中國銀行
BANK OF CHINA
中國銀行股份有限公司
BANK OF CHINA LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3988)

2007 Annual Results Announcement

The Board of Directors (the Board) of Bank of China Limited (the Bank) is pleased to announce the audited annual results of the Bank and its subsidiaries (the Group) for the year ended 31 December 2007.

1. CORPORATE INFORMATION

1.1	Place of Listing:	A share: Shanghai Stock Exchange H share: The Stock Exchange of Hong Kong Limited
1.2	Name and Code of the Stock:	A share: Bank of China Limited, 601988 H share: Bank of China Limited, 3988
1.3	Registered Address:	No.1 Fuxingmen Nei DaJie, Beijing, China
	Office Address:	No.1 Fuxingmen Nei DaJie, Beijing, China
	Post Code:	100818
	Website:	www.boc.cn
	E-mail:	bocir@bank-of-china.com
1.4	Secretary to the Board of Directors:	YEUNG Jason Chi Wai
	Office Address:	No.1 Fuxingmen Nei DaJie, Beijing, China
	Post Code:	100818
	Telephone:	8610-66596688
	Fax:	8610-66594521
	E-mail:	bocir@bank-of-china.com
1.5	Listing Affairs Representative:	LUO Nan
	Office Address:	No.1 Fuxingmen Nei DaJie, Beijing, China
	Post Code:	100818
	Telephone:	8610-66592638
	Fax:	8610-66594568
	E-mail:	bocir@bank-of-china.com

2. SUMMARY OF FINANCIAL PERFORMANCE AND RESULTS

Note: The following is prepared in accordance with International Financial Reporting Standards.

Unit: RMB million (unless otherwise stated)

	2007	2006	2005	2004	2003[1]
Results of operations					
Net interest income	**152,745**	121,371	101,008	88,435	76,597
Non-interest income	**29,967**	27,007	24,098	27,378	17,599
Operating income	**182,712**	148,378	125,106	115,813	94,196
Operating expenses	**(85,026)**	(68,731)	(59,984)	(54,879)	(46,080)
Impairment losses on loans	**(8,252)**	(12,342)	(11,486)	(23,812)	(18,100)
Operating profit	**89,434**	67,305	53,636	37,122	30,016
Profit before income tax	**90,697**	67,937	53,811	37,263	29,947
Profit for the year	**62,036**	48,264	31,558	27,065	26,785
Profit attributable to the equity holders of the Bank	**56,248**	42,830	25,921	22,301	23,615
Total dividend	**25,384**	10,154	14,112	14,200	–
Balance sheet items					
Total assets	**5,991,217**	5,327,653	4,740,048	4,265,221	3,973,280
Loans, net	**2,754,493**	2,337,726	2,152,112	2,072,919	1,921,861
Investment securities	**1,712,927**	1,892,482	1,683,313	1,321,646	1,104,105
Total liabilities	**5,540,560**	4,914,697	4,484,529	4,037,314	3,751,434
Due to customers	**4,400,111**	4,091,118	3,699,464	3,338,448	3,033,364
Capital and reserves attributable to the equity holders of the Bank	**420,430**	382,917	226,419	200,755	196,820
Share capital	**253,839**	253,839	209,427	186,390	186,390
Per share					
Earnings per share for profit attributable to the equity holders of the Bank (basic and diluted, RMB)	**0.22**	0.18	0.14	0.12	0.13
Dividend per share (before tax, RMB)	**0.10**	0.04	0.07	0.08	N/A
Net assets per share (RMB)	**1.66**	1.51	1.08	1.08	1.06

Unit: RMB million (unless otherwise stated)

	2007	2006	2005	2004	2003[1]
Key financial ratios					
Return on average total assets (%)	**1.10**	0.96	0.70	0.66	0.74
Return on average equity (%)	**14.00**	14.06	12.14	11.22	12.00
Net interest spread (%)	**2.59**	2.28	2.21	2.14	2.08
Net interest margin (%)	**2.76**	2.45	2.33	2.24	2.16
Loan to deposit ratio (%)	**64.78**	59.45	60.42	64.33	71.24
Non-interest income to operating income (%)	**16.40**	18.20	19.26	23.64	18.68
Cost to income (%)	**46.54**	46.32	47.95	47.39	48.92
Cost to income (excluding business and other taxes, %)	**41.76**	41.97	43.41	43.08	44.70
Capital adequacy ratios					
Core capital adequacy ratio (%)	**10.67**	11.44	8.08	8.48	N/A
Capital adequacy ratio (%)	**13.34**	13.59	10.42	10.04	N/A
Asset quality					
Identified impaired loans	**90,317**	103,232	109,530	118,383	358,218
Identified impaired loans to gross loans (%)	**3.17**	4.24	4.90	5.51	16.58
Allowance for loan impairment losses	**96,068**	94,293	83,153	74,769	239,039
Allowance for loan impairment losses to identified impaired loans (%)	**106.37**	91.34	75.92	63.16	66.73
Credit cost (%)	**0.31**	0.53	0.52	1.11	N/A
Human resources					
Number of employees of the Group	**237,379**	232,632	229,742	238,672	241,401
Number of employees in the Chinese mainland	**215,334**	212,428	211,305	220,999	224,404
Number of branches and outlets of the Group	**10,834**	11,241	11,646	11,909	12,153
Number of branches and outlets in the Chinese mainland	**10,145**	10,598	11,018	11,306	11,608
Exchange rate					
USD/RMB year-end middle rate	**7.3046**	7.8087	8.0702	8.2765	8.2767
EUR/RMB year-end middle rate	**10.6669**	10.2665	9.5797	11.2627	10.3383
HKD/RMB year-end middle rate	**0.9364**	1.0047	1.0403	1.0637	1.0657

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

3.1 Changes in Share Capital during the Reporting Period

Unit: Share

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

Notes:

1. As at 31 December 2007, the Bank had issued a total of 253,839,162,009 shares, including 177,818,910,740 A Shares and 76,020,251,269 H Shares.

2. The State-owned shares include the A shares held by Central SAFE Investments Limited and H shares held by the National Council for Social Security Fund, PRC. The Shares held by foreign investors include the shares held by The Royal Bank of Scotland Group plc, Temasek Holdings (Private) Limited, UBS AG and Asian Development Bank and other investors who have participated in the global offering of the H shares of the Bank.

3. For the purpose of this table, the changes during the period are mainly due to expiry of the lock-up period for A Shares and H Shares which were subject to selling restrictions.

4. 1,285,712,000 A Shares with a lock-up period of 18 months which were placed to strategic investors during the A Share IPO were unfrozen on 5 January 2008 and became tradable on the Shanghai Stock Exchange on 7 January 2008 (5th and 6th January 2008 were non-trading days). Thereafter, 171,325,404,740 A Shares of the Bank are subject to selling restrictions and 6,493,506,000 A Shares are not subject to selling restrictions.

5. Shares subject to selling restriction refer to shares held by shareholders who are subject to restrictions on selling in accordance with laws, regulations and rules or commitment.

3.2 Shareholder Information for the Reporting Period

3.2.1 *Number of Shareholders and Shareholdings Issuance and Listing of Shares*

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

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

3.2.2 *Shareholder Information at the End of the Report Period*

As of 31 December 2007, the Bank had 1,569,568 shareholders (including 1,290,501 A-share holders and 279,067 H-share holders).

3.2.3 *Top ten shareholders (A+H)*

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

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

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

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

Top Ten Shareholders of Shares (A+H) not subject to Selling Restriction as at 31 December 2007

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

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

3.3 Issue of Subordinated Bonds and Use of Proceeds

All proceeds from its IPO have been used by the Bank to strengthen its capital base.

The Bank issued RMB60 billion RMB-denominated subordinated bonds in 2004 and 2005. The issue of the bonds aimed to mitigate liquidity risk and optimise the maturity structure of assets and liabilities. The Bank utilised the long-term funds raised by the issuance to grant long and medium-term loans, especially those relating to high-quality infrastructure construction projects.

The Bank issued RMB3 billion Renminbi-denominated bonds in Hong Kong in September 2007, the first-ever by a Chinese mainland commercial bank. The Bank used the proceeds in strict accordance with the prospectus to support the development of the Bank's business.

The Bank's success in issuing RMB-denominated bonds in Hong Kong enables the Bank to obtain stable funding and to diversify its financing channels, while optimising the structure of the Bank's assets and liabilities. Moreover, the bond issue fully utilised the Bank's competitive edge in product diversification and its business platform and foster closer relationships with Hong Kong investors.

3.4 The Controlling Shareholder of the Bank

China SAFE Investments Limited (Huijin)

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

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

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Basic Information

Name	Age	Gender	Position	Term of office
XIAO Gang	49	Male	Chairman	From August 2004 to the date of the Annual General Meeting in 2010
LI Lihui	55	Male	Vice Chairman and President	From August 2004 to the date of the Annual General Meeting in 2010
LI Zaohang	52	Male	Executive Director and Executive Vice President	From August 2004 to the date of the Annual General Meeting in 2010
ZHOU Zaiqun	55	Male	Executive Director and Executive Vice President	From February 2008 to the date of the Annual General Meeting in 2010
ZHANG Jinghua	51	Male	Non-Executive Director	From August 2004 to the date of the Annual General Meeting in 2010
HONG Zhihua	55	Female	Non-Executive Director	From August 2004 to the date of the Annual General Meeting in 2010
HUANG Haibo	55	Female	Non-Executive Director	From August 2004 to the date of the Annual General Meeting in 2010
CAI Haoyi	53	Male	Non-Executive Director	From August 2007 to the date of the Annual General Meeting in 2010
WANG Gang	54	Male	Non-Executive Director	From August 2007 to the date of the Annual General Meeting in 2010
LIN Yongze	56	Male	Non-Executive Director	From January 2008 to the date of the Annual General Meeting in 2010
Frederick Anderson GOODWIN	49	Male	Non-Executive Director	From January 2006 to January 2009

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

Notes:

1. Directors are elected by the Annual General Meeting with a tenure of three years. The term of office starts as of the approval date by CBRC.

2. Xiao Gang, Li Lihui, Li Zaohang, Zhang Jinghua, Hong Zhihua, Huang Haibo and Anthony Francis NEOH were re-elected at the 2006 Annual General Meeting.

3. During the reporting period, no directors, supervisors or senior management held any shares of the Bank.

4.2 Compensations for Directors, Supervisors and Senior Management

Compensation for Directors, Supervisors and Senior Management in 2007

RMB: thousand

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

Notes:

1. The Chairman of the Board signed the agreement to waive emoluments paid to him as a director of BOCHK in 2007.

2. Independent Non-Executive Directors receive emoluments in accordance with the Resolution of the Extraordinary Shareholders' Meeting held on 30 December 2004 and the Resolution of the 2006 Annual General Meeting. Supervisors receive compensation in accordance with the Resolution of the 2005 Second Extraordinary Shareholders' Meeting. Independent Non-Executive Directors and Supervisors' compensation is proposed by the Personnel and Compensation Committee under the Board, reviewed by the Board of Directors and approved by the Shareholders' Meeting. Senior Management members receive compensation in accordance with Measures on Senior Management's Remuneration of Bank of China. Employee Supervisors receive compensation as staff in accordance with the Staff Compensation Scheme of Bank of China. Non-executive Directors employed by corporate shareholder of the Bank do not receive compensation from the Bank and are compensated by their respective employer.

3. Discretionary bonuses to be paid to the Directors and Supervisors listed above shall be decided in the Annual General Meeting scheduled on 19 June 2008.

4. Compensations for 2007 for the Directors, Supervisors and Senior Management listed in the table above have been reviewed by the Personnel and Compensation Committee and the Board of Directors of the Bank, which shall not exceed the sum disclosed in this Report.

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

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

Unit: RMB Thousand

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

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

5. MANAGEMENT DISCUSSION AND ANALYSIS

5.1 Financial Review

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

Unit: RMB million

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

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

Net Interest Income

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

Net interest income is affected by the average balances and average interest rates of interest-earning assets and interest-bearing liabilities. The average balances[1], average interest rates of major interest-earning assets and interest-bearing liabilities related to the Group and its domestic RMB and foreign currency activities are summarised in the following table:

Unit: RMB million, except percentages

	2007		2006		Change[6]	
Items	**Average balance**	**Average interest rate**	Average balance	Average interest rate	Average balance	Average interest rate
Group						
Interest-earning assets						
Loans	**2,665,549**	**5.94%**	2,353,694	5.48%	311,855	46 BPs
Investment debt securities[1]	**1,897,204**	**3.87%**	1,895,643	3.54%	1,561	33 BPs
Balances with central banks	**456,955**	**1.67%**	337,362	1.57%	119,593	10 BPs
Due from banks and other financial institutions[2]	**507,167**	**4.40%**	372,961	3.72%	134,206	68 BPs
Total	**5,526,875**	**4.74%**	4,959,660	4.34%	567,215	40 BPs
Interest-bearing liabilities						
Due to customers[3]	**4,374,893**	**2.04%**	4,070,308	1.96%	304,585	8 BPs
Due to banks and other financial institutions[4]	**577,058**	**2.53%**	373,811	2.51%	203,247	2 BPs
Other borrowed funds[5]	**123,503**	**4.35%**	109,910	4.21%	13,593	14 BPs
Total	**5,075,454**	**2.15%**	4,554,029	2.06%	521,425	9 BPs
Net interest spread		**2.59%**		2.28%		31 BPs
Net interest margin		**2.76%**		2.45%		31 BPs

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	**2007** Average balance	**2007** Average interest rate	2006 Average balance	2006 Average interest rate	Change Average balance	Change Average interest rate
Domestic RMB activities						
Interest-earning assets						
Loans	**1,872,598**	**6.06%**	1,604,617	5.43%	267,981	63 BPs
Investment debt securities	**967,693**	**2.81%**	906,823	2.35%	60,870	46 BPs
Balances with central banks	**403,662**	**1.75%**	274,414	1.70%	129,248	5 BPs
Due from banks and other financial institutions	**111,475**	**3.23%**	76,280	2.20%	35,195	103 BPs
Total	**3,355,428**	**4.51%**	2,862,134	4.01%	493,294	50 BPs
Interest-bearing liabilities						
Due to customers	**3,079,357**	**1.68%**	2,792,952	1.57%	286,405	11 BPs
Due to banks and other financial institutions	**319,964**	**1.89%**	176,661	2.14%	143,303	(25) BPs
Other borrowed funds	**60,781**	**4.69%**	60,001	4.62%	780	7 BPs
Total	**3,460,102**	**1.75%**	3,029,614	1.67%	430,488	8 BPs
Net interest spread		**2.76%**		2.34%		42 BPs
Net interest margin		**2.70%**		2.24%		46 BPs

Unit: USD million, except percentages

Items	2007 Average balance	2007 Average interest rate	2006 Average balance	2006 Average interest rate	Change Average balance	Change Average interest rate
Domestic foreign currency activities						
Interest-earning assets						
Loans	**41,776**	**5.57%**	40,692	5.20%	1,084	37 BPs
Investment debt securities	**72,607**	**4.97%**	77,096	4.74%	(4,489)	23 BPs
Balances with central banks	**2,658**	**0.08%**	2,011	0.10%	647	(2) BPs
Due from banks and other financial institutions	**35,351**	**4.54%**	25,680	3.08%	9,671	146 BPs
Total	**152,392**	**4.95%**	145,479	4.51%	6,913	44 BPs
Interest-bearing liabilities						
Due to customers	**56,908**	**2.30%**	59,288	1.98%	(2,380)	32 BPs
Due to banks and other financial institutions	**27,103**	**2.86%**	19,465	2.50%	7,638	36 BPs
Other borrowed funds	**5,773**	**3.67%**	6,391	3.65%	(618)	2 BPs
Total	**89,784**	**2.56%**	85,144	2.22%	4,640	34 BPs
Net interest spread		**2.39%**		2.29%		10 BPs
Net interest margin		**3.44%**		3.21%		23 BPs

Notes:

1. Investment debt securities include debt securities available for sale, debt securities held to maturity, debt securities classified as loans and receivables, trading debt securities and debt securities designated at fair value.

2. Due from banks and other financial institutions includes placements with banks and other financial institutions.

3. Due to customers includes structured deposits.

4. Due to banks and other financial institutions includes amounts 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. 100 basis points represent 1 percentage point.

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

Unit: RMB million

Items	2007	2006	Change	Analysis of net interest income variances Volume	Interest rate
Group					
Interest income					
Loans	**158,390**	128,934	29,456	17,090	12,366
Investment debt securities	**73,500**	67,195	6,305	55	6,250
Balances with central banks	**7,645**	5,313	2,332	1,878	454
Due from banks and other financial institutions	**22,336**	13,892	8,444	4,992	3,452
Total	**261,871**	215,334	46,537	24,015	22,522
Interest expense					
Due to customers	**89,170**	79,939	9,231	5,970	3,261
Due to banks and other financial institutions	**14,584**	9,393	5,191	5,101	90
Other borrowed funds	**5,372**	4,631	741	572	169
Total	**109,126**	93,963	15,163	11,643	3,520
Net interest income	**152,745**	121,371	31,374	12,372	19,002
Domestic RMB activities					
Interest income					
Loans	**113,492**	87,128	26,364	16,451	9,913
Investment debt securities	**27,205**	21,274	5,931	1,430	4,501
Balances with central banks	**7,060**	4,669	2,391	2,197	194
Due from banks and other financial institutions	**3,604**	1,677	1,927	774	1,153
Total	**151,361**	114,748	36,613	20,852	15,761

Unit: RMB million

Items	**2007**	2006	Change	**Analysis of net interest income variances** Volume	Interest rate
Interest expense					
Due to customers	**51,745**	43,967	7,778	3,117	4,661
Due to banks and other financial institutions	**6,039**	3,773	2,266	3,067	(801)
Other borrowed funds	**2,849**	2,774	75	36	39
Total	**60,633**	50,514	10,119	6,220	3,899
Net interest income	**90,728**	64,234	26,494	14,632	11,862

Domestic foreign currency activities

Unit: USD million

Interest income					
Loans	**2,326**	2,116	210	56	154
Investment debt securities	**3,610**	3,658	(48)	(213)	165
Balances with central banks	**2**	2	0	1	(1)
Due from banks and other financial institutions	**1,606**	792	814	298	516
Total	**7,544**	6,568	976	142	834
Interest expense					
Due to customers	**1,311**	1,173	138	(37)	175
Due to banks and other financial institutions	**775**	486	289	191	98
Other borrowed funds	**212**	233	(21)	(23)	2
Total	**2,298**	1,892	406	131	275
Net interest income	**5,246**	4,676	570	11	559

Note:

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

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

Unit: RMB million, except percentages

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

For 2007, the Group's net interest spread (NIS) and net interest margin (NIM) rose by 31 basis points to 2.59% and 2.76%, respectively, compared with the prior year.

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

(a) The PBOC's six adjustments in the benchmark rates of the RMB-denominated loans and deposits in 2007 following the two upward adjustments in 2006, increased the benchmark rates of loans and deposits. The market rates of RMB also increased steadily during the year. At the end of 2007, the rates of 1-year RMB deposits and 1-year RMB loans rose by 1.62 and 1.35 percentage points to 4.14% and 7.47%, respectively, compared with the prior year-end. The yield on 1-year central bank note rose by 1.232 percentage points to 4.038% and 1-year SHIBOR rose by 1.5729 percentage points to 4.5751%, respectively, compared with the prior year-end.

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

(b) The Group intensified its efforts to improve asset structure and increasing the proportion of higher yielding interest-earning assets. At the end of 2007, the loan portfolio accounted for 49.76% of total interest-earning assets, an increase of 2.07 percentage points compared with the prior year-end. The Group also continued to rebalance the mix of the loan portfolio to achieve higher yields by reducing the proportion of lower yielding trade bills in the portfolio. At the end of 2007, trade bills accounted for 3.18% of the loan portfolio, a decrease of 2.87 percentage points compared with the prior year-end.

(c) Affected by the rapid development of the domestic capital markets, the sentiment of the general public towards investing has increased, and there is a noticeable trend of shifting savings from time deposits to demand deposits. As a result, the proportion of the demand deposits to total deposits increased by 2.34 percentage points to 45.12% at the end of 2007, compared with the prior year-end.

(d) Improvement in asset quality, as a result of continuous improvement in the Group's credit risk management process and focused efforts on disposal of non-performing assets, contributed significantly to the continuous decrease in the Group's identified impaired loans.

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

Non-interest Income

Unit: RMB million

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

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

The Group reported a non-interest income of RMB29.967 billion in 2007, an increase of RMB2.960 billion or 10.96%, representing 16.40% of the operating income.

Net Fee and Commission Income

Unit: RMB million

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

In 2007, the Group earned a net fee and commission income of RMB27.488 billion, an increase of RMB13.165 billion or 91.92%, representing 15.04% of the operating income, an increase of 5.39 percentage points compared with the prior year. The Group's domestic operations earned a net fee and commission income of RMB17.934 billion, an increase of RMB9.305 billion or 107.83% compared with the prior year. The significant increase in the Group's agency income, particularly the agency commission income from fund distribution, was largely attributable to the rapid development of domestic capital markets and positive investment sentiment of the general public.

Net Trading (Losses)/Gains

Unit: RMB million

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

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

Net (Losses)/Gains on Investment Securities

Unit: RMB million

Items	**2007**	2006	2005	2004	2003
(Losses)/gains on de-recognition of investment securities	**(3,263)**	1,178	(606)	529	1,217
(Allowance)/write back for impairment losses	**(12,263)**	(46)	24	(192)	(123)
Total	**(15,526)**	1,132	(582)	337	1,094

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

Operating Expenses

Unit: RMB million

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

In 2007, the Group reported operating expenses of RMB85.026 billion, an increase of RMB16.295 billion or 23.71% compared with the prior year. The increase was mainly attributable to: (a) an increase in staff costs and general operating and administrative expenses in line with the growth of the Group's business activities; (b) significant growth in taxable income resulting in a corresponding increase in business and other taxes expenses; and (c) an increase in provision for life insurance claims in line with the rapid growth of the life insurance business in 2007.

Impairment Losses on Loans

In 2007, the Group improved asset quality and achieved its 'dual decrease' objective of reducing both identified impaired loans and the ratio of identified impaired loans to gross loans. Impairment losses on loans for the period amounted to RMB8.252 billion, a decrease of RMB4.090 billion or 33.14%, and the credit cost decreased to 0.31%. The allowance for loan impairment losses totalled RMB96.068 billion at the end of 2007, an increase of RMB1.775 billion compared with the prior year-end.

Income Tax Expense

In 2007, the Group incurred an income tax expense of RMB28.661 billion, an increase of RMB8.988 billion or 45.69% compared with the prior year. The effective tax rate rose by 2.64 percentage points to 31.60%. The change in income tax expense was mainly attributable to: (a) significant growth in taxable income which resulted in a corresponding increase in income tax expense; (b) approval by the National People's Congress of the PRC Enterprise Income Tax Law on 16 March 2007, which reduced the domestic enterprise income tax from 33% to 25% with effect from the beginning of 2008. In accordance with International Financial Reporting Standards, the Group remeasured its deferred tax assets and deferred tax liabilities of the domestic operations, and thereby resulted in an increase in the income tax expense.

Balance Sheet Analysis

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

Unit: RMB million

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

Notes:

1. 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.

2. Due from banks and other financial institutions includes placements with banks and other financial institutions.

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

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

Loans

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

Investment Securities

At the end of 2007, the Group held investment securities of RMB1,712.927 billion, a decrease of RMB179.555 billion or 9.49% compared with the prior year-end. Balancing the risk and reward, the Group increased its investments in PBOC bills and PRC treasury notes in 2007, and actively rebalanced the mix of its foreign currency securities investment portfolio. The classification of the Group's investment securities portfolio at the end of 2007 is shown in the following table:

Unit: RMB million, except percentages

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

(As at 31 December)

Due to Customers

With the rapid development of the domestic capital markets in 2007, the sentiment of the general public towards saving has decreased, resulting in the slower growth of personal deposits. During the same period, the growth in deposits from financial institutions has accelerated. The trend of customers' shifting their savings to demand deposits, which resulted in the shortening of deposit tenors, was made apparent in 2007. At the end of 2007, the Group's deposits from customers amounted to RMB4,400.111 billion, an increase of RMB308.993 billion or 7.55% compared with the prior year-end. At the end of 2007, demand deposits accounted for 45.12% of total deposits, an increase of 2.34 percentage points compared with the prior year-end. The following table sets forth the principal components of the Group's and its domestic deposits from customers:

Unit: RMB million, except percentages

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

Equity

At the end of 2007, the Group's total equity was RMB450.657 billion, an increase of RMB37.701 billion or 9.13% compared with the prior year-end. This change was mainly attributable to: (a) the Group's profit for the year of RMB62.036 billion, in which the profit attributable to the equity holders of the Bank was RMB56.248 billion; (b) a dividend of RMB10.154 billion paid in respect of 2006 profit approved by the shareholders of the Bank at the Annual General Meeting held on 14 June 2007.

Off-balance Sheet Items

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

The Group entered into various foreign exchange rate, interest rate, equity, precious metals and other commodity derivative transactions principally for its proprietary trading, asset and liability management purposes and on behalf of customers.

Contingent liabilities and commitments include legal proceedings, assets pledged, collateral accepted, capital commitments, operating leases, certificate treasury bond redemption commitments and credit commitments. Credit commitments were the largest component, totalling RMB1,335.547 billion at the end of 2007.

Segment Reporting by Geography

The Group conducts its business activities in the Chinese mainland, Hong Kong and Macau and other overseas locations. The geographical analysis of profit attributable to the business activities, and the related assets and liabilities are set forth in the following table:

Unit: RMB million

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

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

At the end of 2007, the total assets of the Hong Kong & Macau segment amounted to RMB1,158.713 billion, an increase of RMB74.635 billion or 6.88% compared with the prior year-end, representing 18.77% of the Group's total assets. This segment achieved a profit for the year 2007 of RMB24.641 billion, an increase of RMB3.688 billion or 17.60% compared with the prior year, representing 39.72% of the Group's profit for the year.

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

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

Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management believes that the accounting estimates and assumptions made properly reflected the economic conditions in which the Group was operating and the relevant conditions specific to individual estimates and judgements.

Reconciliation of Differences between CAS and IFRS Financial Information

	Shareholder's equity As at 31 December		Net profit attributed to equity holders of the Bank	
	2007	2006	**2007**	2006
CAS figures	**454,993**	417,325	**56,229**	42,624
Adjustments for accounting standard differences:				
– Reversal of asset revaluation surplus and corresponding depreciation/amortisation and others[1]	**(5,781)**	(6,521)	**742**	307
– Deferred tax impact[2]	**1,445**	2,152	**(723)**	(101)
Subtotal	**(4,336)**	(4,369)	**19**	206
IFRS figures	**450,657**	412,956	**56,248**	42,830

Reconciliation between CAS report and IFRS report

(1) *Reversal of asset revaluation surplus and corresponding depreciation/amortisation*

Under CAS, the Group recorded an asset revaluation adjustment of RMB10,432 million as of 31 December 2003, related principally to land use right, in connection with the Joint Stock Reform Plan. The revalued land use right will be amortised over their remaining useful lives. Under IFRS, relevant asset revaluation surplus and corresponding depreciation/amortisation recognised under CAS, should be reversed.

(2) 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.

5.2 Business review

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

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

Unit: RMB million, except percentages

	2007		2006	
	Amount	**% of total**	Amount	% of total
Commercial Banking	**80,322**	**89.81**	63,392	94.19
Investment Banking	**1,384**	**1.55**	1,055	1.57
Insurance	**233**	**0.26**	581	0.86
Others	**7,495**	**8.38**	2,769	4.11
Eliminations	**–**	**–**	(492)	(0.73)
Total	**89,434**	**100.00**	67,305	100.00

Commercial Banking

Commercial banking is the traditional main business of the Bank, comprising of corporate banking, personal banking and financial market business (mainly treasury operations). The following table sets forth the operating profit of the main commercial banking business lines for the periods indicated:

Unit: RMB million, except percentages

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

Corporate Banking Business

Corporate banking contributes the majority of the Bank's profit. In 2007, the focus of corporate banking continued to be improvement of customer service, business coordination, product innovation and management model transformation. During the year, the corporate banking business unit was established to strengthen business line management. The Bank implements a development strategy of serving large-sized high quality corporate customers and maintaining long-term relationships with large-sized premium customers. At the same time, the Bank acknowledges the importance of small and medium-sized enterprises (SMEs) as a key component of its corporate banking business and is dedicated to partnering with SMEs and providing them with efficient, professional and comprehensive solutions.

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

In 2008, the Bank will continue to enhance the corporate fee-based businesses, and focus on the improvement of returns by customers and coordination between the head office and its domestic and overseas operations. Its customer relations team will broaden the focus from loan and deposit taking to comprehensive marketing of all product lines and enhance synergy with the business department. At the same time, more efforts will be made to enhance the corporate banking unit for stronger concertiveness. The Bank will also further develop its capabilities in product management, human resources management, credit management and internal control in order to sharpen the competitive edge of its corporate banking business.

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

Personal Banking Business

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

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

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

Financial Market Business

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

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

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

As at 31 December 2007, the carrying value of US subprime mortgage related asset-backed securities was USD 4.990 billion (or RMB36.454 billion), representing 2.13% of the investment securities of the Group, of which 71.23% was AAA rated, 25.93% AA rated and 1.10% A rated.

The Group has been closely monitoring the developments in the US subprime mortgage market, and in the fourth quarter of 2007, the Group disposed of a portion of the higher risk US Subprime ABS and all of its US subprime mortgage related collateralised debt obligations. Losses incurred have been charged into the Bank's Profit and Loss for the year.

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

The Bank closely monitored developments in the US credit market and evaluated its impact on Group's USD investment portfolio on a continuous basis. In addition to proactively managing relevant risks, the Bank has conducted prudent impairment assessment of such investments.

As at 31 December 2007, the carrying value of US Alt-A mortgage backed securities was USD2.47 billion (approximately RMB18.04 billion), representing 1.05% of the investment securities of the Group, 98.21% of which was AAA rated. The Group booked an impairment charge of USD 0.285 billion (approximately RMB2.082 billion) on US Alt-A and other US mortgage backed securities held as at 31 December 2007.

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

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

Bank of China (Hong Kong)

The Bank conducts commercial banking business in Hong Kong through its subsidiary BOCHK. With 65.77% of its shares owned by the Bank, BOC Hong Kong (Holdings) Limited ("BOCHK Holdings"), which holds the entire equity interest in BOCHK, was listed on main board of the Hong Kong Stock Exchange on 25 July 2002. Benefiting from the favourable economic environment, BOCHK Group recorded remarkable business growth in 2007. Its contribution to the Bank in terms of profit after tax was RMB9.917 billion, a year-on-year increase of 4.96%. Both operating profit before impairment allowances and profit attributable to shareholders reached record high since its IPO in 2002, with marked increases in net interest income and non-interest income. The investment agency business also demonstrated outstanding performance, and the cost-to-income ratio remained at a relatively low level by market standards.

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

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

Risk Management

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

Credit Risk

Loan concentration by borrower

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

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

Note:

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

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

Loan quality

Five-category loan classification

Group

Unit: RMB million, except percentages

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

Domestic loans

Unit: RMB million, except percentages

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

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

Market Risk

Market Risk of the Trading Book

The Group applies a VAR methodology to its trading portfolios to estimate the market risk of positions held.

VAR is used to estimate the losses arising from adverse market movements in a specific holding period and within a certain confidence level.

VAR analysis is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK and BOC International Holdings Limited ("BOCI"). The Bank uses a 95% level of confidence (therefore 5% statistical probability that actual losses could be greater than the VAR estimate) and uses a Monte Carlo Simulation model to calculate the VAR estimate. Since 1 April 2007, BOCHK uses a 99% level of confidence and a historical simulation model; prior to this a standard deviation covariance model was used. BOCI uses a 99% level of confidence and a historical simulation model to calculate the VAR estimate. The holding period of the VAR models is one day.

The chart below shows the VAR of the FX trading book by types of risk for the 12 months to 2007 and 2006:

Unit: USD million

	2007			2006		
	Average	**High**	**Low**	Average	High	Low
Bank VAR						
Interest rate risk	**5.12**	**11.30**	**1.26**	2.71	16.25	0.54
Foreign exchange risk	**2.13**	**8.24**	**0.18**	2.99	14.12	0.39
Volatility risk	**0.55**	**1.48**	**0.08**	0.79	6.19	0.07
Total Bank VAR	**5.79**	**10.51**	**1.29**	5.64	19.15	0.86

Market Risk of the Banking Book

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

Foreign Exchange Rate Risk

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

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

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

In 2007, the Bank executed certain foreign exchange transactions valued at USD17.3 billion to reduce foreign currency exposure.

By the afore-mentioned measures, the Bank's net foreign currency exposure has reduced from USD15.7 billion at the end of 2006 to USD4.1 billion at the end of 2007, effectively lowering exchange rate risk.

Liquidity Risk

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

Under such circumstances, the Bank managed to maintain adequate liquidity levels by continuously improving liquidity management capabilities, consolidating liquidity risk and efficiency, implementing proactive liability management, strengthening monitoring of internal positions and maximizing return on capital, which met normal business needs and at the same time improved the effectiveness of operational funds.

Regulatory Ratios on Liquidity

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

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

Note:

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

Loan-to-deposit ratio = outstanding loans/outstanding deposits

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

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

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

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

Capital Management

The Group's objectives when managing capital, are:

- to comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders; and

- to maintain a strong capital base to support the development of its business.

Capital adequacy and regulatory capital are monitored by Group management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to its risk-weighted assets at or above the agreed minimum of 8%, and a core capital ratio of above 4%.

The Group's regulatory capital as managed by its Treasury Department is divided into two tiers:

- Core capital: share capital, capital reserve, reserves created by appropriations of retained earnings, retained earnings and minority interest arising on consolidation from interests in permanent shareholders' equity; and

- Supplementary: long-term subordinated bond issued, collective impairment allowances and others.

Goodwill, investments in entities engaged in banking and financial activities which are not consolidated in the financial statements, investment properties and investments in commercial corporations are deducted from core and supplementary capital to arrive at the regulatory capital.

The on-balance sheet risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardized (market risk) approach.

The tables below summarise the capital adequacy ratios and the composition of regulatory capital of the Group as at ended 31 December 2007 and 2006. The Group complied with the externally imposed capital requirements to which it is subject.

	As at 31 December	
	2007	2006
Capital adequacy ratio	**13.34%**	13.59%
Core capital adequacy ratio	**10.67%**	11.44%

The capital adequacy ratios above are calculated in accordance with the rules and regulations promulgated by the CBRC, and the generally accepted accounting principles of the PRC. The regulatory indicators are measured according to the regulatory requirements and accounting standards of the reporting period, and no retrospective adjustment was made to the comparative amounts.

Group

	As at 31 December	
	2007	2006
Components of Capital base		
Core capital:		
Share capital	**253,794**	253,623
Reserves[(b)]	**126,567**	126,916
Minority interest	**30,227**	29,560
Total core capital	**410,588**	410,099
Supplementary capital:		
Collective impairment allowances	**31,897**	28,315
Long-term subordinated bonds issued	**60,000**	60,000
Others[(b)]	**16,672**	(2,439)
Gross value of supplementary capital	**108,569**	85,876
Total capital base before deductions	**519,157**	495,975
Deductions:		
Goodwill	**(1,752)**	(1,875)
Investments in entities engaged in banking and financial activities which are not consolidated	**(1,932)**	(4,371)
Investment properties	**(9,986)**	(5,141)
Investments in commercial corporations	**(4,847)**	(13,226)
Total capital base after deductions	**500,640**	471,362
Core capital base after deductions[(a)]	**400,454**	396,855
Risk-weighted assets and market risk capital adjustment		
Risk-weighted assets and market risk capital adjustment	**3,754,108**	3,469,017

(a) Pursuant to the relevant regulations, 100% of goodwill and 50% of other deductions were applied in deriving the core capital base.

The increase of the regulatory capital in 2007 was mainly due to the contribution of the current-year profit.

(b) Pursuant to regulations released by CBRC in November 2007, all net unrealized fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognized in profit and loss are included in the supplementary capital. Only a certain percentage of fair value gain recognized in equity can be included in the supplementary capital.

5.3 Organizational Information, Human Resources Management and Development

Organizational Information

As at the end of 2007, the Bank had a total of 10,834 domestic and overseas branches and outlets, including 37 tier one branches, 283 tier two branches and 9,824 outlets in the Chinese mainland and 689 branches, subsidiaries and representative offices in Hong Kong, Macau and others countries, a reduction of 407 from the beginning of the year.

Staff Profile

As at the end of 2007 the Bank had 237,379 employees (including 52,992 external contractual staff in domestic institutions), of which 22,045 were locally engaged staff in overseas branches and subsidiaries. By the end of 2007, the Bank paid retirement expenses for a total of 7,183 retirees.

6 SIGNIFICANT EVENTS

6.1 Material Litigation and Arbitration

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

6.2 Purchase and Sale, Acquisition of Asset

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

6.3 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.

6.4 Significant 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.

6.4.1 *Transactions with the parent company and other companies controlled by the parent companies*

6.4.1.1 *Transactions with the parent company*

Huijin became the equity holder of the Bank from 30 December 2003. As of 31 December 2007, Huijin owned a 67.49% equity interest in the Bank.

	Year ended 31 December	
Huijin deposit movements	**2007**	2006
As at 1 January	**22,060**	38,869
Deposits received during the year	**99,619**	288,128
Deposits repaid during the year	**(100,087)**	(304,937)
As at 31 December	**21,592**	22,060

6.4.1.2 *Transactions with other companies controlled by the parent company*

Huijin also has controlling equity interests in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of its business. These include trading assets, investment securities and money market transactions.

The related interest rate range and the outstanding balances with these companies as of 31 December 2007 and 2006 are as follows:

	As at 31 December	
	2007	2006
Balances at the end of the year:		
Financial assets at fair value through profit or less and investment securities	**2,742**	1,762
Due from banks and other financial institutions	**332**	121
Placements with banks and other financial institutions	**1,669**	1,662
Due to banks and other financial institutions	**(5,159)**	(1,971)
Placements from banks and other financial institutions	**(20,638)**	(106)

	As at 31 December	
	2007	2006
Interest rate ranges at the end of the year:		
Financial assets at fair value through profit or less and investment securities	**1.00%-7.16%**	3.15%-6.54%
Due from banks and other financial institutions	**0.72%-5.33%**	0.00%-5.40%
Placements with banks and other financial institutions	**1.00%-7.04%**	2.40%-6.05%
Due to banks and other financial institutions	**0.00%-3.45%**	0.00%-3.00%
Placements from banks and other financial institutions	**0.01%-6.07%**	0.99%-4.25%

6.4.2 *Transactions with government agencies, authorities and other state controlled entities*

The Bank is subject to the control of the State Council of the PRC Government through Huijin, which also directly and indirectly controls a significant number of entities through its government authorities, agencies and affiliates. The Group enters into extensive banking transactions with government authorities, agencies and affiliates and other state controlled entities in the normal course of business and commercial terms.

Transactions conducted with government agencies, authorities and other state controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Certificate Treasury Bonds issued by government agencies through the Group's branch network, foreign exchange and interest rate derivative transactions, lending, provision of credit and guarantees and deposit taking.

The details of transactions and balances with government agencies, authorities and other state controlled entities conducted in the ordinary course of business are set out below, other than those disclosed elsewhere in the financial statements.

	As at 31 December	
	2007	2006
Balances at the end of the year:		
Due from banks and other financial institutions	**1,995**	3,499
Placements with banks and other financial institutions	**44,270**	42,963
Financial assets at fair value through profit or less and investment securities	**355,225**	349,173
Loans and advances to customers[1]	**593,487**	576,653
Due to banks and other financial institutions	**(219,191)**	(124,466)
Placements from banks and other financial institutions	**(166,020)**	(104,486)
Due to customers[2]	**(537,307)**	(464,088)

	As at 31December	
	2007	2006
Allowance for impairment losses:		
Placements with banks and other financial institutions	**(390)**	(499)
Financial assets at fair value through profit or less and investment securities	**(148)**	(152)
Individually assessed loans and advances[1]	**(10,176)**	(11,988)

	As at 31 December	
	2007	2006
Interest rate ranges at the end of the year:		
Due from banks and other financial institutions	**0.72%-9.75%**	0.00%-11.00%
Placements with banks and other financial institutions	**0.30%-10.20%**	0.07%-7.40%
Financial assets at fair value through profit or less and investment securities	**1.00%-8.25%**	0.48%-8.25%
Loans and advances to customers[1]	**0.20%-18.00%**	0.20%-18.24%
Due to banks and other financial institutions	**0.00%-6.00%**	0.00%-4.82%
Placements from banks and other financial institutions	**0.01%-8.58%**	0.01%-7.60%
Due to customers[2]	**0.00%-7.85%**	0.00%-8.40%

(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.

(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.

6.4.3 *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	
	2007	2006
Balances as at the end of the year:		
Loans and advances	**908**	814
Deposits	**(11,367)**	(3,289)
Placements with banks and other financial institutions	**520**	–
Placements from banks and other financial institutions	**(2)**	–

6.4.4 *Transactions with key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During 2007 and 2006, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2007 and 2006 is detailed as follows:

	2007	2006
Short-term employment benefits	**31**	29
Post-employment benefits	**1**	1
Total	**32**	30

6.5 Major Contracts and Performance

6.5.1 *Major custody, contract and lease events*

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

6.5.2 *Significant guarantee business*

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

6.5.3 *Significant cash management entrusted to third parties*

During the reporting period, save as disclosed, there was no significant cash asset entrusted to third parties for management.

6.6 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 shares of the Bank.

6.7 Other Significant Events

Investment Securities

No.	Security type	Stock code	Company name	Initial investment cost *(unit: RMB)*	Stock held *(unit: share)*	Carrying value at period end *(unit: RMB)*	Proportion of the total investment securities %	Gains/(losses) during the reporting period *(unit: RMB)*
1	Stock	000527 CH	GD Midea Electric Appliances	325,513,940	13,463,286	499,601,652	5.25	(8,739,881)
2	Stock	000002 CH	China Vanke Co. Ltd	140,614,300	12,082,857	348,455,025	3.66	(8,555,774)
3	Stock	5 HK	HSBC Holdings	207,292,761	1,684,180	207,699,612	2.18	266,737
4	Stock	000568 CH	Luzhou Laojiao Co., Ltd.	64,766,332	2,556,000	187,858,144	1.97	(3,805,838)
5	Stock	600823 CH	Shanghai ShiMao Co., Ltd.	222,856,434	8,347,209	171,110,629	1.80	(8,003,691)
6	Stock	386 HK	CHINA PETROLEUM & CHEMICAL CORP	157,494,710	15,474,374	170,694,592	1.79	39,237,803
7	Stock	700 HK	Tencent	157,923,130	2,995,600	165,600,753	1.74	13,317,746
8	Stock	600663 CH	Shanghai Lujiazui FIn & Trade Zone Dev	161,598,598	6,515,114	159,743,915	1.68	(6,306,376)
9	Stock	600009 CH	Shanghai Int'l Airport Co., Ltd.	69,685,728	3,876,076	145,424,290	1.53	(2,800,765)
10	Stock	600048 CH	Poly Real Estate Group	91,673,602	2,172,000	140,783,153	1.48	(2,752,324)
Other investment securities held at period end				6,224,285,124	–	7,319,480,080	76.92	1,504,581,644
Gains/(losses) of investment securities sold during the reporting period				–	–	–	–	326,316,916
Total				7,823,704,659	–	9,516,451,845	100	1,842,756,197

Notes:

1. The table lists the ten largest stocks held by the Group in descending order at their carrying value at the period end.

2. Investment securities listed in this table include stocks, warrants, convertible bonds, etc. Stock investments included herein were classified under financial assets at fair value through profit or loss by the Group.

3. Other investment securities refer to investment securities other than the ten largest stocks listed above.

Stocks of other listed companies held by the Group

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

Notes:

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

2. Gains or losses during the reporting period refer to the relevant investment's contribution to the Group's consolidated profit for the period.

Equity Investments in Unlisted Financial Companies held by the Group

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

Notes:

1. Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, etc.

2. Carrying value at the period end is after impairment allowance.

3. Gains or losses during the reporting period refer to the relevant investment's contribution to the Group's consolidated profit for the period.

Trading of stocks of listed companies during the reporting period

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

7. OTHER INFORMATION

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

Group

	Number of ordinary shares *(in millions)*	Ordinary shares of RMB1 each	Capital reserve	Treasury shares	Total
As at 1 January 2007	253,789	253,839	66,617	(216)	320,240
Net change in treasury shares(1)	39	–	–	171	171
Others	–	–	(25)	–	(25)
As at 31 December 2007	253,828	253,839	66,592	(45)	320,386
As at 1 January 2006	209,427	209,427	(5,954)	–	203,473
Issue of ordinary shares (net of issuance costs)(2)	44,412	44,412	72,567	–	116,979
Net change in treasury shares(1)	(50)	–	–	(216)	(216)
Others	–	–	4	–	4
As at 31 December 2006	253,789	253,839	66,617	(216)	320,240

Bank

	Number of ordinary shares *(in millions)*	Ordinary shares of RMB1 each	Capital reserve	Treasury shares	Total
As at 1 January 2007	253,839	253,839	66,166	–	320,005
Others	–	–	(4)	–	(4)
As at 31 December 2007	253,839	253,839	66,162	–	320,001
As at 1 January 2006	209,427	209,427	(6,054)	–	203,373
Issue of ordinary shares (net of issuance costs)(2)	44,412	44,412	72,219	–	116,631
Others	–	–	1	–	1
As at 31 December 2006	253,839	253,839	66,166	–	320,005

As at 31 December 2007, the Bank's share capital is as follows:

	Number of shares
Domestic listed A shares, par value RMB1.00 per share[(3)]	177,818,910,740
Overseas listed H shares, par value RMB1.00 per share[(3)]	76,020,251,269
Total	253,839,162,009

(1) As at 31 December 2007, a wholly owned subsidiary of the Group held certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to reserves. The total number of treasury shares as at 31 December 2007 was 11 million (2006: 50 million).

(2) In 2006, the Bank issued 8,514,415,652 shares to the National Council for Social Security Fund, 29,403,878,000 shares to Hong Kong and overseas investors and 6,493,506,000 shares to the domestic investors.

(3) All A shares and H shares rank pari passu with the same rights and benefits.

7.2 Compliance with the Code on Corporate Governance Practices of the Hong Kong Listing Rules

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") which were effective as of 1 January 2005. The Bank has complied with the Code provisions and has substantially complied with most of the recommended best practices set out in the Code. The Bank also observes the laws and regulations of the places where it has business operations as well as the various provisions and guidelines of regulatory authorities.

7.3 Securities Transactions by Directors and Supervisors

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

7.4 Results and Dividends Distribution

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

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

7.5 Closure of Register of H-Share Holders

The H-Share Register of Members of the Bank will be closed for the purpose of determining H-Share Holders' entitlement to attend the Annual General Meeting, from Tuesday, 20 May 2008 to Thursday, 19 June 2008 (both days inclusive). During the aforesaid period, no transfer of H-Shares will be registered. In order to attend the Annual General Meeting, H-Share Holders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Monday, 19 May 2008.

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

7.6 Annual General Meeting

The Bank is scheduled to hold the Annual General Meeting in Island Ballroom, Island Shangri-La, Hong Kong, Level 5, Pacific Place, Supreme Court Road, Central, Hong Kong at 3 p.m. on 19 June 2008.

7.7 Publication of Results Announcements and Annual Report

The announcement is published both on the website of Hong Kong Exchanges and Clearing Limited www.hkexnews.hk and the Bank's website www.boc.cn. The annual report prepared under International Financial Reporting Standards (non-printed version) is also available on the website of Hong Kong Exchanges and Clearing Limited www.hkexnews.hk and the website of the Bank www.boc.cn. The 2007 annual report (printed copy) prepared in accordance with the International Financial Reporting Standards is available on the website of Hong Kong Exchanges and Clearing Limited www.hkexnews.hk and the Bank's website www.boc.cn, and will be delivered to H Share shareholders in late April 2007. The annual report prepared in accordance with CAS and the announcement will also be available at the same time on the website of Shanghai Stock Exchange www.sse.com.cn and www.boc.cn.

7.8 Review of Annual Results

The Audit Committee has reviewed the 2007 Annual Report of the Bank. The Bank's external auditor, PricewaterhouseCoopers Zhong Tian CPAs Limited Company has audited 2007 financial statements of the Bank prepared in accordance with CAS and PricewaterhouseCoopers Hong Kong has audited the 2007 financial statements of the Bank prepared in accordance with IFRS, and both have issued unqualified audit reports. The Audit Committee has discussed matters such as accounting standards and practices adopted in the financial statements, internal control and the financial statements.

8. FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

8.1 Consolidated Income Statement, Balance Sheet, Parent Company's Balance Sheet, Consolidated Statement of Changes in Equity and Cash Flow Statement

Bank of China Limited
Consolidated Income Statement
For the year ended 31 December 2007

	2007	2006
Interest income	**261,871**	215,334
Interest expense	**(109,126)**	(93,963)
Net interest income	**152,745**	121,371
Fee and commission income	**31,554**	17,139
Fee and commission expense	**(4,066)**	(2,816)
Net fee and commission income	**27,488**	14,323
Net trading losses	**(662)**	(1,544)
Net (losses)/gains on investment securities	**(15,526)**	1,132
Other operating income	**18,667**	13,096
Operating income	**182,712**	148,378
Operating expenses	**(85,026)**	(68,731)
Impairment losses on loans and advances	**(8,252)**	(12,342)
Operating profit	**89,434**	67,305
Share of results of associates and joint ventures	**1,263**	632
Profit before income tax	**90,697**	67,937
Income tax expense	**(28,661)**	(19,673)
Profit for the year	**62,036**	48,264

	2007	2006
Attribute to:		
Equity holders of the Bank	**56,248**	42,830
Minority interest	**5,788**	5,434
	62,036	48,264
Earnings per share for profit attributable to the equity holders of the Bank during the year (Expressed in RMB per ordinary share)		
– Basic and diluted	**0.22**	0.18
Dividends		
Interim dividends declared during the year	**–**	–
Final dividends proposed after the balance sheet date	**25,384**	10,154

Bank of China Limited
Consolidated Balance Sheet
As at 31 December 2007

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

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

Bank of China Limited
Balance Sheet
As at 31 December 2007

	As at 31 December	
	2007	2006
ASSETS		
Cash and due from banks	**66,348**	37,842
Balances with central banks	**721,433**	354,881
Placements with banks and other financial institutions	**285,357**	303,002
Government certificates of indebtedness for bank notes issued	**1,792**	1,713
Precious metals	**42,782**	40,542
Financial assets at fair value through profit or loss	**82,682**	76,581
Derivative financial instruments	**30,971**	16,363
Loans and advances to customers, net	**2,336,067**	1,971,865
Investment securities		
– available for sale	**568,887**	706,739
– held to maturity	**285,067**	287,398
– loans and receivables	**424,289**	458,606
Investment in subsidiaries	**49,014**	45,451
Investment in associates and joint ventures	**19**	21
Property and equipment	**50,453**	49,473
Investment property	**1,362**	620
Deferred income tax assets	**18,080**	21,843
Other assets	**41,312**	30,272
Total assets	**5,005,915**	4,403,212
LIABILITIES		
Due to banks and other financial institutions	**311,831**	164,376
Due to central banks	**90,454**	42,349
Bank notes in circulation	**1,919**	1,909
Certificates of deposit and placements from banks and other financial institutions	**251,890**	146,596
Financial liabilities at fair value through profit or loss	**72,755**	81,441
Derivative financial instruments	**16,001**	9,643
Due to customers	**3,617,889**	3,358,565
Bonds issued	**63,162**	60,173
Other borrowings	**38,121**	46,006
Current tax liabilities	**19,454**	16,757
Retirement benefit obligations	**7,231**	7,444
Deferred income tax liabilities	**44**	32
Other liabilities	**128,684**	112,527
Total liabilities	**4,619,435**	4,047,818

	As at 31 December	
	2007	2006
EQUITY		
Capital and reserves attributable to equity holders of the Bank		
Share capital	**253,839**	253,839
Capital reserve	**66,162**	66,166
Statutory reserves	**14,348**	9,714
General and regulatory reserves	**22,025**	11,393
Undistributed profits	**35,234**	14,385
Reserve for fair value changes of available for sale securities	**(5,704)**	(1,038)
Currency translation differences	**576**	935
Total equity	**386,480**	355,394
Total equity and liabilities	**5,005,915**	4,403,212

Bank of China Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Bank									
	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Minority interest	Total
As at 1 January 2007	253,839	66,617	10,380	13,934	38,425	2,009	(2,071)	(216)	30,039	412,956
Net profit	–	–	–	–	56,248	–	–	–	5,788	62,036
Appropriation to statutory reserves	–	–	5,068	–	(5,068)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	–	–	–	10,977	(10,977)	–	–	–	–	–
Net change in fair value of available for sale securities, net of tax	–	–	–	–	–	(3,515)	–	–	(111)	(3,626)
Exercise of subsidiary share options	–	–	–	–	–	–	–	–	30	30
Net change in treasury shares	–	–	–	–	–	–	–	171	–	171
Dividends	–	–	–	–	(10,154)	–	–	–	(3,584)	(13,738)
Currency translation differences	–	–	–	–	–	–	(5,218)	–	(1,984)	(7,202)
Others	–	(25)	–	–	6	–	–	–	49	30
As at 31 December 2007	253,839	66,592	15,448	24,911	68,480	(1,506)	(7,289)	(45)	30,227	450,657
As at 1 January 2006	209,427	(5,954)	5,987	5,109	10,188	1,899	(237)	–	29,100	255,519
Issue of ordinary shares	44,412	72,567	–	–	–	–	–	–	–	116,979
Net profit	–	–	–	–	42,830	–	–	–	5,434	48,264
Appropriation to statutory reserves	–	–	4,393	–	(4,393)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	–	–	–	8,828	(8,828)	–	–	–	–	–
Net change in fair value of available for sale securities, net of tax	–	–	–	–	–	110	–	–	33	143
Exercise of subsidiary share options	–	–	–	–	–	–	–	–	33	33
Net change in treasury shares	–	–	–	–	–	–	–	(216)	–	(216)
Dividends	–	–	–	–	(1,375)	–	–	–	(3,391)	(4,766)
Currency translation differences	–	–	–	–	–	–	(1,834)	–	(1,087)	(2,921)
Others	–	4	–	(3)	3	–	–	–	(83)	(79)
As at 31 December 2006	253,839	66,617	10,380	13,934	38,425	2,009	(2,071)	(216)	30,039	412,956

Bank of China Limited
Consolidated Cash Flow Statement
For the year ended 31 December 2007

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

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

8.2 Financial statements and accounting policies

The financial information set out in this annual result announcement does not constitute the Group's annual financial statements for the year ended 31 December 2007. Certain financial information in this announcement is extracted from the financial statements for the year ended 31 December 2007.

The Group adopted IFRS 7 – Financial Instruments: Disclosures and the IAS 1 – Presentation of Financial Statements: Capital Disclosures (Amendment) that were effective 1 January 2007. The key impact of IFRS7 and the amendment to IAS1 are more qualitative and quantitative disclosures primarily related to fair value measurement and risk management. Accordingly, the application of these standards has no effect on the Group's result of operations or financial position.

Except for the adoption of the above standard and amendment which were effective for financial periods on or after 1 January 2007, the accounting policies and basis of presentation of the financial statements of the Group are consistent with those adopted in the 2006 annual financial statements.

The Group has chosen not to early adopt the following standards, amendments and interpretations that were issued but are not yet effective for accounting periods beginning on 1 January 2007:

IAS 1 (revised)	–	Presentation of Financial Statements
IAS 32 and IAS 1 (Amendment)	–	Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 27 (Revised)	–	Consolidated and Separate Financial Statements
IFRS 3 (Revised)	–	Business Combinations
IFRS 8	–	Operating Segments
IFRIC 11, IFRS2	–	Group and Treasury Share Transactions
IFRIC 13	–	Customer Loyalty Programme

The application of these new standards, amendments and interpretations is expected to have no material effect on the Group's operating results or financial position.

8.3 Notes to the Financial Statements

(Amounts in millions of Renminbi, unless otherwise stated)

8.3.1 *Net interest income*

	Year ended 31 December	
	2007	2006
Interest income		
Loans and advances to customers	**158,390**	128,934
Investment securities and trading assets	**73,500**	67,195
Due from central banks	**7,645**	5,313
Due from banks and other financial institutions	**22,336**	13,892
Subtotal	**261,871**	215,334
Interest expense		
Due to customers	**(89,170)**	(79,939)
Due to banks and other financial institutions	**(14,584)**	(9,393)
Other borrowed funds	**(5,372)**	(4,631)
Subtotal	**(109,126)**	(93,963)
Net interest income	**152,745**	121,371
Included within interest income is interest income accrued on impaired financial assets:	**342**	628

Included within interest income and interest expenses are RMB256,654 million (2006: RMB211,010 million) and RMB104,558 million (2006: RMB91,227 million) for financial assets and financial liabilities that are not at fair value through profit or loss respectively.

For the year ended 31 December 2007, the interest income from listed investments and unlisted investments is RMB26,480 million and RMB47,020 million respectively.

8.3.2 *Other operating income and operating expenses*

Other operating income

	Year ended 31 December **2007**	2006
Insurance premiums		
– Long term insurance contracts	**8,197**	6,349
– General insurance contracts	**974**	1,359
Gains on disposal of subsidiaries, associates and joint ventures	**222**	789
Gains on disposal of property and equipment and other assets	**744**	717
Changes in fair value of investment properties	**2,070**	595
Dividend income	**258**	186
Aircraft lease income	**2,055**	97
Others	**4,147**	3,004
Total	**18,667**	13,096

Operating expenses

	Year ended 31 December **2007**	2006
Staff costs	**36,261**	30,896
General operating and administrative expenses[(1)]	**21,736**	16,378
Depreciation and amortization	**7,094**	6,026
Business and other taxes	**8,726**	6,462
Insurance benefits and claims		
– Long term insurance contracts	**9,185**	6,820
– General insurance contracts	**652**	664
Losses on disposal of property and equipment	**49**	148
Allowance for litigation losses	**199**	897
Others	**1,124**	440
Total	**85,026**	68,731

(1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB216 million for the year ended 31 December 2007 (2006: RMB183 million). Included in the general operating and administrative expenses are operating lease rental of RMB2,362 million for the year ended 31 December 2007 (2006: RMB1,775 million).

8.3.3 *Income tax expense*

	Year ended 31 December	
	2007	2006
Current income tax		
Chinese mainland income tax	**20,618**	16,477
Hong Kong profits tax	**2,933**	2,717
Overseas taxation	**742**	570
	24,293	19,764
Deferred income tax	**4,368**	(91)
	28,661	19,673

The provision for Chinese mainland income tax is calculated based on the statutory rate of 33% of the assessable income of the Bank and each of the subsidiaries established in the Chinese mainland as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2007 and 2006. In addition, the Bank's Overseas Operations are subject to supplementary PRC tax at a rate determined by the relevant PRC authority.

The Group's operations in Hong Kong are subject to Hong Kong profits tax at the rate of 17.5% on the estimated assessable income for the years ended 31 December 2007 and 2006.

Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic domestic tax rate of the Bank as follows:

	Year ended 31 December	
	2007	2006
Profit before income tax	**90,697**	67,937
Tax calculated at 33%	**29,930**	22,419
Effect of different tax rates on Overseas Operations	**(4,580)**	(3,880)
Supplementary tax on overseas income paid in the PRC	**2,468**	2,510
Income not subject to tax(1)	**(2,863)**	(2,402)
Expenses not deductible for tax purposes(2)	**1,143**	781
Others(3)	**2,563**	245
Income tax expense	**28,661**	19,673

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

(2) In 2007, non-deductible expenses primarily included staff salary costs and marketing and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.

(3) These mainly comprise the effect of the reduction of the PRC enterprise income tax rate for domestic enterprises from 33% to 25% with effect from 1 January 2008 on the Group's net deferred tax assets.

8.3.4 *Earnings per share (Basic & diluted)*

Basic and diluted earnings per share were computed by dividing the profit attributable to the equity holders of the Bank for the year ended 31 December 2007 and 31 December 2006 by the weighted average number of ordinary shares in issue during the periods.

The Bank had no dilutive potential ordinary shares for the years ended 31 December 2007 and 2006.

	Year ended 31 December	
	2007	2006
Profit attributable to equity holders of the Bank	**56,248**	42,830
Weighted average number of ordinary shares in issue *(in millions)*	**253,821**	236,055
Basic and diluted earnings per share *(in RMB)*	**0.22**	0.18

8.3.5 *Derivative financial instruments*

The Group enters into the following foreign currency exchange rate or interest rate related derivative financial instruments for trading, asset and liability management and on behalf of customers.

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or buy or sell a foreign currency or interest rate financial instrument on a future date at an agreed price in the financial market under the administration of the stock exchanges. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In consideration for the assumption of foreign exchange or interest rate risk, the seller receives a premium from the purchaser. Options may be either negotiated over-the-counter ("OTC") between the Group and its counterparty or exchange-traded.

The contractual/notional amounts and fair values of derivative instruments held by the Group and the Bank are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Group

	As at 31 December 2007			As at 31 December 2006		
	Contractual/ notional amount	**Fair value**		Contractual/ notional amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
(a) Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps[(1)]	**1,563,450**	**37,985**	**(17,789)**	1,027,801	13,392	(7,906)
Currency options[(2)]	**68,004**	**238**	**(362)**	225,718	5,735	(419)
		38,223	**(18,151)**		19,127	(8,325)
(b) Interest rate derivatives						
Interest rate swaps	**472,634**	**4,307**	**(5,702)**	369,093	4,236	(4,832)
Interest rate options	**31,117**	**55**	**(153)**	90,090	592	(161)
Interest rate futures	**13,576**	**24**	**(33)**	14,675	40	(9)
		4,386	**(5,888)**		4,868	(5,002)
(c) Equity derivatives	**12,736**	**1,050**	**(719)**	10,572	453	(390)
(d) Precious metals and other commodity derivatives	**33,664**	**2,180**	**(2,504)**	10,520	389	(606)
Total derivative financial instruments assets/(liabilities)		**45,839**	**(27,262)**		24,837	(14,323)

Bank

	As at 31 December 2007			As at 31 December 2006		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
(a) Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps[(1)]	**1,194,439**	**25,512**	**(9,660)**	727,274	6,171	(4,992)
Currency options[(2)]	**57,255**	**193**	**(314)**	221,109	5,724	(403)
		25,705	**(9,974)**		11,895	(5,395)
(b) Interest rate derivatives						
Interest rate swaps	**418,702**	**3,755**	**(4,445)**	331,111	3,712	(3,930)
Interest rate options	**29,094**	**53**	**(115)**	88,418	586	(151)
Interest rate futures	**5,869**	**3**	**(2)**	5,180	1	(1)
		3,811	**(4,562)**		4,299	(4,082)
(c) Precious metals and other commodity derivatives	**21,538**	**1,455**	**(1,465)**	3,156	169	(166)
Total derivative financial instruments assets/(liabilities)		**30,971**	**(16,001)**		16,363	(9,643)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange forward transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of asset and liability management and funding requirements.

(2) The Bank has exercised all tranches of the Huijin options and sold USD18 billion to Huijin for RMB at the exchange rate as agreed in the foreign currency option agreement. The fair value of the Huijin options, taking into consideration the option premium payable, as at 31 December 2006 amounted to RMB5,180 million.

8.3.6 *Loans and advances to customers*

8.3.6.1 Concentrations of risk for loans and advances to customers

The economic sector concentration of risk for loans and advances to customers (gross) are as follows:

Group

	As at 31 December			
	2007	%	2006	%
Chinese mainland				
Corporate loans				
Manufacturing	**629,327**	**22**	556,032	23
Commerce and services	**280,465**	**10**	257,853	11
Energy, mineral and agriculture	**266,323**	**9**	240,314	10
Transportation and logistics	**223,355**	**8**	182,398	8
Real estate	**143,613**	**5**	113,589	5
Public utilities	**112,231**	**4**	105,933	4
Construction	**38,560**	**2**	34,676	1
Financial services	**33,897**	**1**	53,333	2
Others	**2,401**	**–**	2,692	–
Subtotal	**1,730,172**	**61**	1,546,820	64
Personal loans				
Mortgage loans	**454,984**	**16**	337,834	14
Credit card advances	**5,307**	**–**	2,876	–
Others	**125,242**	**4**	102,870	4
Subtotal	**585,533**	**20**	443,580	18
Total for Chinese mainland	**2,315,705**	**81**	1,990,400	82
Hong Kong and Macau				
Corporate loans				
Real estate	**92,109**	**4**	94,391	4
Commerce and services	**63,188**	**2**	33,443	1
Transportation and logistics	**34,069**	**1**	24,481	1
Manufacturing	**32,343**	**1**	35,853	1
Energy, mineral and agriculture	**8,523**	**–**	12,256	1
Financial services	**8,317**	**–**	12,107	1
Construction	**6,466**	**–**	4,053	–
Others	**41,353**	**2**	25,328	1
Subtotal	**286,368**	**10**	241,912	10

	As at 31 December			
	2007	%	2006	%
Personal loans				
Mortgage loans	**121,187**	**4**	117,972	5
Credit card advances	**5,283**	**–**	5,516	–
Others	**18,419**	**1**	14,132	1
Subtotal	**144,889**	**5**	137,620	6
Total for Hong Kong and Macau	**431,257**	**15**	379,532	16
Other overseas operations	**103,599**	**4**	62,087	2
Gross amounts of loans and advances before allowance for impairment losses	**2,850,561**	**100**	2,432,019	100

8.3.6.2 *Loans and advances to customers, net*

	As at 31 December			
	Group		**Bank**	
	2007	2006	**2007**	2006
Corporate loans and advances	**2,117,977**	1,849,275	**1,838,869**	1,616,052
Personal loans and advances	**732,584**	582,744	**591,684**	448,775
Gross loans and advances	**2,850,561**	2,432,019	**2,430,553**	2,064,827
Less: Allowance for impairment losses	**(96,068)**	(94,293)	**(94,486)**	(92,962)
Loans and advances to customers, net	**2,754,493**	2,337,726	**2,336,067**	1,971,865

8.3.7 Contingent liabilities and commitments

8.3.7.1 *Legal proceedings*

As at 31 December 2007, the Group was involved in certain lawsuits as defendants arising from its normal business operations. As at 31 December 2007, provisions of RMB1,614 million (2006: RMB1,985 million) were made based on court judgments or the advice of counsel. 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.

8.3.7.2 Assets pledged

Assets pledged as collateral for repurchase, short positions and precious metals swaps agreements with other banks and financial institutions are set forth in the tables below. As at 31 December 2007, the Group and the Bank had such repurchase, short positions and precious metals swaps agreements amounting to RMB114,742 million (2006: RMB54,806 million) and RMB111,473 million (2006: RMB51,245 million) respectively. All such agreements mature within twelve months from inception.

	As at 31 December			
	Group		Bank	
	2007	2006	**2007**	2006
Precious metals	**7,982**	–	**7,982**	–
Bills	**714**	–	**714**	–
Debt securities	**107,046**	55,212	**103,454**	51,632
Total	**115,742**	55,212	**112,150**	51,632

8.3.7.3 Collateral accepted

The Group accepts cash collateral and accepts security collateral that it is permitted to sell or re-pledge in connection with its reverse repurchase agreements and securities lending transactions. As at 31 December 2007, the fair value of cash collateral and security collateral accepted by the Group and the Bank amounted to RMB33,876 million (2006: RMB77,657 million). As at 31 December 2007, both the Group and the Bank had an obligation to return security collateral that it has sold with a fair value of RMB1,890 million (2006: RMB3,728 million).

8.3.7.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2007	2006	**2007**	2006
Property and equipment				
Contracted but not provided for	**43,384**	37,925	**622**	2,454
Authorised but not contracted for	**1,260**	1,536	**1,232**	1,531
Intangible assets				
Contracted but not provided for	**1,011**	816	**914**	756
Authorised but not contracted for	**255**	–	**119**	–
Total	**45,910**	40,277	**2,887**	4,741

8.3.7.5 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 summarized as follows:

	As at 31 December			
	Group		Bank	
	2007	2006	**2007**	2006
Within one year	**1,852**	1,604	**1,467**	1,286
One to two years	**1,473**	1,281	**1,213**	1,069
Two to three years	**1,101**	969	**991**	863
Above three years	**3,033**	2,832	**3,000**	2,808
	7,459	6,686	**6,671**	6,026

8.3.7.6 Certificate Treasury Bond redemption commitments

The Bank is entrusted by the MOF to underwrite certain Certificate Treasury Bonds. The investors of Certificate Treasury Bonds have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificate Treasury Bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2007, the principal value of the bonds amounts to RMB61,439 million (2006: RMB84,500 million). The original maturities of these bonds vary from 3 to 5 years and management expects the amount of redemption before the maturity dates of those bonds through the Bank will not be material.

The MOF will not provide funding for the early redemption of these Certificate Treasury Bonds on a back-to-back basis but will pay interest and repay the principal at maturity.

8.3.7.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2007	2006	**2007**	2006
Credit commitments[(i)]				
– with an original maturity of under one year	**228,484**	212,179	**101,186**	98,392
– with an original maturity of one year or over	**337,515**	258,392	**279,408**	211,520
Acceptances	**214,758**	217,093	**207,987**	212,163
Letters of guarantee issued	**423,771**	290,205	**424,343**	286,050
Letters of credit issued	**130,334**	109,083	**109,783**	93,613
Others	**685**	870	**568**	490
Total	**1,335,547**	1,087,822	**1,123,275**	902,228

(i) Credit commitments represent general credit facility limits for our corporate customers. These credit facilities may be drawn in the form of cash advances or the issuance of letters of credit, acceptances or letters of guarantee.

(ii) Credit risk weighted amounts of off balance sheet exposures

Group

	As at 31 December	
	2007	2006
Contingent liabilities and commitments	**484,879**	413,678

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

The credit risk weighted amounts stated above have not taken into account the effects of netting arrangements.

By order of the Board
Jason C. W. YEUNG
Company Secretary

Beijing, PRC, 25 March 2008

As at the date of this announcement, the Directors of the Bank are: XIAO Gang, LI Lihui, LI Zaohang, ZHOU Zaiqun, ZHANG Jinghua, HONG Zhihua*, HUANG Haibo*, CAI Haoyi*, WANG Gang*, LIN Yongze*, Sir Frederick Anderson GOODWIN*, SEAH Lim Huat Peter*, Anthony Francis NEOH#, Alberto TOGNI#, HUANG Shizhong# and HUANG Danhan#.*

* *Non-executive Directors*
\# *Independent Non-executive Directors*