107)**	(723)
Subtotal	**(4,014)**	(4,336)	**821**	19
IFRS figures	**489,887**	450,657	**64,360**	56,248

(1) Reversal of 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.

Reference for Shareholders

Financial Calendar for 2009

Announcement of 2008 annual results	24 March 2009
Annual report of 2008	To be printed and dispatched to H-Share Holders in late April 2009
Annual General Meeting of 2008	To be held on 18 June 2009
Announcement of 2009 interim results	To be announced not later than 31 August 2009

Annual General Meeting

The Bank has scheduled the 2008 Annual General Meeting at Central Garden Hotel, No. 18 Gaoliangqiaoxiejie, Xizhimenwai Ave., Haidian District, Beijing, and Four Seasons Hotel, 8 Finance Street, Central, Hong Kong at 9:30 a.m. on 18 June 2009 (Thursday).

Dividends

The Board has recommended a final dividend of RMB0.13 per share (before tax) subject to the approval of shareholders at the Annual General Meeting of 2008.

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
Including:	
A Share:	177,818,910,740 shares
H Share:	76,020,251,269 shares

Market Capitalisation

As of the last trading day in 2008 (31 December 2008 for H Share and A Share), the Bank's market capitalisation was RMB669.997 billion (based on the closing price of H Shares and A Shares on 31 December 2008, and exchange rate 100HKD = 88.189RMB as published by the SAFE on 31 December 2008).

Share Price

	Closing price on 31 December 2008	Highest trading price in 2008	Lowest trading price in 2008
A Share	RMB2.97	RMB6.98	RMB2.82
H Share	HKD2.12	HKD4.13	HKD1.70

Stock Code

Stock name: Bank of China

H Share:		**A Share:**	
Hong Kong Stock Exchange	3988	Shanghai Stock Exchange	601988
Reuters	3988.HK	Reuters	601988.SS
Bloomberg	3988 HK	Bloomberg	601988 CH

Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, he/she may write to the Bank at the following address:

H-Share Holders:
Computershare Hong Kong Investor Services Limited
Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990
E-mail: hkinfo@computershare.com.hk

A-Share Holders:
Shanghai Branch of China Securities Depository and Clearing Corporation Limited
36F, China Insurance Building, 166 East Lujiazui Road, Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

Credit Rating (Long Term, Foreign Currency)

Moody's Investors Services:	A1
Standard & Poor's:	A-
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong Global Credit Rating Co., Ltd. (RMB):	AAA

Index Constituents

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 Holders, please contact:

Investor Relations Team (Hong Kong) of Bank of China Limited
52/F, Bank of China Tower, 1 Garden Road, Hong Kong
Telephone: (852) 2826 2700
Facsimile: (852) 2810 5830
E-mail: bocir@bank-of-china.com

For A-Share Holders, please contact:

Investor Relations Team (Beijing) of Bank of China Limited
9/F, Bank of China Building, 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86)10-6659 2638
Facsimile: (86)10-6659 4568
E-mail: bocir@bank-of-china.com

Other Information

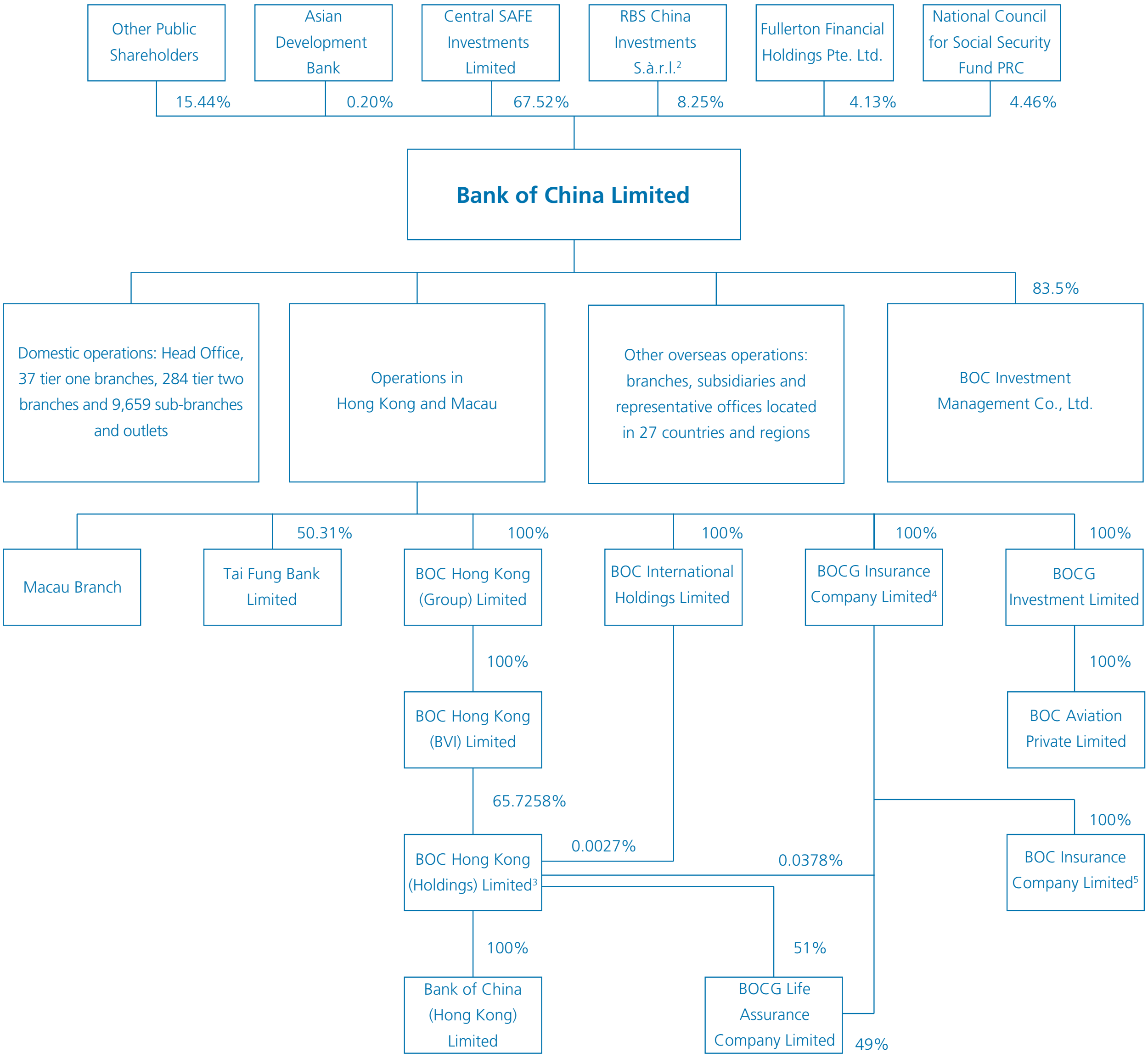
You may obtain a copy of the annual report, prepared in accordance with International Financial Reporting Standards, by writing to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong), and the annual report prepared in accordance with *Chinese Accounting Standards 2006* from any of the Bank's places of business.

The Chinese and/or English versions of the annual report for 2008 are also available on the following websites: www.boc.cn, www.sse.com.cn and 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 (86)10- 6659 2638.

Organisational Chart

The organisational chart[1] of the Group as at 31 December 2008 is as follow:



1. H Shares held are in accordance with the interests recorded in the register maintained by the Bank pursuant to section 336 of the SFO.
2. According to the Report of Change in Shareholding signed by RBS China Investments S.à.r.l. on 15 January 2009, the 20,942,736,236 H Shares originally held by RBS China Investments S.à.r.l. have been transferred or sold on 7 and 14 January 2009 respectively.
3. Listed on the Hong Kong Stock Exchange.
4. The interest in BOC Hong Kong (Holdings) Limited held by BOCG Insurance Company Limited was disposed of during the reporting period.
5. Incorporated in the PRC.

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: 4,265
Assets scale (RMB Million): 3,068,201

BEIJING BRANCH

2 CHAOYANGMEN NEI DAJIE,
DONGCHENG DISTRICT,
BEIJING,
CHINA
POST CODE: 100010
Subbranches and outlets: 249
Number of employees: 7,753
Assets scale (RMB Million): 413,085

TIANJIN BRANCH

80 JIEFANG NORTH ROAD,
HEPING DISTRICT,
TIANJIN,
CHINA
POST CODE: 300040
Subbranches and outlets: 195
Number of employees: 4,133
Assets scale (RMB Million): 108,460

HEBEI BRANCH

80 XINHUA ROAD,
SHIJIAZHUANG,
HEBEI PROV.,
CHINA
POST CODE: 050000
Subbranches and outlets: 458
Number of employees: 10,276
Assets scale (RMB Million): 192,363

SHANXI BRANCH

288 YINGZE DAJIE,
TAIYUAN,
SHANXI PROV.,
CHINA
POST CODE: 030001
Subbranches and outlets: 307
Number of employees: 8,343
Assets scale (RMB Million): 131,876

INNER MONGOLIA BRANCH

12 XINHUA DAJIE,
XIN CHENG DISTRICT,
HUHHOT,
INNER MONGOLIA AUTONOMOUS REGION,
CHINA
POST CODE: 010010
Subbranches and outlets: 240
Number of employees: 4,267
Assets scale (RMB Million): 75,839

LIAONING BRANCH

9 ZHONGSHAN SQUARE,
ZHONGSHAN DISTRICT,
DALIAN,
LIAONING PROV.,
CHINA
POST CODE: 116001
Subbranches and outlets: 451
Number of employees: 10,828
Assets scale (RMB Million): 199,911

JILIN BRANCH

699 XI AN DA LU,
CHANGCHUN,
JILIN PROV.,
CHINA
POST CODE: 130061
Subbranches and outlets: 198
Number of employees: 5,319
Assets scale (RMB Million): 61,744

HEILONGJIANG BRANCH

19 HONGJUN STREET,
NANGANG DISTRICT,
HARBIN,
HEILONGJIANG PROV.,
CHINA
POST CODE: 150001
Subbranches and outlets: 240
Number of employees: 6,082
Assets scale (RMB Million): 95,226

SHANGHAI BRANCH

200 MID. YINCHENG RD.,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
POST CODE: 200121
Subbranches and outlets: 213
Number of employees: 6,480
Assets scale (RMB Million): 416,653

JIANGSU BRANCH

148 ZHONG SHAN NAN LU,
NANJING,
JIANGSU PROV.,
CHINA
POST CODE: 210005
Subbranches and outlets: 904
Number of employees: 18,425
Assets scale (RMB Million): 471,315

ZHEJIANG BRANCH

321 FENG QI ROAD,
HANGZHOU,
ZHEJIANG PROV.,
CHINA
POST CODE: 310003
Subbranches and outlets: 660
Number of employees: 14,332
Assets scale (RMB Million): 338,022

ANHUI BRANCH

313 MID. CHANGJIANG ROAD,
HEFEI,
ANHUI PROV.,
CHINA
POST CODE: 230061
Subbranches and outlets: 350
Number of employees: 6,386
Assets scale (RMB Million): 100,597

FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,
FUZHOU,
FUJIAN PROV.,
CHINA
POST CODE: 350003
Subbranches and outlets: 367
Number of employees: 7,629
Assets scale (RMB Million): 130,936

JIANGXI BRANCH

1 ZHANQIAN WEST ROAD,
NANCHANG,
JIANGXI PROV.,
CHINA
POST CODE: 330002
Subbranches and outlets: 303
Number of employees: 5,691
Assets scale (RMB Million): 78,745

SHANDONG BRANCH

59 MID. XIANGGANG ZHONG LU,
QINGDAO,
SHANDONG PROV.,
CHINA
POST CODE: 266071
Subbranches and outlets: 593
Number of employees: 13,485
Assets scale (RMB Million): 274,604

HENAN BRANCH

40 HUA YUAN ROAD,
ZHENGZHOU,
HENAN PROV.,
CHINA
POST CODE: 450008
Subbranches and outlets: 494
Number of employees: 10,901
Assets scale (RMB Million): 166,411

HUBEI BRANCH

65 HUANGSHI ROAD,
WUHAN,
HUBEI PROV.,
CHINA
POST CODE: 430013
Subbranches and outlets: 391
Number of employees: 8,599
Assets scale (RMB Million): 119,838

HUNAN BRANCH

593 MID. FURONG ROAD (1 DUAN),
CHANGSHA,
HUNAN PROV.,
CHINA
POST CODE: 410005
Subbranches and outlets: 396
Number of employees: 7,552
Assets scale (RMB Million): 107,395

GUANGDONG BRANCH

197 DONGFENG XI LU,
GUANGZHOU,
GUANGDONG PROV.,
CHINA
POST CODE: 510180
Subbranches and outlets: 968
Number of employees: 21,346
Assets scale (RMB Million): 585,137

GUANGXI BRANCH

39 GUCHENG ROAD,
NANNING,
GUANGXI ZHUANG AUTONOMOUS REGION,
CHINA
POST CODE: 530022
Subbranches and outlets: 238
Number of employees: 4,416
Assets scale (RMB Million): 55,362

HAINAN BRANCH

33 DATONG ROAD,
HAIKOU,
HAINAN PROV.,
CHINA
POST CODE: 570102
Subbranches and outlets: 83
Number of employees: 1,946
Assets scale (RMB Million): 41,503

SICHUAN BRANCH

35 MID. RENMIN ROAD (2 DUAN),
CHENGDU,
SICHUAN PROV.,
CHINA
POST CODE: 610015
Subbranches and outlets: 460
Number of employees: 8,120
Assets scale (RMB Million): 151,078

GUIZHOU BRANCH

30 DUSI ROAD,
GUIYANG,
GUIZHOU PROV.,
CHINA
POST CODE: 550002
Subbranches and outlets: 99
Number of employees: 2,043
Assets scale (RMB Million): 28,320

YUNNAN BRANCH

515 BEIJING ROAD,
KUNMING,
YUNNAN PROV.,
CHINA
POST CODE: 650051
Subbranches and outlets: 136
Number of employees: 3,012
Assets scale (RMB Million): 66,995

TIBET BRANCH

7 LINKUO XI LU,
LHASA,
TIBET AUTONOMOUS REGION,
CHINA
POST CODE: 850000
Subbranches and outlets: 20
Number of employees: 579
Assets scale (RMB Million): 13,703

SHAANXI BRANCH

38 JUHUA YUAN DONG DAJIE,
XI'AN,
SHAANXI PROV.,
CHINA
POST CODE: 710001
Subbranches and outlets: 261
Number of employees: 4,680
Assets scale (RMB Million): 101,695

GANSU BRANCH

525 TIANSHUI SOUTH ROAD,
LANZHOU,
GANSU PROV.,
CHINA
POST CODE: 730000
Subbranches and outlets: 149
Number of employees: 1,997
Assets scale (RMB Million): 38,199

QINGHAI BRANCH

218 DONGGUAN STREET,
XINING,
QINGHAI PROV.,
CHINA
POST CODE: 810000
Subbranches and outlets: 42
Number of employees: 797
Assets scale (RMB Million): 13,817

NINGXIA BRANCH

187 XINCHANG EAST ROAD,
YINCHUAN,
NINGXIA HUI AUTONOMOUS REGION,
CHINA
POST CODE: 750002
Subbranches and outlets: 65
Number of employees: 1,107
Assets scale (RMB Million): 15,179

XINJIANG BRANCH

BANK OF CHINA BUILDING,
1 DONGFENG ROAD,
URUMQI,
XINJIANG UYGUR AUTONOMOUS REGION,
CHINA
POST CODE: 830002
Subbranches and outlets: 158
Number of employees: 3,133
Assets scale (RMB Million): 51,795

CHONGQING BRANCH

218 ZHONG SHAN YI ROAD,
YU ZHONG DISTRICT,
CHONGQING,
CHINA
POST CODE: 400013
Subbranches and outlets: 176
Number of employees: 3,002
Assets scale (RMB Million): 60,801

SHENZHEN BRANCH

INTERNATIONAL FINANCE BUILDING,
2022 JIANSHE ROAD,
LUOHU DISTRICT,
SHENZHEN,
GUANGDONG PROV.,
CHINA
POST CODE: 518005
Subbranches and outlets: 116
Number of employees: 4,725
Assets scale (RMB Million): 300,676

BANK OF CHINA SOFTWARE DEVELOPMENT CENTRE

NO.1 (Jia) HAIYING ROAD,
FENGTAI DISTRICT,
BEIJING,
CHINA
POST CODE: 100070
Subbranches and outlets: 1
Number of employees: 1,074

BANK OF CHINA INVESTMENT MANAGEMENT

45 F, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
POST CODE: 200121
Subbranches and outlets: 1
Number of employees: 106
Assets scale (RMB Million): 392

MAJOR HONG KONG AND MACAU OPERATIONS

BOC HONG KONG (GROUP) LIMITED

52/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
Subbranches and outlets: 363
Number of employees: 13,314
Assets scale (RMB Million): 1,004,533

BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
Subbranches and outlets: 31
Number of employees: 1,589
Assets scale (RMB Million): 81,191

BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
Subbranches and outlets: 180
Number of employees: 5,743
Assets scale (RMB Million): 48,080

BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,
71 DES VOEUX ROAD,
CENTRAL, HONG KONG
Subbranches and outlets: 114
Number of employees: 2,133
Assets scale (RMB Million): 6,610

MACAU BRANCH

BANK OF CHINA BUILDING,
AVENIDA DOUTOR MARIO SOARES,
MACAU
Subbranches and outlets: 26
Number of employees: 1,130
Assets scale (RMB Million): 84,534

TAI FUNG BANK

418, ALAMEDA DR. CARLOS,
MACAU
Subbranches and outlets: 25
Number of employees: 594
Assets scale (RMB Million): 28,882

HONG KONG BRANCH

1 GARDEN ROAD,
HONG KONG
Subbranches and outlets: 1
Number of employees: 16
Assets scale (RMB Million): 26

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: 63
Assets scale (RMB Million): 1,985

SINGAPORE BRANCH

4 BATTERY ROAD,
BANK OF CHINA BUILDING,
SINGAPORE 049908
Subbranches and outlets: 7
Number of employees: 325
Assets scale (RMB Million): 29,617

TOKYO BRANCH

BOC BLDG.
3-4-1 AKASAKA, MINATO-KU,
TOKYO,
107-0053 JAPAN
Subbranches and outlets: 4
Number of employees: 117
Assets scale (RMB Million): 37,888

SEOUL BRANCH

1/2F, YOUNG POONG BLDG.,
33 SEOLIN-DONG,
CHONGRO-GU SEOUL 110-752,
KOREA
Subbranches and outlets: 4
Number of employees: 76
Assets scale (RMB Million): 8,370

BANGKOK BRANCH

179/4 BANGKOK CITY TOWER,
SOUTH SATHORN RD.,
TUNGMAHAMEX,
SATHORN DISTRICT,
BANGKOK 10120,
THAILAND
Subbranches and outlets: 1
Number of employees: 41
Assets scale (RMB Million): 1,554

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: 74
Assets scale (RMB Million): 2,524

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: 28
Assets scale (RMB Million): 693

MANILA BRANCH

G/F. & 36/F. PHILAMLIFE TOWER,
8767 PASEO DE ROXAS,
MAKATI CITY, MANILA,
THE PHILIPPINES
Subbranches and outlets: 1
Number of employees: 40
Assets scale (RMB Million): 892

JAKARTA BRANCH

TAMARA CENTER SUITE 101&201,
JALAN JEND.SUDIRMAN KAV. 24
JAKARTA 12920,
INDONESIA
Subbranches and outlets: 2
Number of employees: 51
Assets scale (RMB Million): 1,501

SYDNEY BRANCH

39-41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
Subbranches and outlets: 6
Number of employees: 140
Assets scale (RMB Million): 12,389

BANK OF CHINA (AUSTRALIA) LIMITED

39-41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
Subbranches and outlets: 1
Number of employees: 140
Assets scale (RMB Million): 2,806

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: 263
Assets scale (RMB Million): 49,784

BANK OF CHINA (UK) LIMITED

90 CANNON STREET,
LONDON EC4N 6HA, U.K.
Subbranches and outlets: 8
Number of employees: 263
Assets scale (RMB Million): 10,589

PARIS BRANCH

23-25 AVENUE DE LA GRANDE ARMEE,
75116, PARIS,
FRANCE
Subbranches and outlets: 2
Number of employees: 60
Assets scale (RMB Million): 16,961

FRANKFURT BRANCH

BOCKENHEIMER LANDSTR. 24
60323 FRANKFURT AM MAIN,
GERMANY
Subbranches and outlets: 2
Number of employees: 55
Assets scale (RMB Million): 68,212

LUXEMBOURG BRANCH

37/39 BOULEVARD PRINCE HENRI L-1724,
LUXEMBOURG
P.O.BOX 114 L-2011,
LUXEMBOURG
Subbranches and outlets: 1
Number of employees: 41
Assets scale (RMB Million): 12,176

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): 773

MILAN BRANCH

VIA SANTA MARGHERITA,
NO.14/16 20121
MILANO, ITALY
Subbranches and outlets: 1
Number of employees: 31
Assets scale (RMB Million): 2,888

BANK OF CHINA (HUNGARY) CLOSE LTD.

BANK CENTER, 7 SZABADSAG TER,
1054 BUDAPEST, HUNGARY
Subbranches and outlets: 1
Number of employees: 28
Assets scale (RMB Million): 654

BANK OF CHINA (ELUOSI)

24, SPARTAKOVSKAYA STR.
MOSCOW, 105066
RUSSIA
Subbranches and outlets: 1
Number of employees: 52
Assets scale (RMB Million): 796

AMERICA

NEW YORK BRANCH

410 MADISON AVENUE
NEW YORK, NY10017, USA
Subbranches and outlets: 3
Number of employees: 281
Assets scale (RMB Million): 268,894

BANK OF CHINA (CANADA)

THE EXCHANGE TOWER,
130 KING STREET WEST,
SUITE 2730, P.O.BOX 356,
TORONTO, ONTARIO,
CANADA M5X 1E1
Subbranches and outlets: 5
Number of employees: 96
Assets scale (RMB Million): 2,475

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): 49,788

PANAMA BRANCH

P.O. BOX 0823-01030,
CALLE MANUEL,
M.ICAZA NO.14, PANAMA,
REPUBLIC OF PANAMA
Subbranches and outlets: 1
Number of employees: 16
Assets scale (RMB Million): 674

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: 2

AFRICA

BANK OF CHINA (ZAMBIA) LIMITED

PLOT NO.2339,
KABELENGA ROAD,
LUSAKA, ZAMBIA,
P.O. BOX 34550
Subbranches and outlets: 1
Number of employees: 16
Assets scale (RMB Million): 719

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: 26
Assets scale (RMB Million): 1,644

Notes:

1. The address listed above is the business address of each institution.

2. Staff serving in more than one institution are repetitively counted in the headcount of each institution.

3. Information of BOC International Holdings Limited is inclusive of its subsidiary BOC International (China) Limited and Information of Bank of China Group Insurance Company Limited is inclusive of its subsidiary Dongfeng Peugeot Citroen Auto Finance Co., Ltd.

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 our Bank
Basel II	New Basel Capital Accord
Basis Point	Refer to 0.01 percentage point
Beijing CSRC	Beijing Bureau of China Securities Regulatory Commission
BOC Aviation	BOC Aviation Private Limited (formerly known as Singapore Leasing Aircraft Enterprise Pte. Ltd.)
BOC Insurance	BOC 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 authorized 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
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Limited
BOCI Group	BOC International Holdings Limited and its subsidiaries and associated companies
BOCI-Prudential	BOCI-Prudential Asset Management Limited
BPTL	BOCI-Prudential Trustee Limited
BOCOG	the Beijing Organising Committee for the Games of the XXIX Olympiad
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
CFSH	Compagnie Financière Saint-Honoré
Chiyu	Chiyu Banking Corporation Limited
CSRC	China Securities Regulatory Commission
CUP	China UnionPay CO., Ltd.
Eastern China	the area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong
Fullerton Financial	Fullerton Financial Holdings Pte. Ltd.
Fullerton Management	Fullerton Management Pte. Ltd.

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
Information Disclosure Policy	the current applicable version of the Information Disclosure Policy of Bank of China Limited
LCFR	La Compagnie Financière Edmond de ROTHSCHILD Banque
LIBOR	London Interbank Offered Rate
NCB	Nanyang Commercial Bank, Limited
NCB (China)	Nanyang Commercial Bank (China), 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 our Head Office
PBOC	the People's Bank of China
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
Prudential Corporation	Prudential Corporation Holdings Limited
RBS China	RBS China Investments S.à.r.l.

RBS CI	RBS CI Limited
RBS Group	The Royal Bank of Scotland Group plc
RMB or Renminbi	Renminbi, the lawful currency of the PRC
SAFE	State Administration of Foreign Exchange, PRC
SAT	State Administration of Taxation, PRC
SFO	Securities and Futures Ordinance of the laws of HKSAR
SHIBOR	Shanghai Interbank Offered Rate
SSE	the Shanghai Stock Exchange
Temasek	Temasek Holdings (Private) Limited
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

Notes to Financial Highlights:

1. Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on investment securities + other operating income

2. Operating income = net interest income + non-interest income

3. 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.

4. Dividend per share = total dividend ÷ number of ordinary shares in issue at the year-end

5. 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

6. 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

7. 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 year + owner's equity, excluding minority interest, at the year-end) ÷ 2

8. 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).

9. 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).

10. Loan to deposit ratio = balance of loans at the year-end ÷ balance of due to customers at the year-end

11. Non-interest income to operating income = non-interest income ÷ operating income

12. Cost to income ratio = (operating expenses – business and other taxes) ÷ operating income

13. Cost to income ratio (calculated under domestic regulations) is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Yinjianfa【2006】No.22).

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. Non-performing loans to gross loans = non-performing loans at the year-end ÷ gross loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Yinjianfa【2006】No.22).

17. Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the year-end ÷ non-performing loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Yinjianfa【2006】No.22).

18. 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

19. Number of employees of the Group includes temporary and contract staff.

20. Certain items in the Bank's financial statements and their comparatives have been reclassified. The financial highlights are revised accordingly.

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中國銀行
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