



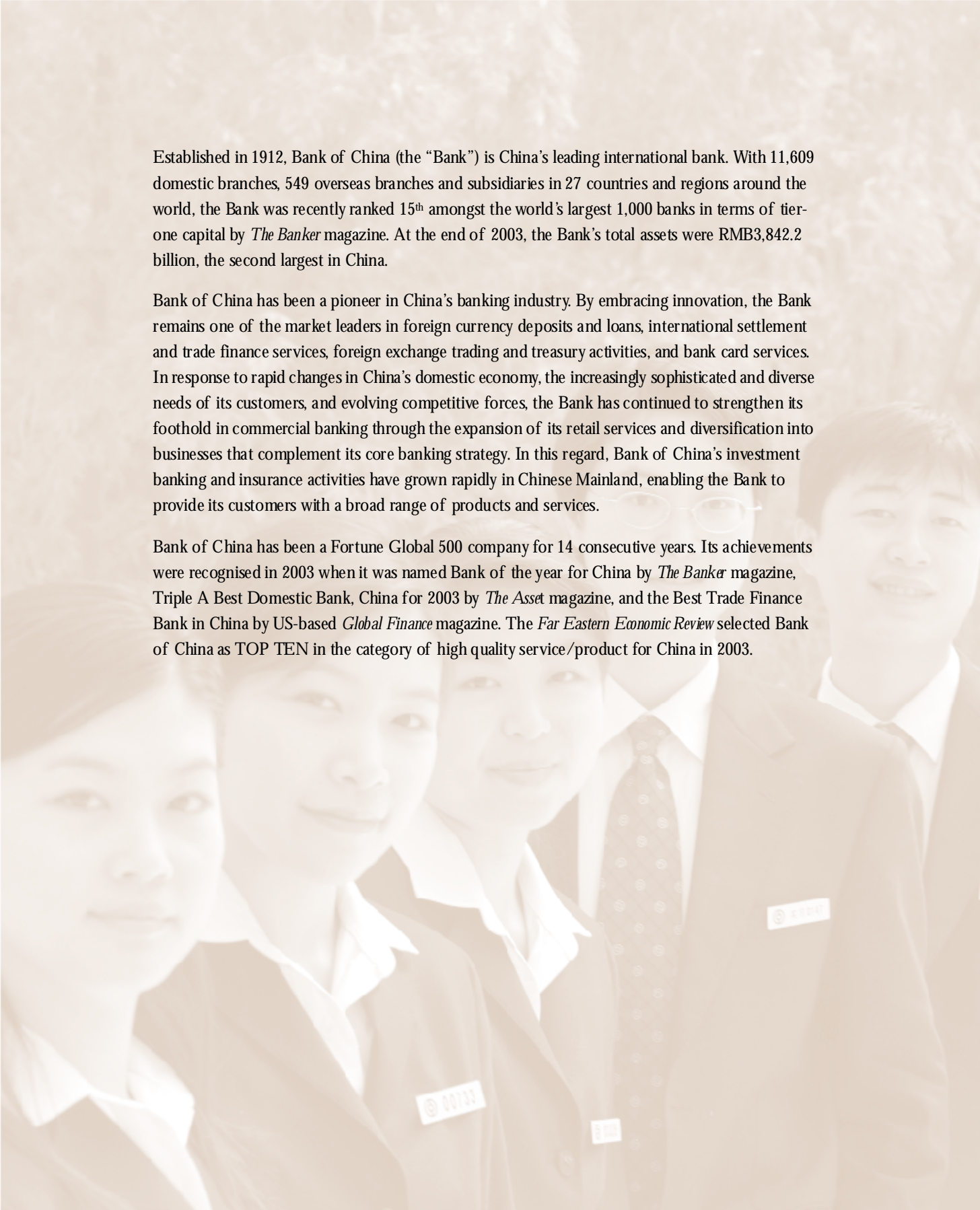
中國銀行
BANK OF CHINA



2003

ANNUAL REPORT





Established in 1912, Bank of China (the “Bank”) is China’s leading international bank. With 11,609 domestic branches, 549 overseas branches and subsidiaries in 27 countries and regions around the world, the Bank was recently ranked 15th amongst the world’s largest 1,000 banks in terms of tier-one capital by *The Banker* magazine. At the end of 2003, the Bank’s total assets were RMB3,842.2 billion, the second largest in China.

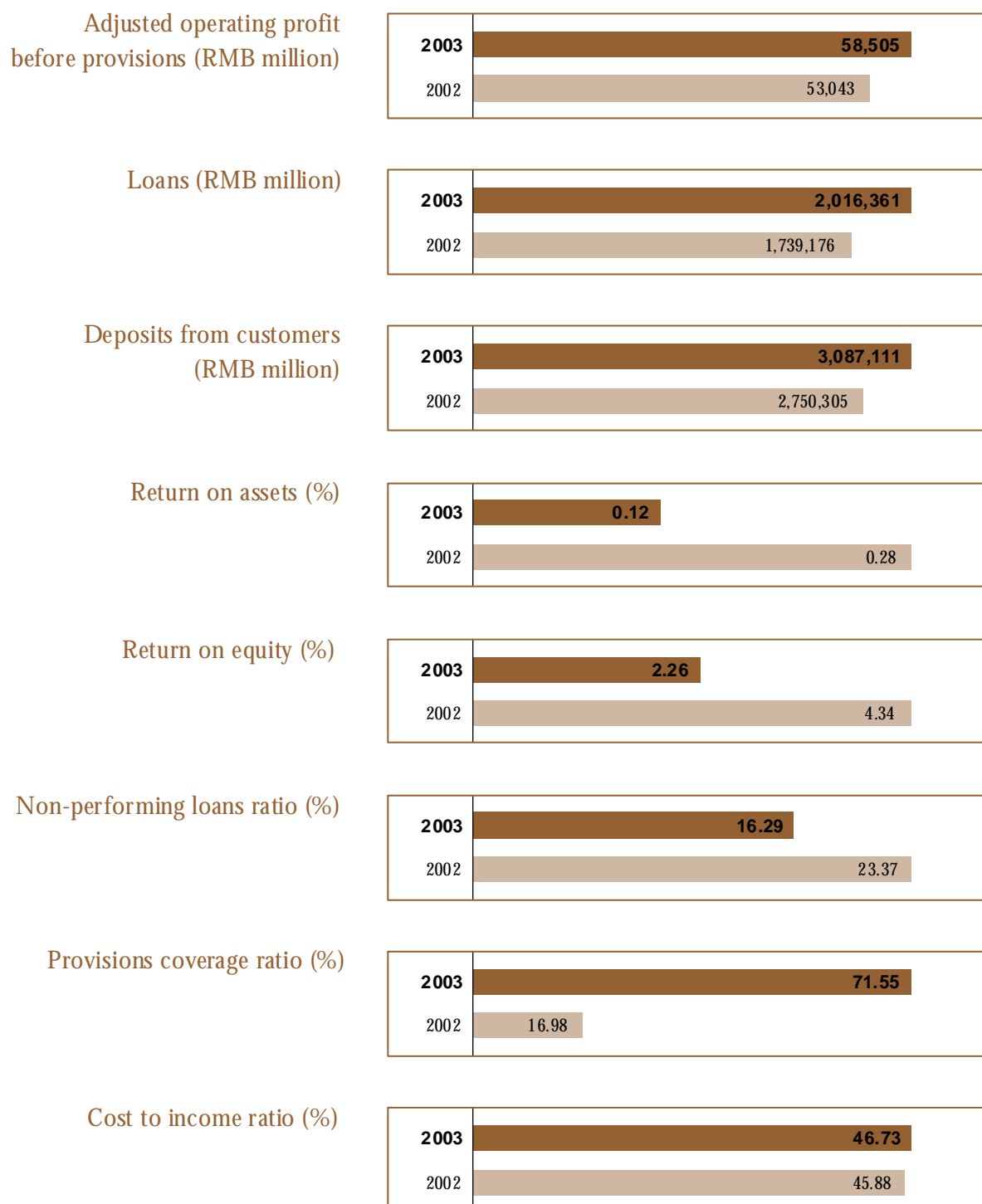
Bank of China has been a pioneer in China’s banking industry. By embracing innovation, the Bank remains one of the market leaders in foreign currency deposits and loans, international settlement and trade finance services, foreign exchange trading and treasury activities, and bank card services. In response to rapid changes in China’s domestic economy, the increasingly sophisticated and diverse needs of its customers, and evolving competitive forces, the Bank has continued to strengthen its foothold in commercial banking through the expansion of its retail services and diversification into businesses that complement its core banking strategy. In this regard, Bank of China’s investment banking and insurance activities have grown rapidly in Chinese Mainland, enabling the Bank to provide its customers with a broad range of products and services.

Bank of China has been a Fortune Global 500 company for 14 consecutive years. Its achievements were recognised in 2003 when it was named Bank of the year for China by *The Banker* magazine, Triple A Best Domestic Bank, China for 2003 by *The Asset* magazine, and the Best Trade Finance Bank in China by US-based *Global Finance* magazine. The *Far Eastern Economic Review* selected Bank of China as TOP TEN in the category of high quality service/product for China in 2003.

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Financial Highlights



	2003	2002
Profit and loss items (RMB million)		
Net interest income	64,364	55,869
Other operating income, net	14,011	10,975
Adjusted operating profit before provisions	58,505	53,043
Provisions for bad and doubtful debts	(24,455)	(26,711)
Profit before tax	10,058	13,855
Net profit	4,587	9,509
Balance sheet items (RMB million)		
Loans	2,016,361	1,739,176
Non-performing loans	351,714	429,173
Total assets	3,842,153	3,536,169
Deposits from customers	3,087,111	2,750,305
Owner's equity	186,371	219,426
Key ratios (%)		
Return on assets	0.12	0.28
Return on equity	2.26	4.34
Non-performing loans ratio	16.29	23.37
Provisions coverage ratio	71.55	16.98
Cost to income ratio	46.73	45.88

Delivering the Bank

A Century of Global Recognition

Bank of China has committed itself to delivering quality financial services to individual and corporate customers around the world, building loyalty through customer-focused products and rich experience on a foundation of cooperation that has evolved over the past century.

The Bank's personal banking services have expanded to include personal wealth management, distribution of insurance products and investment funds, and other fee-based businesses. Its core retail financial services, consisting of residential mortgage loans, auto loans and bank card services, experienced rapid growth in 2003. In fact, it achieved the highest increase of Renminbi retail loans among the four state-owned commercial banks in 2003.

Since 1998, the Bank's Domestic Operations have helped some 1.2 million customers purchase homes with residential mortgage loans totaling RMB227.6 billion. Over the same period, it has enabled approximately 400,000 customers domestically to buy automobiles through innovative financing plans totaling RMB77.1 billion.

Bank of China is the top domestic issuer of Renminbi credit cards and international credit cards. It is also the largest international card settlement service provider in China.

Through its commercial operations and investment banking arm, the Bank provides a full range of services to its corporate customers around the world. These include lending, cash management, trade finance and financial advisory services.

The Bank's efforts have been widely recognised by other market participants, clients and observers. In 2003, the Bank received the following nine prestigious awards:

Organisation	Award
The Banker	Bank of the Year for China
The Asset	Triple A Best Domestic Bank, China
Far Eastern Economic Review	TOP TEN in the category of high quality service/product for China
Global Finance	The Best Trade Finance Bank in China
Fortune	Fortune Global 500
VISA	The Best International Credit Card Issuer in China
MasterCard	The Best Issuer of Domestic Credit Card in Asia-Pacific Region
China Unionpay	Award for Bank with Highest Successful Rate for Inter-bank POS Transactions
Five international credit card organisations	The Outstanding Contribution Prize for its efforts against international credit card fraud

Devoted Innovator and Trend-setter

Bank of China has been a key participant in China's financial sector and created many "firsts" with its products and services. The Bank issued the first credit card in China, and was the first Chinese bank to issue debt securities abroad. Bank of China has been one of the leaders in foreign currency deposits and loans, foreign exchange trading and treasury activities, international settlement and trade finance services. Now, the Bank has become one of the first two state-owned commercial banks to embark on a transformation into a joint stock bank.

In 2003, the Bank developed a range of new products to cater to the increasingly sophisticated demands of its customers: **BOC Prestige Banking**, launched jointly by Bank of China and Bank of China (Hong Kong) Limited ("BOCHK"), is a premier cross-border banking service designed exclusively for frequent travellers between Hong Kong and Chinese Mainland.

Foreign Currency Wealth Management enables individual customers to leverage the Bank's broad array of foreign currency management techniques to manage their foreign currency funds, in order to achieve higher investment returns. This product is currently offered by over 10 domestic branches, including those in Beijing, Shanghai, Jiangsu, Zhejiang, Shenzhen and Guangdong.

Great Wall International Credit Card, with its foreign exchange and Renminbi repayment options, permits cardholders to pay for foreign exchange purchases in Renminbi. This service makes it more convenient for residents in China to travel, study, conduct business and transact commercial activities abroad.

E-Corp has been successfully launched through a series of new e-banking services consisting of *Cybergiro 3.0*, *Group Inquiry*, *Cybertariff 3.0*, etc. Among other things, these services enable corporate customers to transfer funds rapidly and securely across China and the world. Corporate customers also have access to real-time information related to their local and foreign currency account balances and transactions. In 2003, the numbers of customers and transaction volume in e-banking rose rapidly, with transaction volume increasing by ten-fold.

Charity and Community Initiatives

The Bank has always attached great importance to its social responsibility and maintained close relations with the local communities in which it is located. Its support for social welfare, charity work, and environmental protection around the world has drawn favourable comments from a broad cross-section of society.

Aid to Schools of Project Hope builds on its past accomplishments in relieving poverty and improving level of education in Fujian Province since 1994. In recent years, the Bank has donated money to establish and maintain five schools in Shaanxi Province and Xinjiang Uygur Autonomous Region. It also helped these local governments undertake new water conservancy projects and rebuild roads through total funding of RMB3.8 million, significantly improving the local economic conditions.

The Pocket Money Donation Program enables the Bank to maintain its support of the China Children and Teenagers' Funds to raise funds for children in poor areas through collection boxes in over 2,000 branches. These donations help needy children avoid dropouts, diseases, crimes and other hazards.

Intreement Link is the result of collaboration with the China Environmental Protection Foundation. Through this program, interest amounts on savings deposits may be donated by customers to environmental protection projects. Intreement Link is the first banking service in China introduced to support environmental protection. This service allows people from all walks of life that are concerned for the natural environment to offer financial support.

The Hong Kong Badminton Development Program, through which BOCHK has been proactive in supporting the development of Hong Kong's sports and has sponsored the Hong Kong Badminton Association's badminton development program for five consecutive years. Over HKD4.3 million has been contributed to this program, which has benefited a total of 220,000 participants.

The Hong Kong Green School Award has been sponsored by BOCHK for four consecutive years to promote an awareness of the importance of environmental protection in primary and middle school students.

Community Building in locales served by the Bank's branch network reflects its significant efforts to enhance harmonious community relations through various self-sponsored programs.

Anti-SARS Activities During the Severe Acute Respiratory Syndrome ("SARS") outbreak, Bank of China Head Office, branches and staff donated a total of RMB7.4 million to local governments, civil administrative departments, the Red Cross, medical institutions and the Anti-SARS Command Post. BOCHK donated health medicine packages to local elders through the Social Welfare Department, and worked with the School of Chinese Medicine, and Hong Kong Baptist University to provide free of charge traditional Chinese medicine packages to frontline medical workers, supporting their fight against the epidemic.







Bank of China has committed itself to delivering quality financial services to individual and corporate customers around the world

Our Mission

To build Bank of China into a

Market-driven

Client-oriented

World-class

Financial services institution

With a robust corporate governance structure

Capable of delivering outstanding performance

Over the long term

Honorary Chairperson of the Board



Chen Muhua

Message from the Chairman and President

During 2003, the Chinese economy sustained its record of robust growth despite the effects of SARS and other challenges. For the year, China's GDP increased by 9.1%, one of the highest levels in recent years.

Bank of China continued to capitalize on the performance of the domestic economy and our unique role in fostering economic expansion in China to embrace the principles of internal reform and modern corporate governance, and maintain an improving trend in operating results. Our adjusted operating profit before provisions, which excluded write-offs of certain non-performing assets related to historical operations in prior years, was RMB58.5 billion, an increase of RMB5.5 billion (10.3%) over the previous year. Excluding the effect of the sale of shares of BOC Hong Kong (Holdings) Limited in 2003 and 2002, adjusted operating profit before provisions increased by RMB3.7 billion (7.8%) to RMB51.2 billion. On behalf of the Bank, I wish to thank our diverse stakeholders, including our domestic and overseas customers, who have always provided their loyal support to the Bank.

By leveraging our strong operating performance, we were able to accelerate our efforts on resolving our historical non-performing assets. During the year, we recorded provisions of RMB24.5 billion for loan losses and RMB23 billion for write-offs of other non-performing assets. These amounts had a significant impact on our profit after tax for the year, which was RMB6.9 billion for 2003 as compared to RMB11 billion for 2002. They also reflect the management's steadfast commitment to building a strong foundation for the future. As a result of these write-offs and an intensified focus on credit risk management, our asset quality continued to improve in 2003. Our non-performing loans ratio at the year-end, based on the five-grade asset classification framework, was 16.3%, a decrease of 7.1 percentage points from the previous year.

The government has continued its active promotion and support of the reform in China's banking sector. In this regard, 2003 was a watershed for Bank of China. The Bank was selected by the government as one of the two state-owned commercial banks to proceed with restructuring into a joint stock company. The government's commitment to Bank of China's reform was reinforced with a capital injection. As an initial step in our restructuring, the entire balance of the Bank's owner's equity prior to the capital injection was transferred to provisions that will be used to absorb write-offs of historical non-performing assets over the near-term. Alleviating the effects of these non-performing assets will enable us to proceed with a focus on the future, unburdened of the legacy.

One of the principal objectives of our reform and restructuring efforts is to converge on practices adopted by leading global financial institutions in corporate governance, responsive product development and distribution, and effective risk management and internal control. At the same time we will focus on maintaining adequate capital and improving our operating results. Achieving these objectives will help us to develop a sustainable business model in a rapidly changing competitive environment. At the appropriate point during the course of our reform, we will consider a public listing of our shares to demonstrate the commercial substance of our reform efforts.


We view the efforts required to successfully implement our reforms in three dimensions. The first is a financial restructuring principally involving recapitalisation of the Bank and the resolution of our non-performing assets. The second consists of building an effective corporate governance structure to ensure independent oversight of the management, most significantly through the appointment of independent directors and the diversification of our shareholder profile. In

to our stakeholders. The third dimension involves the development of business and risk management processes, based on focused strategic planning and objective-based business plans, to enable the Bank to meet the competitive challenges of the future. Our reform efforts will be further supported by continued development of an advanced IT platform, and the refinement of human resources policies to promote our corporate culture. Through these efforts we believe that our profitability, capital adequacy, and asset quality will be brought into line with our global peer banks.

In 2004, we believe that the improving global economy and rapidly expanding domestic markets will continue to provide an environment that is conducive to the market-oriented changes currently contemplated in order to improve our operating performance and build the foundation for a sustainable franchise. Specifically, we will begin to differentiate our significant market and customer segments to more effectively address their distinctively different, rapidly changing and increasingly complex needs. We will start with developing expanded capabilities to support the retail and corporate lines of business through our existing branch network. Where appropriate, related business processes and product offerings will be redesigned to improve efficiency and reduce costs. This effort will be accompanied by a comprehensive initiative to identify additional fee-based services. We will also leverage the core competencies of our investment banking, asset management and insurance operations to complement the reinvention of our core banking business lines. In addition, we will look overseas to identify additional opportunities for synergies to better serve our customers through expanded offerings. These business development initiatives will be undertaken with a view towards optimising our asset and liability structure and improving the efficiency of our capital allocation.

We are fully aware that Bank of China's people are the most critical element of our reform plans. Without a common sense of purpose in implementing meaningful changes, we will be unable to achieve our objectives. We are committed to human resources programs that will both engender a culture that promotes changes and provide our people with the skills required to support the operations of a modern financial institution. We will also consider changes to our organisation structure and performance assessment schemes to ensure that we are all focused on addressing the changing and increasingly sophisticated needs of our customers and market, managing the evolving risks of our businesses, and discharging our social responsibilities.

Mencius, a famous Chinese philosopher, said, "The Heaven shall suffer the mind and determination of one and toil his flesh and bones before conferring upon him a great task". As one of the two commercial banks selected by the government to lead the way toward the reform of China's banking system, Bank of China recognises that there are tremendous challenges and opportunities ahead of us. We look forward with confidence and a sense of commitment to the future.



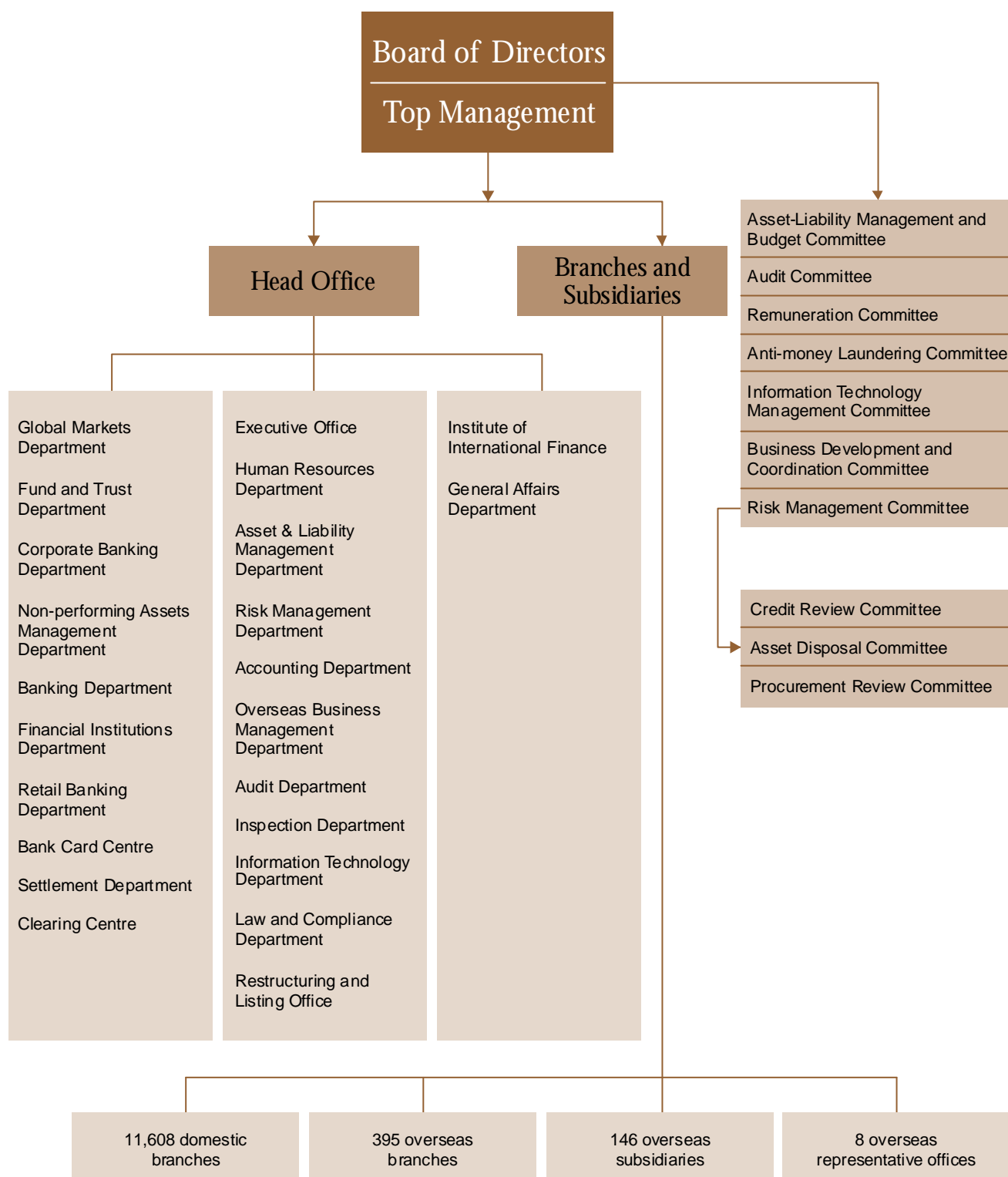
Chairman and President

Bank Information

1. Registered Chinese name: 中国银行
Registered English name: Bank of China
2. Legal representative: Xiao Gang
3. Head Office and registered address: 1 Fuxingmen Nei Dajie, Beijing, People's Republic of China
Postcode: 100818
Internet website: www.bank-of-china.com
4. Selected newspapers for information disclosure: Financial News, China Securities
Locations where the annual report can be obtained: Major business locations
5. Other relevant information
- Date of first registration: 31 October 1983
Place of first registration: State Administration for Industry and Commerce
Corporate Business License serial number: 1000001000134
Tax registration certificate number: Jingguoshui Xi Zi 110102100001342
Dishui Jing Zi 110102100001342000
Financial License institutional serial number: B10311000H0001
Appointed auditors: PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
Address of appointed auditors: 12th Floor, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, People's Republic of China
Postcode: 200021

Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

Organisation Chart





Total Assets (RMB billion) 3,842.2

Bank of China recognises tremendous challenges and opportunities ahead and looks forward with confidence and a sense of commitment to the future



Directors, Supervisors, Top Management and Staff

Board of Directors

Name	Gender	Age	Position	Tenure of Office
Chen Muhua	F	82	Honorary Chairperson	Since 1985.11
Xiao Gang	M	45	Chairman	Since 2003.03
Sun Changji	M	61	Vice Chairman	Since 2000.11
Hua Qingshan	M	50	Managing Director	Since 1994.12
Li Zaohang	M	48	Managing Director	Since 2000.11
He Guangbei	M	49	Managing Director	Since 1999.12
Zhou Zaiqun	M	51	Managing Director	Since 2000.11
Zhang Yanling	F	52	Managing Director	Since 2000.11
Wang Deyan	M	72	Managing Director	Since 1993.12
Zhuang Shiping	M	92	Managing Director	Since 1979.07

Board of Supervisors

Name	Gender	Position	Institution
Liu Ziqiang	M	Chairman	Board of Supervisors of Bank of China
Wang Xueqiang	M	Executive Supervisor	Board of Supervisors of Bank of China
Liu Wanming	M	Executive Supervisor	Board of Supervisors of Bank of China
Wu Feng	M	Supervisor	Ministry of Finance
Dong Tiefeng	M	Supervisor	China Banking Regulatory Commission
Liu Yan	F	Supervisor	Bank of China
Hu Baihe	M	Supervisor	Peking Certified Public Accountants

Top Management

Xiao Gang President	In charge of the overall management of the Bank, Chairman of BOC Hong Kong (Holdings) Limited and Bank of China (Hong Kong) Limited
Sun Changji Executive Vice President	In charge of the Executive Office, the Human Resources Department, the Audit Department and the Inspection Department

Directors, Supervisors, Top Management and Staff

Hua Qingshan Executive Vice President	In charge of the Retail Banking Department, the Bank Card Centre, the Banking Department and the BOC Credit Card (International) Limited
Li Zaohang Executive Vice President	In charge of the Fund and Trust Department, the Information Technology Department, the Clearing Centre and the General Affairs Department, also the Chairman of Bank of China Group Insurance Company Limited
Zhou Zaiqun Executive Vice President	In charge of the Accounting Department
Zhang Yanling Executive Vice President	In charge of the Corporate Banking Department and the Overseas Business Management Department, also the Chairman of BOC International Holdings Limited
Zhu Min Executive Assistant President	In charge of the Legal and Compliance Department, the Institute of International Finance and the Restructuring and Listing Office
Zhu Xinqiang Executive Assistant President	In charge of the Financial Institutions Department, the Global Markets Department and the Settlement Department
Wang Yongli Executive Assistant President	In charge of the Asset & Liability Management Department, the Risk Management Department, the Non-performing Assets Management Department and the Bank of China Group Investment Limited

Resumes of Directors and Top Management Members

Chen Muhua, Honorary Chairperson of the Board

Aged 82, is the Honorary Chairperson of the Board of Bank of China. Madam Chen was previously the Vice Chairwoman of the Standing Committee of the National People's Congress of China.

Xiao Gang, Chairman and President

Aged 45, has been the Chairman and President of Bank of China since March 2003. Mr. Xiao served as Deputy Governor of the People's Bank of China from October 1998 to March 2003 and as Assistant Governor of the People's Bank of China from October 1996. Mr. Xiao was the Deputy Director General, Director General of the Policy Research Department, Director General of the Fund and Planning Department of the People's Bank of China, and the President of China Foreign Exchange Trading Centre from May 1989 to October 1996. Mr. Xiao graduated from Renmin University in 1996 with a Master's degree.

Sun Changji, Vice Chairman and Executive Vice President

Aged 61, has been an Executive Vice President of Bank of China since January 1999. Mr. Sun previously served as the President of the China Orient Asset Management Corporation from September 1999 to August 2001. Mr. Sun was the Deputy Director General of the Production Department and the Vice Minister of the Ministry of Machinery and Electronics Industry of the PRC and the Deputy Director General of the State Administration of Machinery Industry of the PRC from June 1991 to January 1999. Mr. Sun graduated from Tsinghua University in 1966.

Hua Qingshan, Managing Director and Executive Vice President

Aged 50, has been an Executive Vice President of Bank of China since December 1998. Mr. Hua is also a Director of VISA Asia-Pacific. Mr. Hua was an Executive Assistant President of the Bank from May 1994 to December 1998. Mr. Hua graduated from Peking University in 1984 and obtained a Master's degree from Hunan University in 1996.

Li Zaohang, Managing Director and Executive Vice President

Aged 48, has been an Executive Vice President of Bank of China since November 2000. Mr. Li has over 20 years' experience in the banking industry. Mr. Li was the General Manager of Informational Centre and International Business Department, and an Executive Vice President of the China Construction Bank from August 1990 to November 2000. Mr. Li graduated from Nanjing Institute of Meteorology in 1978.

He Guangbei, Managing Director

Aged 49, is a Managing Director of Bank of China, and Vice Chairman and Chief Executive of BOC Hong Kong (Holdings) Limited and Bank of China (Hong Kong) Limited. Mr. He was an Executive Vice President of Bank of China from October 2000 to November 2003 and an Executive Assistant President of Bank of China from November 1998 to October 2000. Mr. He was the General Manager of the Treasury Department of the Bank from January 1996 to November 1998. Mr. He graduated from Beijing Second Foreign Languages Institute in 1979 and obtained a Master's degree from the State University of Texas in 1985.

Zhou Zaiqun, Managing Director and Executive Vice President

Aged 51, has been an Executive Vice President of Bank of China since November 2000 and was the General Manager of the Industrial and Commercial Bank of China ("ICBC"), Beijing Branch from December 1999 to November 2000. Mr. Zhou was the General Manager of the Accounting Department and the Financial Planning Department of ICBC from January 1997 to December 1999. Mr. Zhou obtained a Master's degree from Northeast Institute of Finance and Economics in 1996.

Zhang Yanling, Managing Director and Executive Vice President

Aged 52, has been an Executive Vice President of Bank of China since March 2002. Ms. Zhang served as the Executive Assistant President of Bank of China from October 2000 to February 2002 and concurrently served as the General Manager of the Legal and Compliance Department from February 2001 to August 2002. Ms. Zhang was the General Manager of Bank of China, Milan Branch from March 2000 to October 2001 and was the General Manager of the Banking Department of Bank of China from April 1997 to March 2000. Ms. Zhang graduated from Liaoning University in 1977 and obtained a Master's degree from Wuhan University in 1999.

Wang Deyan, Managing Director

Aged 72, is a Managing Director of Bank of China. Mr. Wang was previously the Chairman and President of Bank of China.

Zhuang Shiping, Managing Director

Aged 92, is a Managing Director of Bank of China. Mr. Zhuang was previously a standing committee member of the 7th National Committee of the Chinese People's Political Consultative Conference, and the Chairman of Nanyang Commercial Bank Limited.

Zhu Min, Executive Assistant President

Aged 51, has been an Executive Assistant President of Bank of China since November 2003. Mr. Zhu has been the General Manager of the Restructuring and Listing Office of Bank of China since December 2002 and the General Manager of Board Secretariat of Bank of China (Hong Kong) Limited since October 2001. Mr. Zhu was the General Manager of the Institute of International Finance and the Head of the Bank of China Project Office from April 1998 to December 2002. Mr. Zhu graduated from Fudan University with a Bachelor's degree in 1982, and obtained a Master's degree from Princeton University and a Doctor's degree from Hopkins University in turn.

Zhu Xinqiang, Executive Assistant President

Aged 52, has been an Executive Assistant President since November 2003 and concurrently the General Manager of the Global Markets Department of Bank of China. Mr. Zhu was the General Manager of the Global Markets Department of Bank of China from February 2003 to November 2003. Mr. Zhu was the General Manager of the Treasury Department of Bank of China from September 1999 to February 2003. Mr. Zhu graduated from Jilin University in 1977.

Directors, Supervisors, Top Management and Staff

Wang Yongli, Executive Assistant President

Aged 39, has been an Executive Assistant President of Bank of China since November 2003. Mr. Wang was the General Manager of the Hebei Branch of Bank of China from June 2002 to January 2004. Mr. Wang was the General Manager of the Fujian Branch of Bank of China from April 2001 to June 2002. Mr. Wang was the Deputy General Manager of the Fujian Branch of Bank of China from November 1999 to April 2001. Mr. Wang was the General Manager of the Asset & Liability Management Department of the Bank from April 1999 to November 1999. Mr. Wang graduated from Renmin University in 1987 with a Master's degree.

Changes in Positions of Directors, Supervisors and Top Management

During the reporting period, Mr. Liu Mingkang, the former Chairman and President of Bank of China, no longer held the position of Chairman and President, and was appointed as Chairman of China Banking Regulatory Commission. Mr. Liu Jinbao, the former Vice Chairman of Bank of China, has been removed from office as Vice Chairman due to an investigation on him conducted by regulators. Mr. Ping Yue, the former Managing Director of Bank of China, has retired from his post as Managing Director. According to the Provisional Regulation on Board of Supervisors in Important State-owned Financial Institutions issued by the State Council, the Board of Supervisors of Bank of China has been replaced due to expiration of the last term of office. Therefore, Mr. Cui Leiping, Mr. Pan Xiaojiang, Ms. Chen Qing, Mr. Xing Benxiu, Mr. Wang Lihua and Mr. Luo Yibiao are no longer members of the Board of Supervisors of Bank of China.

Staff

At the end of 2003, Bank of China had 188,716 staff members (52,627 subcontracted staff members not included), a reduction of 3,675 from the end of 2002. Of its total staff, 171,332 and 17,384, respectively, were employed in the Bank's Domestic and Overseas Operations, representing reductions of 3,123 and 552 from the end of the prior year.

Branch Network

At the end of 2003, Bank of China had 12,158 branches and subsidiaries, a reduction of 517 from the end of 2002. Domestic branches and overseas branches and subsidiaries numbered 11,609 and 549, respectively, representing reductions of 481 and 36 during the year.

行 客 户 中 心



Adjusted Operating Profit
before Provisions(RMB million)

58,505

In 2003, Bank of China maintained an improving trend
in operating results



Corporate Governance

Bank of China is committed to the development and maintenance of a sound corporate governance framework. Over the past several years, the Bank has implemented a number of successful initiatives intended to intensify the oversight of the management, improve the management of the risks inherent in its businesses and increase transparency to its diverse stakeholders. At the end of 2003, Bank of China was selected by the government as one of the two state-owned commercial banks to be transformed into joint stock companies.

Board of Directors

It is currently anticipated that Bank of China's transformation into a joint stock commercial bank will be completed in 2004. The Bank will revise its Articles of Association in accordance with China's Company Law and other relevant statutes. It has already commenced the process of restructuring its Board of Directors (the Board) and is improving its working procedures.



Mr. Xiao Gang (left), Chairman and President of the Bank, together with Mr. Xie Zhenhua, Director General of State Environmental Protection Foundation Administration of China, launches "Intreemnet Link" banking service that supports environmental protection

Seven functional committees, comprised of both Board members and senior executives, have been established to strengthen the oversight of management and more directly connect the Board with the Bank's operations. These committees include the Risk Management Committee, the Asset-Liability Management and Budget Committee, the Audit Committee, the Remuneration Committee, the Anti-money Laundering Committee, the Information Technology Management Committee and the Business Development and Coordination Committee.

Risk Management Committee

Consistent with the objectives of the Banks reform initiatives and business strategy, the Risk Management Committee formulates the Bank's risk management strategy, risk tolerance, targeted levels of risk and related guidelines; reviews and approves major risk management policies and regulations. It also reviews the Bank's annual risk management targets and plans, and the working reports submitted by its three sub-committees – the Credit Review, Asset Disposal and Procurement Review Committees.

The Risk Management Committee is supported by three sub-committees, the Credit Review Committee, the Procurement Review Committee and the Asset Disposal Committee.

Credit Review Committee

The Credit Review Committee reviews all significant credit proposals and makes recommendations to those responsible for approval of the related loans.

Procurement Review Committee

The Procurement Review Committee develops procurement guidelines and approves plans related to significant procurement projects.

Asset Disposal Committee

The Asset Disposal Committee establishes and reviews policies and plans for the disposal of foreclosed property and other assets. It also monitors the progress of significant disposal projects and performs follow-up evaluations of disposal projects.

Asset-Liability Management and Budget Committee

The Asset-Liability Management and Budget Committee reviews and approves annual, medium and long-term financial budgets and asset & liability management policies and plans. It also evaluates the performance of the Bank's departments responsible for implementation of such policies and plans.

Remuneration Committee

The Remuneration Committee develops remuneration and benefit guidelines that are intended to support the Bank's business objectives and effectively motivate the Bank's staff. It also reviews and approves the annual remuneration budget.

Audit Committee

The Audit Committee reviews and approves the Bank's internal audit policies and procedures, annual audit plans and the qualifications of senior auditors, reports prepared by internal audit on the Bank's compliance with applicable regulations, and the Bank's external audit report.

Anti-money Laundering Committee

The Anti-money Laundering Committee reviews and approves anti-money laundering programs developed by the management, evaluates the Bank's compliance with applicable government laws and regulations, and directs coordination with relevant international organisations.

Information Technology Management Committee

The Information Technology Management Committee reviews the Bank's information technology development strategy, and the annual IT plan and budget. It also evaluates important project proposals and their priorities. Furthermore, the Committee monitors the implementation of IT projects.

Business Development and Coordination Committee

The Business Development and Coordination Committee reviews the medium and long-term business strategies, annual and quarterly plans developed by business lines, and monitors operational departments to ensure compliance with the Bank's policies in this area.

Strategic Planning

A well-articulated reform and business development strategy is vital to Bank of China's consistent and effective transition into a world-class bank. Its approach to strategic planning is to establish clear goals, with objectively defined targets, and maintain the flexibility to enable it to adapt its strategy to changing conditions and priorities. Among other things, in this regard, it continuously assesses macroeconomic, industrial and market developments, both at home and abroad. When circumstances warrant, the Asset-Liability Management and Budget Committee develops proposals to refine upon the Bank's strategic objectives and report to the Board for approval.

Risk Management and Internal Control

The Bank is committed to the development of a modern risk management and internal control structure that embodies the principles established in the international best practices in this area. An effective risk management structure will ultimately enable management to determine the optimal balance between the returns of the Bank's diverse business activities and the related risks.

The Bank has achieved tangible results in a number of key areas. For example, it has created a credit decision-making mechanism based on thorough due diligence, objective risk assessment, and clear accountability. This process is bolstered by independent assessment of key lending decisions. The Bank has continued to develop consistent internal control procedures to be implemented by its branches that relate to a number of critical business functions. The effectiveness of the implementation of these internal control procedures is independently evaluated by the internal audit department, through both on-site and off-site reviews. In 2003, the Risk Management Committee approved the Bank's comprehensive risk management guidelines, which more clearly define its risk management objectives and are intended to focus on the implementation of the Bank's risk management policies.

Incentive and Accountability Mechanisms

The Remuneration Committee develops the Bank's remuneration policies with the approval of the Board of Directors to reinforce an incentive process designed to support the Bank's business objectives and establish clear accountability.

The Bank's senior executives are subject to an annual performance evaluation, which directly affects their remuneration and promotion opportunities. The attributes on which the performance of senior executives is evaluated are established as part of the annual business planning process.

The performance of both domestic and overseas business units is evaluated by the Head Office annually. Individual staff's performance is assessed by management at the end of each year. The compensation of staff is closely related to the results of this performance assessment. Currently, the Bank is refining its human resources management policies and remuneration system to converge on global best practices.

Information Disclosure and Transparency

Bank of China employs organisational and procedural measures to ensure the accuracy, completeness, authenticity and timeliness of the information disclosed both within the Bank and to its diverse external stakeholders. Significantly, in this regard, the Bank is implementing changes to its organisational structure to support this objective. The Bank has established policies to segregate the responsibilities of units responsible for its business, risk management and reporting, and operations and processing activities, the so-called "front, middle and back offices". It has also developed policies and procedures to ensure the consistent, complete and accurate compilation of information across its business units. In addition, the Bank's internal audit department performs both random and scheduled inspections of the implementation of these policies and procedures, which are intended to verify the effectiveness of the procedures designed to ensure the quality of financial information disclosed.

The Bank is committed to enhancing its transparency, aiming to be consistent with the practices of other globally leading banking groups, in its external and regulatory reporting. The Bank has also appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company to audit its 2003 financial statements prepared in accordance with accounting standards generally accepted in the People's Republic of China. It believes that the quality of disclosure in this Annual Report reflects its commitment to improved transparency.

Board of Supervisors

The Board of Supervisors was appointed by the State Council of the People's Republic of China to represent the State in the oversight of the Bank's affairs and to ensure that the Bank is making effective use of the state-owned assets under its control. The principal functions of the Board of Supervisors are to:

- ensure that the Bank has implemented all relevant laws and regulations;
- monitor the Bank's financial position by reviewing its financial statements, accounts, and other documents related to operations and management, in order to certify its financial reports;
- evaluate the Bank's financial performance, profit distribution policies and funding; and
- review the performance of the Bank's senior executives, and make proposals to the State Council on their rewarding and appointment/removal.

A new Board of Supervisors took office in 2003 and commenced their supervisory duties immediately.

Management's Discussion and Analysis

Economic, Financial and Regulatory Environment

In 2003, the Chinese economy maintained its trend of robust growth, with GDP for the year reaching RMB11,669.4 billion, an increase of 9.1% over the prior year. This is the highest level of growth out of the past five years. The value-added from primary, secondary and tertiary industries achieved record highs of RMB1,724.7 billion, RMB6,177.8 billion and RMB3,766.9 billion, respectively. Accordingly, there continues to be a strong demand for investment domestically. For the year, China's investment in fixed assets reached RMB5,511.8 billion, up 26.7%; total value of imports and exports was USD851.2 billion, up 37.1%; and the trade surplus amounted to USD25.5 billion, down 16.1%. Consumer demand across China increased steadily and consumption volume reached RMB4,584.2 billion. The overall price level rose, with the Consumer Price Index up 1.2% from the prior year.

Despite the adverse impact from the outbreak of SARS, the Hong Kong and Macau economies also performed well. Thanks to policy support from the Central Government, the signing of the Close Economic Partnership Arrangement (CEPA), and the establishment of the Agreement for Settlement of Personal Renminbi Business in Hong Kong, investors' confidence was restored immediately after the fight against SARS, and the international trade in goods and services experienced robust growth.

With the rapid growth of the Chinese economy and indications that a broader recovery in global economy may be gaining momentum, major economies in the world managed to achieve visible levels of growth in 2003. The U.S. economy maintained improving economic trends. Its GDP growth rate reached 3.1%, a rise of 0.9 of a percentage point, reaching its highest level since 2000. The Euro area economies also took a turn for the better, with the quarterly GDP growth rate of 0.4% in the third quarter of 2003, and the recovery of the Japanese economy continued.

During 2003, the money supply in China increased to adequately support economic growth and investment. The balance of the broad M2 money supply was RMB22 trillion at the end of the year, up 19.6%. The interest rates of Renminbi deposits and loans remained essentially unchanged from 2002, whilst the interest rates of foreign currency deposits and loans rose after a decrease due to the changes of interest rate across international markets. The national foreign exchange reserve reached USD403.3 billion, an increase of USD116.8 billion over the beginning of the year and the exchange rate of Renminbi against US dollars remained stable.

On 28 April 2003, China Banking Regulatory Commission (the CBRC) was established to supervise banks, asset management companies, trust and investment companies and other deposits taking financial institutions operating in China. The CBRC is also responsible for ensuring the legitimate and prudent operations of the banking industry.

Financial Statement Analysis

Summary

During 2003, the Bank commenced a number of reform initiatives and experienced robust growth. In the current year, the Bank redoubled its reform efforts as it has become better able to define its strategic objectives. Notably, as discussed above, it implemented a number of organisational changes and internal control improvements to sustain its record of rapid, but steady levels of growth and improved quality of earnings.

The operating profit before provisions of Bank of China and its subsidiaries (collectively, Bank of China Group or the Group) for 2003 was RMB47.2 billion. This result reflects a number of items that were non-recurring in nature and related to historical operations. Specifically, the Group wrote off RMB8.6 billion in overdue interest receivables of previous years and RMB2.7 billion loss on the transfer of certain equity investments to China Orient Asset Management Corporation, demonstrating its commitment to strengthening the Group's financial position. It also benefited from an RMB7.3 billion gain from disposing shares of BOC Hong Kong (Holdings) Limited. Excluding the effects of these items, adjusted operating profit before provisions was RMB51.2 billion, an increase of 7.8% from that of the prior year.



Mr. Sun Changji, Vice Chairman and EVP of the Bank, delivers a speech at the Fifth Meeting of the IIF Asian Program, jointly held by Bank of China and the Institute of International Finance

Management's Discussion and Analysis

(Unit: RMB million)

	2003	2002	Changes	(%)
Operating profit before provisions	47,220	43,546	3,674	8.4
Add: historical overdue interest receivables of previous years reversed	8,633	9,136	(503)	(5.5)
Loss on the transfer of equity investments to China Orient Asset Management Corporation	2,652	361	2,291	634.6
Adjusted operating profit before provisions	58,505	53,043	5,462	10.3
Less: profit from disposing shares of BOC Hong Kong (Holdings) Limited	(7,341)	(5,587)	(1,754)	31.4
Adjusted operating profit before provisions (excluding BOCHK gains)	51,164	47,456	3,708	7.8

In 2003, the Group further addressed its legacy non-performing loans and improved asset quality. As a result, the net profit, return on assets and return on equity of the Group decreased.

In 2003, in terms of operating efficiency, the Group's cost to income ratio was 46.7%, similar to that of the prior year.

Results of operations

(Unit: RMB million)

	2003	2002	Changes	(%)
Net interest income	64,364	55,869	8,495	15.2
Investment income	5,665	10,357	(4,692)	(45.3)
Other operating income, net	14,011	10,975	3,036	27.7
Business tax and surcharges	(3,498)	(3,388)	(110)	3.2
Operating expenses	(33,322)	(30,267)	(3,055)	10.1
Operating profit before provisions	47,220	43,546	3,674	8.4
Provisions for bad and doubtful debts	(24,455)	(26,711)	2,256	(8.4)
Operating profit	22,765	16,835	5,930	35.2
Non-operating expenses, net	(12,707)	(2,980)	(9,727)	326.4
Profit before tax	10,058	13,855	(3,797)	(27.4)
Net profit	4,587	9,509	(4,922)	(51.8)

¹ Cost to income ratio = non-interest expenses / (net interest income + non-interest income). Non-interest expenses include fee and commission expense, operating expenses, business tax and surcharges, revaluation loss of buildings and investment properties of Overseas Operations. Non-interest income includes investment income, fee and commission income, net income from treasury activities and other income.

Net interest income

(Unit: RMB million)

	2003	2002	Changes
Interest income * (A)	113,292	108,448	4,844
Interest expense (B)	40,295	43,443	(3,148)
Net interest income * (C=A-B)	72,997	65,005	7,992
Average interest-earning assets ² (D)	3,595,766	3,248,003	347,763
Average rate on interest-earning assets (%) (E=A/D)	3.15	3.34	(0.19)
Average interest-bearing liabilities ³ (F)	3,300,029	3,064,742	235,287
Average rate on interest-bearing liabilities (%) (G=B/F)	1.22	1.42	(0.20)
Net interest spread (%) (H=E-G)	1.93	1.92	0.01
Net interest margin (%) (I=C/D)	2.03	2.00	0.03

* Note: The effect of reversal of overdue interest receivables of previous years is excluded from interest income and net interest income.

The Group's net interest income (excluding the reversal of overdue interest receivables of previous years of RMB8.6 billion) for 2003 was RMB73 billion, an increase of RMB8 billion over the previous year. The increase in net interest income was principally related to a steady increase of average interest-earning assets.

Interest income

(Unit: RMB million)

	2003	2002	Changes	(%)
Loans*	76,713	69,796	6,917	9.9
Due from and placements with banks and other financial institutions	9,966	12,800	(2,834)	(22.1)
Debt investments	26,613	25,852	761	2.9
Total	113,292	108,448	4,844	4.5

* Note: The effect of reversal of overdue interest receivables of previous years is excluded from interest income of loans.

Affected by the continuous decline of interest rates in international markets, interest income from inter-bank placements decreased slightly from the prior year. However, due to the growth of average interest-earning assets, interest income grew steadily during 2003.

Interest expense

(Unit: RMB million)

	2003	2002	Changes	(%)
Deposits from customers	33,548	35,508	(1,960)	(5.5)
Due to and placements from banks and other financial institutions	3,750	4,125	(375)	(9.1)
Special purpose borrowings and bonds issued	2,997	3,810	(813)	(21.3)
Total	40,295	43,443	(3,148)	(7.2)

The decrease of interest expense for 2003 was related principally to the optimising of the Group's liability mix through the use of lower cost funding sources and the decline of foreign currency interest rates.

² interest-earning assets include due from central banks, due from and placements with banks and other financial institutions, debt investments, discounted bills and trade finance related receivables and loans.

³ interest-bearing liabilities include due to central banks, due to and placements from banks and other financial institutions, deposits from customers, special purpose borrowings and bonds issued.

Management's Discussion and Analysis

Investment income

Investment income was RMB5.7 billion, a decrease of RMB4.7 billion from the previous year. The decrease mainly resulted from: (1) A loss of RMB2.7 billion on the transfer of certain equity investments to China Orient Asset Management Corporation, an increase of RMB2.3 billion over the corresponding amount in the previous year; (2) Decreased gains from transactions of debt securities; (3) The Bank recognised a gain of RMB7.3 billion from disposing shares of BOC Hong Kong (Holdings) Limited. The comparable figure for 2002 was RMB5.6 billion.

Other operating income, net

	2003	2002	Changes	(Unit: RMB million) (%)
Fee and commission income	10,967	9,480	1,487	15.7
Less: fee and commission expense	(2,856)	(1,784)	(1,072)	60.1
Net fee and commission income	8,111	7,696	415	5.4
Income from treasury activities, net	4,677	2,269	2,408	106.1
Others	1,223	1,010	213	21.1
Total	14,011	10,975	3,036	27.7

Net fee and commission income was RMB8.1 billion, an increase of RMB0.4 billion, up 5.4% over the previous year. The increase was primarily attributable to the strong growth in the Group's fee-based businesses. Relatively stable settlement fees, however, remained the Group's largest source of fee and commission income.

Net income from the Group's treasury activities was RMB4.7 billion, an increase of RMB2.4 billion over the previous year. Foreign currency transactions continued to be the major source of income from treasury activities.

Operating expenses

	2003	2002	Changes	(Unit: RMB million) (%)
Staff costs	16,083	13,497	2,586	19.2
General operating expenses	12,057	11,379	678	6.0
Depreciation	5,182	5,391	(209)	(3.9)
Total	33,322	30,267	3,055	10.1

The growth in staff costs reflected an investment in staff welfare, progress made in implementing a performance-based rewards system, and efforts to harmonise the staff's salary levels with those in the market. The general operating expenses also increased due to business development.

Non-operating expenses, net

In 2003, net non-operating expenses of the Group were RMB12.7 billion, an increase of RMB9.7 billion. A significant proportion of this increase was related to (1) losses of RMB6.1 billion on the disposal of certain domestic non-operating premises as directed by the Chinese government, an increase of RMB4.4 billion over the previous year; (2) losses of RMB2.9 billion on the disposal of foreclosed assets, an increase of RMB2.8 billion over the prior year; and (3) losses of RMB2.6 billion, an increase of RMB1.8 billion over the prior year, on the disposal of certain fixed assets and other non-performing assets.

Financial position

(Unit: RMB million)				
As at 31 December	2003	2002	Changes	(%)
Total assets	3,842,153	3,536,169	305,984	8.7
Due from and placements with banks and other financial institutions	447,610	354,940	92,670	26.1
Debt investments	997,222	961,503	35,719	3.7
Discounted bills and trade finance related receivables	142,736	97,087	45,649	47.0
Loans	2,016,361	1,739,176	277,185	15.9
Total liabilities	3,631,726	3,299,944	331,782	10.1
Due to and placements from banks and other financial institutions	217,847	210,287	7,560	3.6
Deposits from customers	3,087,111	2,750,305	336,806	12.2
Minority interests	24,056	16,799	7,257	43.2
Owner's equity	186,371	219,426	(33,055)	(15.1)

Debt investments

(Unit: RMB million)				
As at 31 December	2003	2002	Changes	(%)
Domestic operations				
Investment securities	674,012	670,365	3,647	0.5
Trading securities	25,916	22,357	3,559	15.9
Subtotal	699,928	692,722	7,206	1.0
Overseas operations				
Investment securities	176,185	156,770	19,415	12.4
Trading securities	121,109	112,011	9,098	8.1
Subtotal	297,294	268,781	28,513	10.6
Total	997,222	961,503	35,719	3.7

At the end of 2003, the Group's total debt investments were RMB997.2 billion, an increase of RMB35.7 billion, up 3.7% over the prior year. The increase in 2003 was mainly due to the purchase of foreign currency securities by Overseas Operations. Securities issued by governments and financial institutions with good credit ratings accounted for a large proportion of the Group's debt investments.

Management's Discussion and Analysis

Discounted bills and trade finance related receivables

				(Unit: RMB million)
As at 31 December	2003	2002	Changes	(%)
Discounted bills	91,463	62,193	29,270	47.1
Inward and outward documentary bills	44,015	32,472	11,543	35.5
Trust receipts finance and others	7,258	2,422	4,836	199.7
Total	142,736	97,087	45,649	47.0

At the end of 2003, the Group's outstanding balance of discounted bills increased by RMB29.3 billion (47.1%) to RMB91.5 billion. Due to the rapid development of trade settlements, inward and outward documentary bills increased by RMB11.5 billion, or 35.5% over the prior year.

Loans

				(Unit: RMB million)
As at 31 December	2003	2002	Changes	(%)
Domestic operations				
Corporate loans	1,376,120	1,156,312	219,808	19.0
Retail loans	253,979	155,499	98,480	63.3
Subtotal	1,630,099	1,311,811	318,288	24.3
Overseas operations				
Corporate loans	248,974	291,293	(42,319)	(14.5)
Retail loans	137,288	136,072	1,216	0.9
Subtotal	386,262	427,365	(41,103)	(9.6)
Total	2,016,361	1,739,176	277,185	15.9

At the end of 2003, the Groups outstanding balance of loans was RMB2,016.4 billion, an increase of RMB277.2 billion, up 15.9% over the previous year-end. This increase reflected the rapid expansion of retail loans.

Provisions for bad and doubtful assets

At the end of 2003, the balance of provisions for bad and doubtful assets was RMB268.4 billion, an increase of RMB180.8 billion over the prior year. Please refer to Note VI, 12 to the Financial Statements for the movement of Provisions for bad and doubtful assets during 2003.

At the end of 2003, the balances of general and specific provision were RMB29.6 billion and RMB222.1 billion respectively. If these provisions were fully applied to cover the reported balance of non-performing loans, the provisions coverage ratio reached 71.6%.

Deposits from customers

				(Unit: RMB million)
As at 31 December	2003	2002	Changes	(%)
Demand deposits				
RMB	869,201	679,772	189,429	27.9
Foreign currencies	506,532	399,740	106,792	26.7
Subtotal	1,375,733	1,079,512	296,221	27.4
Time deposits				
RMB	923,937	744,444	179,493	24.1
Foreign currencies	787,441	926,349	(138,908)	(15.0)
Subtotal	1,711,378	1,670,793	40,585	2.4
Total	3,087,111	2,750,305	336,806	12.2

At the end of 2003, the balance of the Group's Renminbi deposits maintained a strong and steady growth trend, while foreign currency deposits declined slightly. At the same time, the demand deposits increased rapidly, accounting for a larger proportion of total deposits from customers.

Minority interests

Minority interests amounted to RMB24.1 billion. As a result of the sale of shares in BOC Hong Kong (Holdings) Limited, the minority interests in BOC Hong Kong (Holdings) Limited increased from 24% to 34%.

Owner's equity

In accordance with the government approved financial restructuring arrangement, the PRC Government contributed a capital equivalent to RMB186.4 billion to the Bank via Central Huijin Investment Company Limited. The original balances of the Bank's owner's equity as at 31 December 2003 (including the net profit of the Group for 2003) before capital contribution from the PRC Government were established as Provisions for bad and doubtful assets.

Capital adequacy ratios

The Group's capital adequacy ratio and core capital adequacy ratio were calculated in accordance with the Notice on the Management, Supervision Guidance and Review of the Ratios of Assets to Liabilities of Commercial Banks (Yin Fa [1996] 450) and Notice on the Completion Instruction on Return of Offsite Supervision and Report of Commercial Banks (Yin Fa [1997] 549) issued by the People's Bank of China (the PBOC) and other related regulations. In accordance with Notice [2004] 2 issued by CBRC on 23 February 2004, the Group plans to calculate its capital adequacy and core capital adequacy ratio based on the Regulation Governing Capital Adequacy of Commercial Banks in 2004.

On 30 December 2003, the PRC Government contributed a capital to Bank of China. Capital adequacy ratios before and after financial restructuring were as follows:

			(Unit: RMB million)
As at 31 December	2003 (After capital injection) ⁴	2003 (Before capital injection)	
Core capital, net	153,769	188,780	
Capital, net	173,519	204,158	
Risk weighted assets, net	2,487,440 ⁵	2,656,453	
Core capital adequacy ratio (%)	6.18	7.11	
Capital adequacy ratio (%)	6.98	7.69	

⁴ The capital adequacy ratios before and after financial restructuring are not comparable due to the different basis of calculations used in relation to the non-performing assets and equity investments.

⁵ Specific provision for bad and doubtful assets are deducted from risk weighted assets.



Global Network 12,158

Bank of China maintains a competitive advantage in the domestic banking market with its global network and diverse customer base



Management's Discussion and Analysis

Business Review

With an international network in 27 countries and regions, Bank of China operates through three main business lines: commercial banking, investment banking and insurance. It has established correspondent banking relationships with 1,322 banks in China and around the world. Through its global network, diverse customer base and comprehensive range of services, the Bank has maintained a competitive advantage in the domestic banking market relating to our competitors that have a smaller "footprint".

Net profit by business line		(Unit: RMB million)	
	2003	2002	
Commercial banking	3,519	9,161	
Investment banking	220	49	
Insurance	144	81	
Unallocated	704	218	
Total	4,587	9,509	

Total assets by business line		(Unit: RMB million)	
As at 31 December	2003	2002	
Commercial banking	3,806,401	3,509,695	
Investment banking	13,691	9,439	
Insurance	8,327	7,852	
Unallocated	13,734	9,183	
Total	3,842,153	3,536,169	

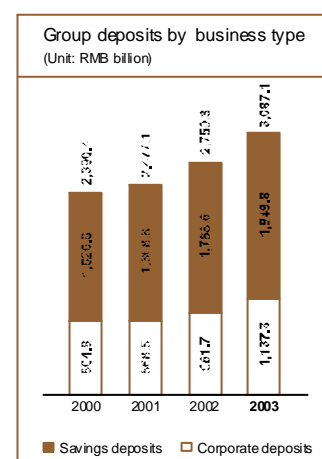
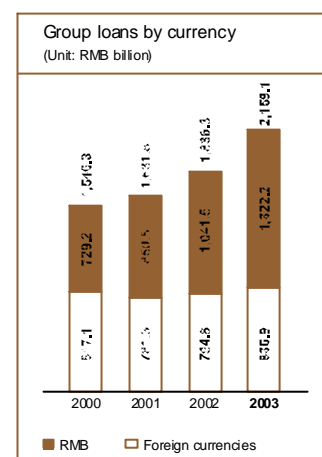
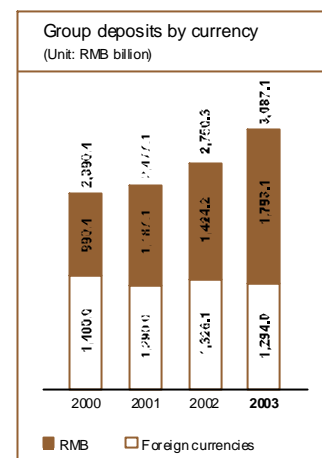
Commercial banking

The commercial banking business, through which Bank of China provides its corporate and retail banking services, has been the core business of the Bank. The commercial banking business generates the majority of the Group's profit. In 2003, the commercial banking business maintained robust growth, driven principally by the large increases in both deposits and loans. By the end of 2003, the balance of deposits from customers stood at RMB3,087.1 billion, an increase of RMB336.8 billion over the previous year, up 12.2%. The balance of loans was RMB2,159.1 billion, an increase of RMB322.8 billion over the previous year, up 17.6%.

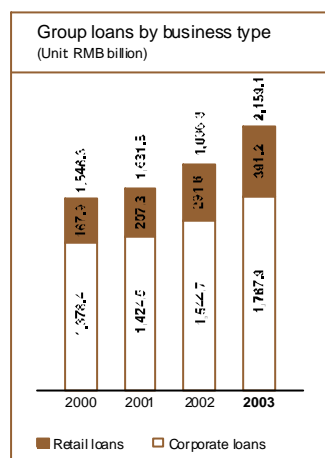
Retail banking

- Renminbi savings deposits increased rapidly with a record high growth rate, the related market share reached 9.6%.
- By the end of 2003, the balance of domestic retail loans was RMB254 billion, an increase of RMB98.5 billion over the prior year, up 63.3%.
- The Bank launched a series of new foreign currency wealth management products in 2003.

⁶ Discounted bills, trade finance related receivables and loans are included.



Management's Discussion and Analysis



- The openings of retail loan centres have increased, with 23 domestic retail loan centres established in 2003.
- The Bank received a number of awards at home and abroad for its bank card businesses.

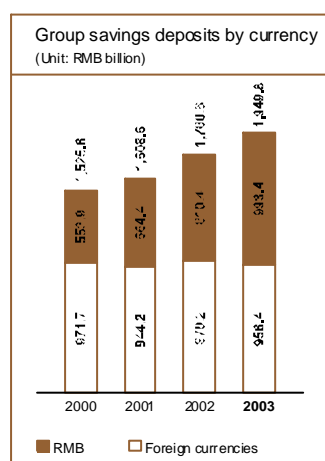
The Bank provides retail banking services to individuals and small businesses. It is able to deliver a range of financial services including savings deposits, retail loans, bank card services, personal wealth management and remittance. In terms of both financial performance and product innovation, 2003 was a success for retail banking.

Savings deposits

At the end of 2003, the balance of the Group's savings deposits in local and foreign currencies amounted to an equivalent of RMB1,949.8 billion, an increase of RMB161.2 billion, up 9%.

Due to the strong growth of China's economy and the continuous rise of household income, Renminbi savings deposits grew to RMB993.4 billion at the end of 2003, an increase of RMB183 billion, the highest level of annual growth in the Group's history. Similarly, the market share of domestic operations reached 9.6%, up 0.3 of a percentage point.

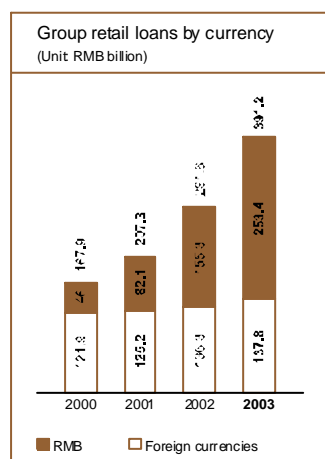
By the end of 2003, the balance of the Group's savings deposits in foreign currencies stood at USD115.6 billion, a decrease of USD2.6 billion, due to low level of foreign currency interest rates. Domestic savings deposits were USD48.2 billion, making up 56.9% of the market share, and those from Overseas Operations were USD67.4 billion.



Retail loans

By the end of 2003, the Group's retail loans in local and foreign currencies amounted to RMB391.2 billion, an increase of RMB99.6 billion, up 34.2%.

With the increased confidence of domestic consumers, Renminbi retail loans increased to RMB253.4 billion by the end of the year, reflecting growth of RMB98.1 billion. The market share of Domestic Operations reached 16.1%, an increase of 1.5 percentage points. Of that, the balance of residential mortgage loans was RMB159.3 billion, an increase of RMB61.4 billion over the previous year. The balance of retail loans in foreign currencies reached USD16.6 billion, an increase of USD200 million over the previous year, among which, USD67 million was made by Domestic Operations, and USD16.5 billion by Overseas Operations.



Fee-based businesses

In 2003, the Bank's fee-based businesses, including insurance, securities and fund sales, foreign exchange, and personal wealth management services, increased rapidly. Contributions from the Bank's domestic fee and commission based businesses totalled RMB232 million, a year-on-year increase of 131.5%.

Retail foreign exchange services posted strong growth, with a total transaction volume of USD68.9 billion in 2003, an increase of 188.2% over 2002. Income generated from these activities was USD31.5 million, an increase of 215% over the previous year. The Bank continued to extend the coverage of its insurance agency activities, with the gross premium from its agency activities totalling RMB6.7 billion, an increase of 59.1%.

In 2003, the Bank was active in developing new fee-based products. It launched various new consumer products on a trial basis during the year, including book-entry treasury bonds, foreign exchange options, and collective foreign currency wealth management. The Bank was also the first to launch personal gold trading in Shanghai.

Bank cards

Bank of China's bank card services include debit cards and credit cards in RMB, HK dollars and US dollars, as well as foreign credit card transaction processing on an agency basis. In 2003, the Bank's bank card business maintained its growth momentum and won a number of awards at home and abroad.

In 2003, the number of Great Wall international cards in circulation increased by 270,000, or 134%. This is the highest among domestic financial institutions. Due to the SARS, the volume of foreign credit cards transactions fell to RMB10.3 billion, a decrease of RMB200 million from the previous year, but the Bank's market share remained stable at 60%. Goods and services purchased with Renminbi cards reached RMB40.9 billion, up 59.8%.

By the end of 2003, the number of the Great Wall Renminbi credit cards issued totalled 5.3 million and the number of Renminbi debit cards issued reached a total of 56.4 million, an increase of 14.3 million, or 33.8% over the previous year. In 2003, the Bank issued 35,000 Great Wall international debit cards in Shanghai and Guangdong. In 2004, it will promote the cards in other branches.

Outlook for 2004

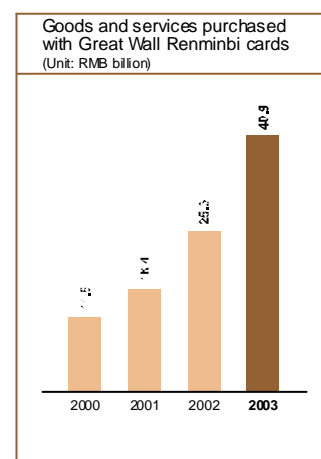
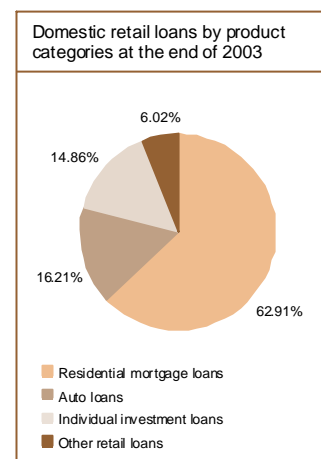
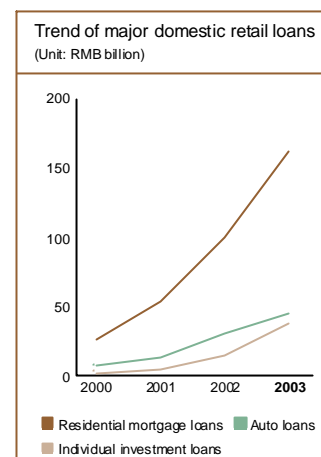
In 2004, facing increasingly intense competition in the retail banking market, the Bank will continue to focus on its strategy of developing an integrated suite of retail products, including consumer loans and savings deposits, to meet the changing demands of its diverse customer base, effectively managing the hidden risks in its businesses, and converting its personal wealth management products into a new growth point.

Corporate banking

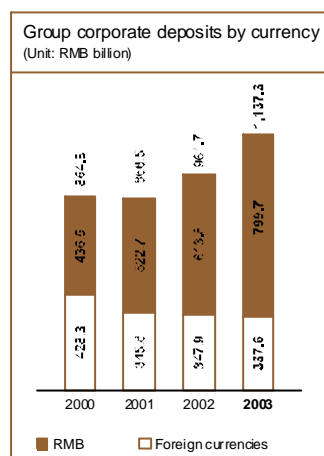
- The Bank's Renminbi corporate deposits and loans maintained sound growth, driving continued increases in its market share.
- The Bank's shares in the domestic market of foreign currency corporate deposits and loans remain the highest among banks in China.
- At year-end, the Bank was custodian for more than 30 domestic funds and portfolios, with assets under custody of more than RMB60 billion.
- The Bank launched a number of new corporate products, promoting its competitiveness in domestic market.

The Bank provides a full line of financial products including clearing, settlement, treasury and fund custodian services as well as solutions to financing and capital raising. While the Bank continues to build on the foundation of its core corporate credit products, it has developed innovative financial solutions to meet the increasingly sophisticated needs of its corporate customers.

In 2003, the Bank further strengthened collaboration among its business units and promoted the development of its corporate banking activities through innovative efforts. As a result, it introduced a number of new corporate banking products.



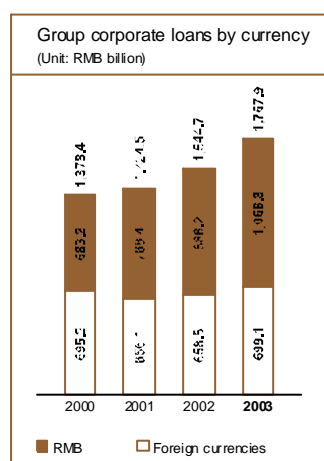
Management's Discussion and Analysis



- E-Corp customers totalled over 3,600, involving 10,000 corporate accounts at the end of 2003. The volume of transactions exceeded 300,000 in number, with an aggregate amount of over RMB200 billion in value.
- Overseas Account Management was introduced in 16 overseas locations to provide real-time access to account information and management reports.
- Several important E-Corp products were put into operation, improving the capabilities of the Bank's cash management and e-banking service products.
- The Bank also launched a number of new products targeted at meeting the demands of its financial institution customers, including interbank deposit, asset swap between financial institutions, paying and receiving services for the aggregate trust plans, settlement for futures companies and the bancassurance platform.

Corporate deposits and loans

By the end of 2003, the balance of the Group's Renminbi corporate deposits reached RMB799.7 billion, an increase of RMB185.9 billion over the previous year. Its market share increased from 7.3% at the beginning of the year to 7.7%. The balance of the Group's Renminbi corporate loans was RMB1,068.8 billion, an increase of RMB182.6 billion. Its market share increased from 7.4% at the beginning of the year to 7.5%.



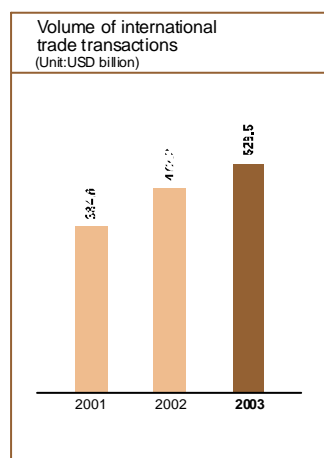
The balance of the Group's foreign currency corporate deposits was USD40.8 billion, a decrease of USD1.2 billion from the end of previous year. Of this balance, USD17.7 billion was related to Domestic Operations, representing a market share of 31.6%, and USD23.1 billion related to Overseas Operations. The Group's foreign currency corporate loans reached USD84.5 billion, an increase of USD4.9 billion. Of this balance, USD51.3 billion was related to Domestic Operations, representing a market share of 45%, and RMB33.2 billion related to Overseas Operations.

In 2003, the rapid growth of the Group's lending activities continued to create changes in the composition of its loan portfolio.

Institutional banking

During 2003, the Bank's institutional banking activities experienced strong growth due largely to increased collaboration with other financial institutions. The Bank's institutional banking activities include local and foreign currency deposits, local and foreign currency clearing, fund custodian services, asset management services, insurance agency business, securities and futures settlement, bond distribution, settlement, clearing and foreign currency note services for medium and small-sized financial institutions and correspondent banking operations.

By the end of 2003, the Domestic Operations' balance of Renminbi deposits placed by financial institutions reached RMB114.3 billion, an increase of RMB27.8 billion, or 32.1%. The Domestic Operations' balance of foreign currency deposits from financial institutions amounted to USD5.9 billion, an increase of USD30 million. The number of customers engaging the Bank as their domestic A and B share clearing agent also increased. The Bank's market shares of B share clearing services on the Shanghai and Shenzhen Securities Exchanges were 73% and 81% respectively. In 2003, the Bank acted as an agent in marketing and distributing 10 open-ended investment funds. At year-end, the Bank was custodian for more than 30 domestic investment funds and portfolios, with assets under custody of more than RMB60 billion, and it remains one of the largest investment custodians in China.



⁷ Discounted bills and trade finance related receivables are included.

Trade and clearing services

In 2003, the volume of international trade transactions processed domestically reached RMB328.3 billion, an increase of 25.7%. In this regard, the Bank continued to process more international trade transactions than any other banks in China. The volume of the Bank's Overseas Operations reached RMB201.2 billion, an increase of 7.7%.

Bank of China remains the leader in the international payments and clearing business and its domestic payments and clearing business developed steadily. In 2003, the volume of domestic and international payments and clearing conducted by the Bank's Domestic Operations totalled 51.6 million and 8.1 million respectively in terms of number of transactions. The Bank has also integrated its existing clearing systems and improved its automatic processing capacity.

Global trading and treasury services

In view of the relatively high levels of volatility experienced in financial markets during 2003, the Bank proactively adjusted its investment strategies to maintain appropriate exposures to interest rates and foreign currencies within approved limits. At the same time, the Bank availed itself of opportunities to profit from changes in the markets, when conditions warranted.

In 2003, the Bank further leveraged its advantages in treasury operations to enhance the marketing of traditional products, including hedging services, and develop new products. It has introduced a number of products conducted on behalf of customers including options, bonds and gold dealings and foreign currency wealth management. As a result, its trade volume increased significantly. It also made progress in effecting centralisation of global trading and treasury activities.

By the end of 2003, the Bank's Domestic Operations had purchased a total of RMB354.4 billion in bills, of which RMB233.6 billion was discounted, and RMB120.8 billion was rediscounted. In 2003, the total volume of foreign exchange purchases and sales conducted by the Domestic Operations reached USD192.9 billion, up 7.1% from the previous year.

Outlook for 2004

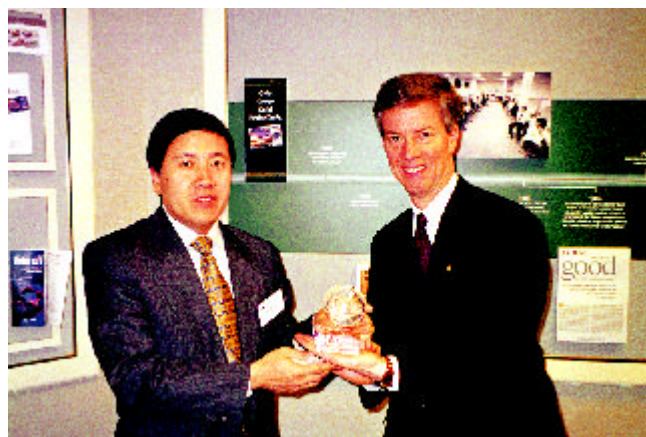
In 2004, Bank of China will continue to adjust and optimise its customer profile, to better identify the risks inherent in its treasury activities and identify potential areas for profitable growth. It will also maintain its focus on products innovation and development.

Investment banking

- BOCI was one of the top three Initial Public Offering ("IPO") arrangers throughout Asia (excluding Japan).
- BOCI assisted Industrial Bank Co., Ltd., as its sole financial adviser, in its successful introduction of international strategic investors. This transaction set three records in Chinese Mainland's M&A market.
- (China) Limited was ranked third in the domestic A share market for IPOs in 2003.

While BOC International Holdings Limited ("BOCI") is already recognised as one of the top-tier investment banking institutions in China, its relationship with Bank of China uniquely positions it in the market to serve the needs of both domestic and foreign clients and investors.

BOCI has consistently demonstrated its global capability. Leveraging Bank of China's established commercial banking franchise, BOCI is committed to providing its customers with a comprehensive range of investment banking solutions including financial advisory services, equity and debt underwriting, asset management, and brokerage services. In 2003, BOCI achieved remarkable results, as its net profit increased by 349% to HKD210 million.



Mr. Hua Qingshan (left), MD and EVP of the Bank, meets with Mr. Lance L. Weaver, EVP of MBNA

Management's Discussion and Analysis

Investment banking services

In 2003, BOCI was ranked among the three largest arrangers of IPOs in Asia (excluding Japan). In this capacity, it acted as the lead underwriter or joint lead underwriter for several IPOs, such as the Sinotrans (H share), AViChina (H share), and CR Power (Red Chip) listings. In addition, BOCI participated in the IPOs of Weiqiao Textile, Lee & Man Paper and other H shares. These successful IPOs demonstrated BOCI's capability in effectively directing large-scale, complex overseas listing projects. In fact, the Sinotrans IPO was named the Best IPO in 2003 in China.

BOCI aggressively pursued a number of successful initiatives during 2003 that both demonstrated the breadth of its ability to deliver and the depth of its experience.

BOCI worked closely with a number of local government entities, as an advisor, to help them more clearly define and efficiently fulfil their funding needs. It has bolstered its leadership position in this area by establishing relationships beyond the eastern coastal areas of China. For example, it has signed financial advisory agreements with Shaanxi Provincial Government, as well as the governments of Xi'an, Yancheng, Beijing and Chongqing.

BOCI assisted Industrial Bank Co., Ltd., as its financial advisor, in successfully attracting international strategic investors. This project set three records for M&A transactions by foreign investors in a Chinese domestic commercial bank. Specifically, it is the single largest foreign investment to date, with a total amount of RMB2.7 billion, attracted the largest number of foreign-funded shareholders for in a single transaction, and achieved the highest valuation for a stock purchase by foreign investors.

BOCI was the financial advisor for the Shenzhen City Government and its related corporate entities, Shenzhen Gas Corporation Ltd., Shenzhen Water (Group) Co., Ltd. and Shenzhen Public Transportation Group, in connection with a successful mandate to attract foreign investment to fund the planned infrastructure expansion projects. In the case of Shenzhen Water (Group) Co., Ltd., the foreign equity investment reached RMB3.3 billion, the highest level of foreign investment ever in a domestic water company and the largest M&A involving a foreign investment company in China for the year.

Loan syndication

With the listing of BOCHK and its active participation in the HK syndicated loan market, BOCI has gradually reduced its role as a syndicated loan arranger in Hong Kong. In this regard, BOCI has intensified its focus on acting as a financial advisor to companies seeking syndicated loan arrangements. In 2003, BOCI arranged syndicated loans of HKD2.9 billion and RMB1 billion for a Hopewell Group loan re-financing and for Phase II of Plaza 66, respectively.

Institutional sales and retail brokerage

BOCI is one of the largest securities brokers in Hong Kong and is the market leader in stock, futures and high yield equity-linked products. In addition, its structured products and fixed income business have continued the trend of steady growth. In 2003, BOCI intensified its efforts to develop its institutional sales business, and established a global institutional sales platform. It has also developed the capacity to independently distribute and market large equity and debt issues, establishing a foundation on which to expand its growing global investment banking activities. To better cater to its retail customers' increasingly sophisticated and diverse demands for securities products and services, BOCI set up a Retail Brokerage Department to deliver one-stop services.

In 2003, BOCI, together with foreign investment banks, successfully sold BOCHK shares held by Bank of China, attracting widespread praise for the efficiency of this large transaction. The total amount of the placement was USD1.9 billion, the largest ever in Hong Kong's secondary market since 2001. This demonstrated the strength and expertise of BOCI in providing comprehensive services in connection with large cross-border transactions.

Asset management

BOCI has strived to promote its Mandatory Provident Fund (“MPF”) and unit trust businesses. It continued to broaden the range of products and achieved impressive investment returns for its customers. By the end of 2003, total assets under the management of BOCI Prudential Asset Management Limited (“BOCI Prudential”) reached HKD20 billion.

In 2003, BOCI Prudential launched five Guaranteed Funds, with total sales of HKD1.8 billion, of which sales of the Hong Kong Dollar China Guaranteed Fund launched in November exceeded HKD800 million. In terms of sales volume, BOCI Prudential was ranked among the top 10 in the HK Unit Trust Fund market at the end of 2003.

With respect to the MPF activities, BOCI Prudential has a total of HKD7.6 billion in assets under management, held on behalf of more than 350,000 registered members. According to the Mercer MPF Index, the performance of MPF investments managed by BOCI Prudential has stayed among the top three in Hong Kong for the past ten consecutive quarters. Similarly, BOCI Prudential has maintained its position among the top five in the Hong Kong Occupational Retirement Scheme market in Hong Kong.

Mainland business

In terms of investment banking, BOC International (China) Limited (“BOCI China”) was established by BOCI in 2002 to engage in investment banking activities in Chinese Mainland. Since commencing operations, BOCI China has become the third largest investment bank in China’s domestic A share placement market. BOCI China was the lead underwriter for the Shaanxi Aerospace Power Hi-tech A share listing and joint lead underwriter for the Hua Xia Bank A share listing. These two projects were well received in the market, with the former achieving an oversubscription of 1,200-times. State Power’s RMB2 billion convertible bond, in which BOCI China was a lead underwriter, also set three new records in the Mainland’s convertible corporate bond market. The subscription amounted to RMB258.8 billion, with 286-times oversubscription, and tied up RMB117.9 billion in funds.

At the same time, BOCI China’s fixed income business made significant progress. In 2003, BOCI China was very successful in its underwriting of corporate bonds, bonds of financial institutions and domestic government treasury bonds. It participated in the issuance and underwriting of nine corporate bond offerings, with an aggregate transaction volume of RMB2.1 billion. The aggregate underwriting volume of treasury bonds totalled RMB4.1 billion, making BOCI one of the leading securities dealers in the Mainland.

The institutional sales activities of BOCI China have been further supported through the development of distribution networks in Shanghai, Beijing and Shenzhen. Also, BOCI China has signed marketing and distribution agreements with the Mainland fund management companies. In terms of brokerage activities, the trading volume of shares and funds totalled RMB36 billion during 2003.

Outlook for 2004

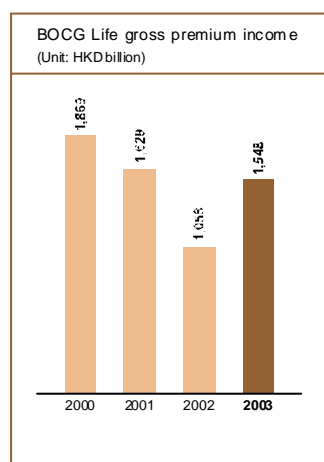
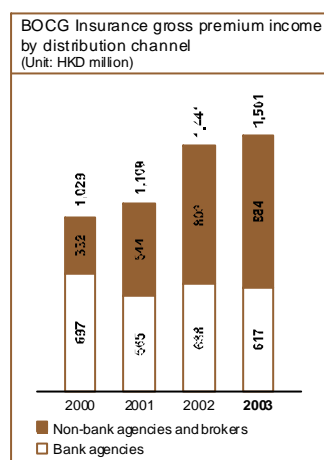
China will continue to open its capital markets to a more diverse array of products, presenting BOCI with an opportunity to more fully develop its investment banking business in China. BOCI will also leverage the Group’s substantial customer base, comprehensive range of products and worldwide network to expand its business in the domestic and overseas markets. BOCI is working to build a strong brand and provide a full range of services to become a world-class investment bank with sustainable competitive strength.



Sport enhances the harmonious corporate culture of the Bank

Management's Discussion and Analysis

Insurance



- In 2003, the gross premium income of BOCG Insurance reached HKD3 billion, an increase of 22% over the previous year, the highest among HK-based insurers.
- The profitability of BOCG Insurance improved steadily, with the profit before tax increasing by 52.5%.

BOCG Insurance is based in Hong Kong and conducts its activities through seven branches and three subsidiaries in Hong Kong and the Mainland. BOCG Insurance, together with its wholly-owned subsidiary BOC Group Life Assurance Company Ltd. ("BOCG Life"), provides a broad range of life and property insurance services. BOCG Insurance intensified its collaboration with BOCHK to further consolidate and more effectively leverage the Bank of China brand.

In 2003, in spite of the SARS outbreak and other challenges, BOCG Insurance continued the trend of increasing its gross premium income. In 2003, the gross premium income reached HKD3 billion, an increase of 22% over the previous year, the highest among Hong Kong based insurers. Of this amount, property gross premium income was HKD1.5 billion and life gross premium income was HKD1.5 billion. These amounts reflected increases of 4.2% and 46.3%, respectively, over 2002.

Consistent with the growth in its insurance business revenue, which is attributable to active market expansion of BOCG Insurance and its subsidiaries, net profit of BOCG Insurance was HKD135 million, an increase of 77.8% over 2002. Its key profitability measures of return on equity and ratio of net profit on gross premium were 12.2% and 5.8% for 2003, reflecting increases of 4.2 and 1.8 percentage points, respectively.

In order to more effectively meet the needs of the rapidly changing insurance market, BOCG Insurance and BOCG Life have developed a number of products with features that, among other things, are targeted at specific segments of the market and provide innovative investment options. These policies include *Lucky Star*, *3-Year Single Premium Endowment Plan*, *Golden Key Endowment Plan*, *Smart Saver 5-Year Life Endowment Plan*, *Real Lady Female Insurance Plan*, and *Out-patient Medical Insurance Policy*. In addition, during the SARS outbreak in Hong Kong in 2003, BOCG Life launched the *Atypical Pneumonia Hospital Income Rider*, becoming one of the first insurers to offer such products in response to an unexpected medical event. BOCG Insurance's efforts to better meet the needs of the market are also ongoing in Chinese Mainland. Its Mainland branch has submitted proposals for six new types of insurance policies to the China Insurance Regulatory Commission for review. Four of these have been approved for launch and the other two were still under review at the end of 2003.

Outlook for 2004

In 2004, BOCG Insurance and BOCG Life will continue to lead market developments through improving the convenience of their telephone and Internet direct sales services, further expanding their cooperation with BOCHK, and promoting brokerage services. At the same time, they will exploit new markets in China by extending their network.

Operational platform

Information technology

In 2003, the Bank completed the centralisation of its Information Technology (“IT”) systems. In line with the Bank’s IT development strategy, it is now able to better control the processing of data within its domestic and overseas information centres. This provides a more stable platform from which it can develop innovative products and more efficiently control its business.

Whilst supporting the steady development of traditional services, the IT system of the Bank has been continuously upgraded to better support customer-focused services. In recent years, these upgrades have enabled the Bank to offer a more diverse range of products including the Sale of Open-ended Funds, the OTC Trading of Bonds and the Overseas E-banking services. The Bank also started to develop the Integrated Credit Extension System and the Personal Wealth Management System.

In 2003, the Bank formally commenced the implementation of its IT blueprint. The short-term goals are to build an integrated customer-focused application structure, develop a safe and stable internal IT network and integrate enhanced disaster recovery capabilities into our system before 2005. The long-term goals are to comprehensively upgrade the Bank’s application systems so that flexible product customisation can be delivered, realise the integration of both domestic and overseas management and information systems, and ultimately improve the Bank’s overall IT capacity to the level of other global banking groups.

Human resources

“Respecting our people and developing our businesses through their dedication” has long been the Bank’s guiding principle in human resources management. Consistent with this principle, one of the Bank’s key human resources objectives is to provide a work environment that supports professional development and promotes a sense of common purpose to support the Bank’s business objectives.

In 2003, the Bank continued to develop its processes related to human resources allocation, training and career development. A significant level of focus was also devoted to the introduction of new incentive mechanisms to maintain required levels of retention and enforce individual accountability. The Bank achieved encouraging progress in these areas. A quality team is quickly growing to meet the needs of a world-class bank.



Mr. Li Zaohang (middle), MD and EVP of the Bank, presides over Bank of China (Canada)’s Board meeting

HR configuration

In 2003, the Bank retained an international HR consulting firm to help it to formally define job responsibilities at the Head Office, an initiative that will eventually be implemented throughout the Bank to enable its people to more precisely understand their responsibilities. This will also help management enforce accountability and more efficiently allocate staff to address specific needs. It has also developed programs to ensure that its people are properly trained and motivated to meet challenges and share the rewards of working for the Bank.

In a significant change from the policies of the past, the Bank has introduced measures to improve the transparency of the manager recruiting process in 2003. Domestically, it launched a system of job posting for open management positions. It is the Bank’s objective to create a competitive, but fair, environment for career advancement and development. In addition, the Head Office established an internal clearing house to publicise recruiting information, enhance internal flow of staff and match open posts with qualified staff.

Management's Discussion and Analysis

HR development

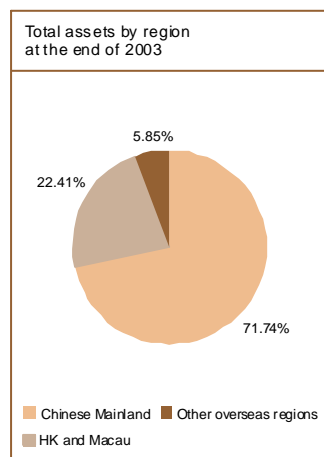
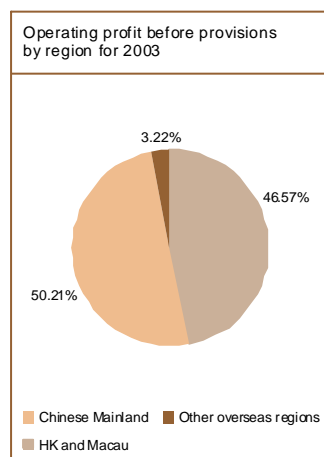
Consistent with the concept of respecting its people, the Bank has always attached great importance to their development and training. The Bank continued to be proactive in developing tailored training programs. In 2003, all staff attended various training courses and the average training time was over 40 hours. Moreover, in order to improve the quality of its training, the Bank has hired and independently engaged professional training staff that have both a requisite level of industry expertise and successful training experience. Whilst offering training to staff at all levels, the Bank arranged for the senior management a series of training programs related to advanced management topics. Highly qualified and experienced trainers from home and abroad were engaged, offering most of the Bank's senior managers training in strategic planning, performance management, risk control and marketing.



Local employees of Bank of China (Zambia) – a touch of love for the Bank

Incentive mechanism

The Bank has introduced a comprehensive performance evaluation system, covering all its branches and departments. Staff at all levels including senior management, are subject to evaluation under this system. The appointment and remuneration of senior management is closely linked to their performance. An annual income system linked to the new evaluation system for branch-level managers was launched in domestic tier-one branches this year. On the basis of the evaluation process, the income levels among managers, based on performance and responsibility, have widened. The fact that high performing individuals with greater levels of responsibility are paid more has aroused enthusiasm among the Bank's managers.



Segment Reporting by Geographic Region

Bank of China is the most globally oriented bank in China. In 2003, it further expanded its global reach and continued to leverage its advantages in competition with domestic players.

Operating profit before provisions by region	(Unit: RMB million)	
	2003	2002
Chinese Mainland	23,708	21,472
HK and Macau	21,989	20,277
Other overseas regions	1,523	1,797
Total	47,220	43,546

Total assets by region	(Unit: RMB million)	
	2003	2002
As at 31 December		
Chinese Mainland	2,946,797	2,687,254
HK and Macau	920,531	870,566
Other overseas regions	240,374	209,175
Eliminations	(265,549)	(230,826)
Total	3,842,153	3,536,169

Chinese Mainland

Chinese Mainland is the Group's most important business region, where 71.7% of the Group's assets were managed and 50.2% of the Group's operating profit before provisions for 2003 was earned. The Bank has an extensive network across the Mainland, providing traditional commercial banking services, including retail and corporate banking businesses. In regard to foreign currency businesses, the Bank continued to maintain a distinct advantage in the domestic market with its deep experience in this area.

Profit and loss in Chinese Mainland		(Unit: RMB million)
	2003	2002
Net interest income	47,169	37,535
Investment income	(1,989)	4,341
Other operating income, net	6,990	4,810
Operating profit before provisions	23,708	21,472
Provisions for bad and doubtful debts	(21,160)	(16,861)
Operating profit after provisions	2,548	4,611
Net profit	(9,966)	2,036

Assets and liabilities in Chinese Mainland		(Unit: RMB million)
As at 31 December	2003	2002
Loans	1,630,099	1,311,811
Debt investments	699,928	692,722
Due from and placements with banks and other financial institutions	315,835	266,141
Total assets	2,946,797	2,687,254
Deposits from customers	2,339,028	1,996,033
Due to and placements from banks and other financial institutions	183,287	192,064
Total liabilities	2,774,155	2,468,829

Key business indicators		(Unit: RMB million)
As at 31 December	2003	2002
Corporate loans	1,493,536	1,226,634
Retail loans	253,979	155,499
Corporate deposits	946,370	766,633
Savings deposits	1,392,658	1,229,400
International settlement business volume (USD million)	328,255	261,057

Management's Discussion and Analysis

In 2003, the operating profit before provisions of the Bank's Domestic Operations was RMB23.7 billion, an increase of 10.4% over the prior year, which reflected the profitable growth of the Bank's Domestic Operations. Despite the effect of the reversal of overdue interest receivable of RMB8.6 billion, net interest income experienced a 25.7% increase mainly due to the rise in interest-earning assets as a result of the growth of the Bank's lending activities. Net profit, however, decreased during 2003 as the Domestic Operations made RMB21.2 billion in provisions, an increase of 25.5% over the prior year, and increased write-offs of historical problem assets.

At the end of 2003, the assets and liabilities of Domestic Operations totalled RMB2,946.8 billion and RMB2,774.2 billion respectively, increases of RMB259.5 billion and RMB305.3 billion, or up 9.7% and 12.4% respectively, driven almost exclusively by increases in loans and deposits from customers. At the end of 2003, the balances of loans and deposits from customers of Domestic Operations reached RMB1,630.1 billion and RMB2,339 billion respectively, increases of RMB318.3 billion and RMB343 billion, or up 24.3% and 17.2% respectively. The increase in deposits from customers resulted in an increase in total liabilities.



Mr. Zhou Zaiqun, MD and EVP of the Bank, presides over the procurement review meeting at the Head Office

Hong Kong and Macau

Hong Kong and Macau are also key business regions of the Bank, where 22.4% of the Group's assets were managed and 46.6% of the Group's operating profit before provisions for 2003 was contributed. The profit after tax of BOCHK was RMB8.6 billion. In addition to traditional commercial banking activities, the Group also owns an investment bank (BOCI), an insurance company (BOCG Insurance), an investment company (BOC Group Investment) and other subsidiaries in the region. The Group's large network and operations in the region play a significant role in its business diversification efforts. Benefited from the good economic environment and the improvement of business process management, the performance of the Group's Hong Kong and Macau operations was encouraging in 2003.

Profit and loss in Hong Kong and Macau		(Unit: RMB million)
	2003	2002
Net interest income	15,250	16,067
Investment income*	7,496	5,570
Other operating income, net	6,278	5,890
Operating profit before provisions	21,989	20,277
Provisions for bad and doubtful debts	(2,645)	(7,518)
Operating profit after provisions	19,344	12,759
Net profit	13,989	8,340

*Note: Including the net gains from the sale of shares of BOC Hong Kong (Holdings) Limited amounting of RMB7.3 billion (2002: RMB5.6 billion).

Assets and liabilities in Hong Kong and Macau		(Unit: RMB million)
As at 31 December	2003	2002
Loans	342,970	351,271
Debt investments	249,929	221,090
Due from and placements with banks and other financial institutions	230,121	210,619
Total assets	920,531	870,566
Deposits from customers	701,128	707,311
Due to and placements from banks and other financial institutions	59,820	41,678
Total liabilities	832,152	803,308

Key business indicators		(Unit: RMB million)
As at 31 December	2003	2002
Corporate loans	223,331	236,418
Retail loans	136,034	134,499
Corporate deposits	174,516	180,452
Savings deposits	526,612	526,859
International settlement business volume (USD million)	168,260	155,670
Gross insurance premium (HKD million)	3,049	2,499

In 2003, the Group's operations in Hong Kong and Macau had operating profit before provisions of RMB22 billion and net profit of RMB14 billion, reflecting increases of 8.4% and 67.7% respectively over the prior year. The increase in net profit was mainly due to the improvement of asset quality in the region during 2003, which was reflected by the decrease of RMB4.9 billion in provisions as compared with 2002. The Group's operations in this region continued to enjoy relatively diverse sources of income. Net non-interest income accounted for 47.5% of the total income, which is consistent with the scope of non-banking activities in which the Group is engaged. The net gains from the sale of shares of BOC Hong Kong (Holdings) Limited also contributed RMB7.3 billion of non-interest income to the region.

At the end of 2003, the assets and liabilities in this region were RMB920.5 billion and RMB832.2 billion, reflecting increases of RMB49.9 billion (5.7%) and RMB28.8 billion (3.6%), respectively, over the end of the prior year.

Other overseas regions

In addition to its dominant market position in Chinese Mainland and the Hong Kong and Macau regions, the Group has also established a substantial overseas network with operations in Europe, North America, South America and other Asia-Pacific regions. These Overseas Operations (excluding Hong Kong and Macau) managed 5.9% of the Group's assets and contributed 3.2% of the Group's operating profit before provisions for 2003. In these regions, the Group is committed to delivering traditional commercial banking services to its customers.

Management's Discussion and Analysis

Profit and loss in other overseas regions	(Unit: RMB million)	
	2003	2002
Net interest income	1,945	2,267
Investment income	158	446
Other operating income, net	743	275
Operating profit before provisions	1,523	1,797
Provisions for bad and doubtful debts	(650)	(2,332)
Operating profit after provision	873	(535)
Net profit	564	(867)

Assets and liabilities in other overseas regions	(Unit: RMB million)	
As at 31 December	2003	2002
Loans	43,292	76,094
Debt investments	47,638	47,964
Due from and placements with banks and other financial institutions	110,385	50,502
Total assets	240,374	209,175
Deposits from customers	46,955	46,961
Due to and placements from banks and other financial institutions	183,471	148,867
Total liabilities	234,454	200,465

Key business indicators	(Unit: RMB million)	
As at 31 December	2003	2002
Corporate loans	50,964	81,639
Retail loans	1,254	1,573
Corporate deposits	16,423	14,642
Savings deposits	30,532	32,319
International settlement business volume (USD million)	32,953	31,235

In 2003, the Group's Overseas Operations, excluding Hong Kong and Macau, realised operating profit before provisions of RMB1.5 billion, down 15.2% from the prior year. With improvement of asset quality, provisions for bad and doubtful debts decreased by RMB1.7 billion and net profit increased by RMB1.4 billion over the prior year.

At the end of 2003, the Group's other Overseas Operations managed RMB240.4 billion and RMB234.5 billion of its assets and liabilities, reflecting increases of RMB31.2 billion (14.9%) and RMB34 billion (17%), respectively, over the end of the prior year. The balance of loans outstanding at the year-end was RMB43.3 billion, a decrease of RMB32.8 billion (43.1%) from the prior year-end. The balance of due from and placements with banks and other financial institutions was RMB110.4 billion, an increase of RMB59.9 billion (118.6%) over the prior year-end, which was the main reason for the increase of total assets. The balance of due to and placements from banks and other financial institutions was RMB183.5 billion, an increase of RMB34.6 billion (23.2%) over the prior year-end, which was the main reason for the increase of total liabilities.

Risk Management

Group-wide risk management framework

Bank of China's risk management objective is to balance risks and returns through proper identification, measurement, monitoring, and control of the risks inherent in its businesses. These risks must be managed within acceptable levels established by the Board, in support of the Bank's business strategy. It will achieve its risk management objective through the establishment of a comprehensive and efficient risk management framework, consisting of the following key elements:

- Responsibility vested in the Board of Directors to make strategic risk management decisions, such as the determination of risk tolerance levels, with the assistance of the Risk Management Committee;
- The establishment of an independent risk management department to efficiently monitor levels of risks in the Bank's Domestic and Overseas Operations;
- Definition of clear responsibility and accountability for the monitoring and management of risks for risk management departments and business units throughout all levels of the Bank;
- Continuous improvement in the Bank's risk management methodologies and procedures;
- Strengthening of the Bank's risk management culture by promoting awareness and understanding of its risk management objectives to bank employees.



Ms. Zhang Yanling (2nd from right), MD and EVP of the Bank, at the Conference of International Chamber of Commerce

In recent years, the Bank has been vigorously promoting a sound risk management framework addressing the different types of risks in its Domestic and Overseas Operations.

Two committees reporting directly to the Board, the Risk Management Committee and the Asset-Liability Management and Budget Committee, have been established to assist the Board in developing the Bank's risk management framework. The Risk Management Committee is responsible for approving risk management policies proposed by the management and addressing emerging risk management and internal control issues. The Asset-Liability Management and Budget Committee directly manages the Bank's liquidity and interest rate risks and directs the Bank's strategic planning and annual budgeting processes.

The Risk Management Department at the Head Office is responsible for analysing the Bank's risk profile on an aggregate basis and developing risk management policies. The Risk Management Department also coordinates the review and approval of significant credit applications, and supervises the risk management of branches and business departments.

Management's Discussion and Analysis

The Risk Management Department discharges its responsibilities throughout the Bank at three levels – (1) directly monitoring the risks in all of the Bank's domestic and overseas branches, through risk management units at the branch level; (2) supervising the management of risks by business departments at the Head Office through risk management positions established at the business departments; and (3) participating as members of the Boards, and risk management committees, in the Bank's major overseas subsidiaries, including BOC Hong Kong (Holdings) Limited, BOC International, BOCG Insurance and BOCG Investment.

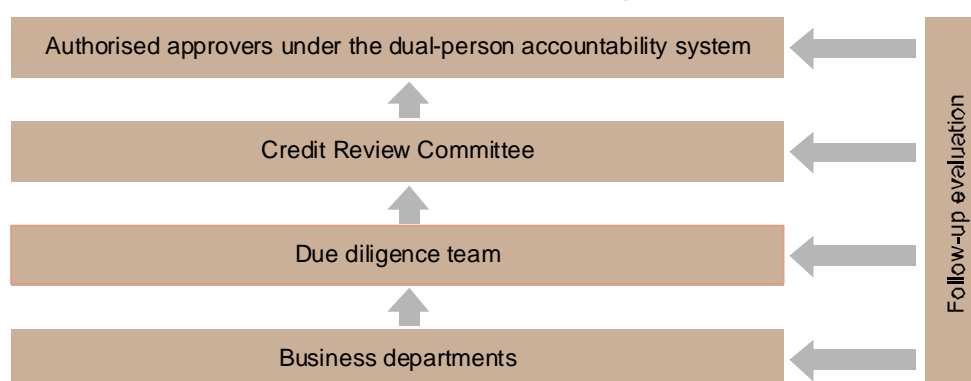
Credit risk management

Credit risk refers to the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Bank. It arises principally from lending, trade finance and treasury activities. In 2003, the Bank's objectives of credit risk management initiatives remained focused on maintaining the continued improvement in asset quality and enhancing its risk management capability to support the Bank's business growth strategy.

Credit decision-making process

Bank of China has established a sound "three in one" credit decision-making process for its corporate and institutional lending. The three components of this process are an independent due diligence investigation, an assessment of all credit applications by the credit review committee, and the establishment of strict approval process with clear accountability, enforced through follow-up evaluations.

Flow chart of credit decision-making



1. The Bank's business departments are responsible for developing relationships with their customers and marketing their products. They also perform preliminary reviews and analysis on credit applications submitted by potential borrowers. The results of this work are summarized in a preliminary evaluation report.
2. The due diligence team is responsible for analysing all risks related to potential credit projects and the related borrowers. It also evaluates the effectiveness of measures recommended to reduce the potential risks in a project. The due diligence team also conducts a feasibility study of the preliminary analysis and recommends further risk mitigation measures before forming an initial conclusion on the potential lending project in its due diligence report.
3. The Credit Review Committee reviews all credit projects to assess whether they comply with relevant national laws and regulations, are consistent with the Bank's business strategy and credit policy, and meet the Bank's established risk management criteria. The committee also reviews the actions proposed to mitigate identified risks and provides recommendations on whether the Bank should accept the credit applications.
4. Based on the preliminary evaluation report, the due diligence report and the recommendations of the Credit Review Committee, the accountable approvers make a final decision on the granting of the loans. They can overrule any application recommended by the Credit Review Committee, but cannot approve any application rejected by the Credit Review Committee.

In 2003, the Credit Review Committee at the Head Office convened 105 meetings and reviewed 482 credit proposals involving RMB680.4 billion.

In relation to its retail lending business, the Bank has segregated the functions of loan origination and independent credit review. The Risk Management Department is responsible for establishing asset quality targets for the retail lending business and monitoring the asset quality trends of the retail credit portfolio. It is also responsible for performing post-approval evaluation on the effectiveness of the underwriting in the retail lending business.

Credit authorisation

Authorisation of corporate lending approval limits is established by the Head Office for each of the Bank's domestic and overseas branches. These limits are adjusted in response to changing circumstances. Circumstances considered include the asset quality of specific branches, the effectiveness of branch management, the ability of branch personnel to control credit risk, and the level of competition among local banks. On this basis, approval limits have been set to reflect the level of risks to be undertaken by the Bank, with factors including the tenor of loans, the internal credit ratings of customers and related loan security taken into consideration. The branches at different levels have the authority to approve lending decisions within established limits. In 2003, the Bank strengthened its approval limit management by factoring in industry specific and geographical considerations and adjusting the credit approval limits on certain industries and branches.

In setting the credit approval limits for the extension of retail credit, the Bank has categorised retail lending into various types. For all consumer lending products, the Head Office authorises tier-one branches to approve credit applications subject to the Bank's strict delegation standards. These tier-one branches can delegate approval limits to their retail business units and tier-two branches, but remain responsible for the delegation decisions made.

Credit risk evaluation

The foundation of Bank of China's credit risk evaluation is its internal borrower credit rating system. Under this system various attributes, such as the nature of the borrower's business and the borrower's financial position, are assessed in order to establish a borrower credit rating. The Bank has developed variations of the borrower credit rating system to address credit risk issues unique to specific industries (e.g. real estate) and types of borrowers (e.g. small and medium-sized enterprises). The 10 borrower rating classes (AAA, AA, A, BBB, BB, B, CCC, CC, C, D) are intended to reflect the creditworthiness of each borrower.

The Bank has also developed strict requirements, in terms of collateral and guarantors, related to retail loans. In approving retail loans, consideration is also taken regarding the borrower's credit history and repayment capacity. Currently, a retail customer credit scoring system is being tested in certain branches to more precisely assess risks related to specific borrowers.

The outcomes of both the corporate borrower credit rating and retail credit score are closely linked to the default rate of customers, which provides an important reference for the Bank to choose its borrowers and carry out the approval limit management on branches. They also provide quantitative bases for the Bank to adjust customer mix, perform portfolio analysis and improve the asset quality.

Credit risk monitoring

The Bank has established a series of credit risk monitoring and early warning systems to closely monitor credit risk.

The Bank's business departments have developed the database of potential non-performing loans based on individual reviews and analysis. Early warning indicators, such as deterioration of a borrower's credit rating, have been developed which enable the Bank



Mr. Zhu Min, EAP of the Bank, at China Conference jointly held by Bank of China, Euromoney and HSBC

Management's Discussion and Analysis

to identify potential problems on a timely basis. The Bank is then able to initiate an assessment of its potential risks and, if indicated, commence recovery and other actions to mitigate possible losses. All new credit extensions to borrowers exhibiting such risk attributes are strictly controlled. For loans with near-term repayment possibilities, the relevant business department will closely monitor the borrowers in order to identify a ready source of repayment. For loans expected to become non-performing with the primary repayment source in doubt, the business department will focus on securing secondary repayment source while at the same time increase collection efforts and ensure that the Bank's right to seek legal redress has not lapsed.

On a regular and timely basis, the Bank carries out both on-site and off-site inspections of compliance with its credit policies. In addition, post-approval examinations are made to identify underwriting deficiencies. Leveraging the findings from the work of its external auditors and regulators, the Bank has organised examinations of a number of its branches to assess the authenticity of its asset quality.

In addition, consistent with its preference for credit risk diversification, the Bank has also been proactive in monitoring its portfolio concentration risk related to geographical regions, industries, maturity profile and security interest.

Portfolio structure

As at 31 December	2003		2002	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans	2,016,361	52.48	1,739,176	49.18
Debt investments	997,222	25.96	961,503	27.19
Due from and placements with banks and other financial institutions	447,610	11.65	354,940	10.04
Other assets	380,960	9.91	480,550	13.59
Total	3,842,153	100.00	3,536,169	100.00

The Group's credit risk assets are principally comprised of loans, debt investments, and due from and placements with bank and other financial institutions. Its credit exposure also arises from off-balance sheet guarantees and treasury activities.

Loan portfolio concentrations by geographic region

As at 31 December	2003		2002	
	Balance	Proportion (%)	Balance	Proportion (%)
Eastern region	1,023,348	62.78	794,035	60.53
Central region	293,468	18.00	236,529	18.03
Western region	207,500	12.73	165,150	12.59
Head Office	105,783	6.49	116,097	8.85
Total	1,630,099	100.00	1,311,811	100.00

Note: Eastern region includes Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong (including Shenzhen) and Hainan; Central region includes Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan; Western region includes Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

Overseas loans by geographic region

(Unit: RMB million)

As at 31 December	2003		2002	
Region	Balance	Proportion (%)	Balance	Proportion (%)
Hong Kong and Macau	342,970	88.79	351,271	82.19
Other Asia-Pacific region	24,719	6.40	26,730	6.26
Europe	10,496	2.72	10,425	2.44
America	7,827	2.03	38,753	9.07
Africa	250	0.06	186	0.04
Total	386,262	100.00	427,365	100.00

At the end of 2003, the Group's outstanding loan balance in the eastern region accounted for 65.2% of its total domestic loans. The outstanding loan balance of the Group's Overseas Operations was concentrated in Hong Kong and Macau, accounting for 88.8% of the total overseas loans outstanding.

Loan portfolio concentrations by industry sector

Domestic loans by industry sector

(Unit: RMB million)

As at 31 December	2003		2002	
Industry Sector	Balance	Proportion (%)	Balance	Proportion (%)
Loans to enterprises and institutions				
Manufacturing	487,704	29.92	423,765	32.30
Commercial, trading and services	306,080	18.78	281,117	21.43
Energy, mining and agriculture	169,948	10.42	133,554	10.18
Transportation and logistics	149,580	9.18	135,004	10.29
Real estate	127,368	7.81	90,850	6.92
Public services	75,465	4.63	63,088	4.81
Construction	34,539	2.12	18,039	1.38
Financial services	28,658	1.76	23,264	1.77
Others	4,278	0.26	1,776	0.14
Consumer credit	246,479	15.12	141,354	10.78
Total	1,630,099	100.00	1,311,811	100.00

Management's Discussion and Analysis

Overseas loans by industry sector					(Unit: RMB million)
As at 31 December	2003		2002		
Industry Sector	Balance	Proportion (%)	Balance	Proportion (%)	
Loans to enterprises and institutions					
Real estate	89,366	23.13	107,779	25.22	
Commercial, trading and services	40,778	10.55	54,119	12.66	
Transportation and logistics	25,089	6.50	22,603	5.29	
Manufacturing	22,277	5.77	23,047	5.39	
Energy, mining and agriculture	18,873	4.89	20,873	4.88	
Financial services	11,388	2.95	14,475	3.39	
Construction	10,009	2.59	17,131	4.01	
Others	31,568	8.17	25,145	5.89	
Consumer credit	136,914	35.45	142,193	33.27	
Total	386,262	100.00	427,365	100.00	

At the end of 2003, the outstanding balance of the domestic corporate loans was concentrated in the sectors of manufacturing, commerce and service, energy, mining and agriculture sectors. In 2003, the Domestic Operations increased lending to individual customers and some key industries including transportation and power. The overseas exposures consisted primarily of consumer credit, real estate and commercial loans. The consumer credit accounted for 35.5% of the total overseas loans.

Loan portfolio concentrations by remaining term to maturity

Domestic loans by term to maturity			(Unit: RMB million)
As at 31 December	2003		
Maturity	Balance	Proportion (%)	
Within 1 year (including 1 year)	1,135,920	69.68	
1–5 years (including 5 years)	272,532	16.72	
Above 5 years	221,647	13.60	
Total	1,630,099	100.00	

Overseas loans by term to maturity			(Unit: RMB million)
As at 31 December	2003		
Maturity	Balance	Proportion (%)	
Within 1 year (including 1 year)	78,220	20.25	
1–5 years (including 5 years)	125,765	32.56	
Above 5 years	182,277	47.19	
Total	386,262	100.00	

By the end of 2003, 69.7% of domestic loans had a remaining maturity of one year or less. The remaining terms to maturity of the overseas loans, though, were significantly higher. Overseas loans with a remaining term to maturity of more than 5 years accounted for 47.2% of the total.

Loan portfolio concentrations by type of security

Domestic loans by type of security					(Unit: RMB million)
As at 31 December	2003		2002		
Collateral category	Balance	Proportion (%)	Balance	Proportion (%)	
Unsecured	268,872	16.49	154,227	11.76	
Guaranteed	735,849	45.14	601,480	45.85	
Collateralised and other secured	625,378	38.37	556,104	42.39	
Total	1,630,099	100.00	1,311,811	100.00	

Overseas loans by type of security					(Unit: RMB million)
As at 31 December	2003		2002		
Collateral category	Balance	Proportion (%)	Balance	Proportion (%)	
Unsecured	79,869	20.68	91,160	21.33	
Guaranteed	67,802	17.55	74,374	17.40	
Collateralised and other secured	238,591	61.77	261,831	61.27	
Total	386,262	100.00	427,365	100.00	

At the end of 2003, 45.1% of the total domestic loans were guaranteed, whilst collateralised and other secured loans accounted for 38.4% of the total. The majority of the overseas loans were collateralised and other secured loans, which accounted for 61.8% of the total overseas loans.

Asset classification

At the beginning of 2003, the Bank issued *Working Guidance on Asset Classification* and established the five-grade classification framework for loans made through its Domestic Operations. The asset classification guidelines are consistent with those established by the PBOC. They establish the classification criteria for all credit products based on assessment of the borrowers' repayment ability and intention to repay, as well as consideration of collateral and guarantees that will ultimately affect the repayment of loans. All of the Bank's domestic branches have implemented these classification guidelines. In this regard, there is clear segregation of duties at the Bank's domestic branches between the business departments, which are responsible for the initial classification of all loans, and the risk management department, which is responsible for monitoring compliance with the application of the five-grade classification framework and independently verifying the classification of loans.

Loan* quality of Bank of China Group					(Unit: RMB million)
As at 31 December	2003		2002		
	Balance	Proportion (%)	Balance	Proportion (%)	
Pass	1,492,415	69.12	1,155,042	62.90	
Special mention	314,968	14.59	252,048	13.73	
Non-performing	351,714	16.29	429,173	23.37	
Including: Substandard	63,088	2.92	65,679	3.58	
Doubtful	116,323	5.39	155,443	8.46	
Loss	172,303	7.98	208,051	11.33	
Total	2,159,097	100.00	1,836,263	100.00	

* Discounted bills, trade finance related receivables and loans are included.

Management's Discussion and Analysis

At the end of 2003, the non-performing loans of the Group amounted to RMB351.7 billion. The non-performing loans ratio was 16.3%, down 7.1 percentage points from the previous year-end. At the end of 2003, domestic roll-over loans totalled RMB39.4 billion, of which RMB9 billion were overdue. The roll-over loans have been classified and included above according to the asset classification guidelines by the PBOC.

The Bank's recovery actions principally take the form of negotiations, legal actions and debt restructuring. The disposals of the foreclosed assets are conducted in an open and transparent manner through auction, tendering or transfers. In 2003, the Bank recovered an equivalent of RMB40.8 billion in cash, foreclosed a total of RMB4.9 billion worth of assets, and disposed of RMB9.6 billion worth of foreclosed assets.

Market risk management

Market risk refers to the risk of losses caused by movements in interest rates, exchange rates, and stock or commodity prices. Market risk arises from structural changes in the composition of the Bank's assets and liabilities and from its trading activities.

Interest rate risk

At present, the domestic base rates are fixed by the PBOC and are adjusted infrequently. In order to minimise interest rate risk arising from its Renminbi business, the Bank closely monitors the changes of the Renminbi interest rates and balance sheet movements. As appropriate, consistent with its asset and liability management objectives, the Bank will adjust its asset and liability structure.

The Bank is proactive in managing its exposure to foreign currency interest rates. It monitors changes in foreign currency interest rates closely. In order to control its foreign currency interest rate risk exposure, the Bank will adjust foreign currency interest levels of deposits and loans where necessary. It may also use financial instruments as hedges against this exposure.

In 2003, in order to better manage its interest rate risk the Bank developed a Gap Information Analysis System (GIAS) to more effectively monitor its interest rate gap of Domestic Operations.

The implementation of the GIAS will provide the Bank with the ability to prepare the interest rate gap analysis on a more frequent basis, with improved accuracy. This will enable the Bank to manage its interest rate risk exposure with confidence.



Mr. Zhu Xinqiang (1st from right), EAP of the Bank, inspects the Bank's trading business

Exchange rate risk

The Bank's principle in controlling exchange rate risk is to match its assets and liabilities in each currency and to maintain exchange rate risk within established limits. The Bank has set risk limits which are consistent with the guidelines established by the Risk Management Committee and are in accordance with relevant regulatory requirements, and reflect the management's assessment of current circumstances. The Bank also manages its sources and uses of foreign currencies to minimise potential mismatches.

The Bank exercises strict control over its foreign currency transactions. Foreign currency denominated investment and trading products include bonds, inter-bank lending, foreign currency trading and derivatives transactions mainly entered into on behalf of customers. To control exchange rate risk, the Bank follows investment guidelines approved by the Risk Management Committee. These guidelines impose an overall stop loss limit. Based on the different characteristics of specific products and the qualifications of the dealers, position and stop loss limits are set for each trading desk and each dealer. On each trading day, the application system will monitor the position and profit or loss of each trading desk, and examine whether a transaction is beyond the authorised limits. Any limit excess case will be reported and dealt with according to the established procedures.

In addition, the Bank is pilot testing the use of Value at Risk techniques as a tool to manage market risk related to foreign currency transactions. In analysing risks related to its foreign currency treasury activities, the Bank has introduced the concepts of risk value, stress testing and price value of a basis point. These risk management tools are used by many large global banks to effectively control foreign exchange and other trading risks.

Liquidity risk management

Liquidity risk refers to the risk of being unable to fund the Bank's portfolio of assets at reasonable rates and to meet the payment obligations of matured liabilities.

The Bank's objective in liquidity management is to ensure the availability of adequate funding at all times, so as to meet the needs for repayments of deposits and other liabilities as they fall due, as well as being able to meet obligations for loan drawdown and to take advantage of new lending opportunities.

In developing the liquidity management strategy, the Bank has fully considered the financing position, business development, market condition and convertibility of currencies in the local market as well as financing support of the central bank and worked out the relevant plan in accordance with the prudent principles and market liquidity of different currencies in different regions.

The Bank's primary liquidity management policies related to assets are to encourage diversification, improve realization of assets and maintain an appropriate level of liquidity. The Bank's policies related to liabilities are to keep the level of liabilities stable relative to assets and increase the core deposits.

To address potential liquidity contingencies, the Bank has also established an early-warning mechanism and a contingency plan. It tracks any warning signals related to position holding, market reaction and borrowing capacity, so that immediate measures can be taken.

In addition, the Bank requires all of its branches and subsidiaries to test the effectiveness of the contingency financing plan on a regular and an ad hoc basis by means of scenario analysis. Based on the outcome of these tests, the Bank will update its contingency plan accordingly.

Liquidity indicators

At the end of 2003, the primary sources of Renminbi and foreign currency fundings for the Bank's Domestic Operations were deposits from customers, accounting for 91.8% and 66.5% of total Renminbi and foreign currency liabilities respectively. At the end of 2003, the Renminbi assets of the Bank's Domestic Operations mainly consisted of loans. The foreign currency assets of the Bank's Domestic Operations mainly consisted of debt investments, loans, due from and placements with banks and other financial

Management's Discussion and Analysis

Main funding channels of Domestic Operations

As at 31 December	Renminbi liabilities (RMB billion)				Foreign currency liabilities (USD billion)			
	2003		2002		2003		2002	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Due to central banks	1.8	0.09	1.4	0.09	8.0	8.09	11.3	11.35
Due to and placements from banks and other financial institutions	84.3	4.31	145.8	8.86	12.0	12.06	5.6	5.62
Deposits from customers	1,793.1	91.81	1,424.2	86.60	66.0	66.48	69.1	69.36
Special purpose borrowings	–	–	–	–	9.3	9.41	10.4	10.48
Bonds issued	–	–	–	–	0.5	0.50	0.5	0.50

Major assets of Domestic Operations

As at 31 December	Renminbi assets (RMB billion)		Foreign currency assets (USD billion)	
	2003	2002	2003	2002
Cash and due from central banks	210.9	152.9	2.6	2.3
Due from and placements with banks and other financial institutions	14.9	19.1	36.4	29.8
Debt investments	301.8	289.5	48.1	48.7
Discounted bills and trade finance related receivables	89.7	60.4	3.3	1.2
Loans	1,232.5	981.1	48.0	40.0

Loan to deposit ratio of Domestic Operations

As at 31 December	2003	2002
RMB (%)	73.73	73.13
Foreign currencies (%)	77.73	59.62

Liquidity ratio⁸ of the Group

As at 31 December	2003
RMB (%)	33.81
Foreign currencies (%)	72.22

⁸ Liquidity ratio = liquid assets/liquid liabilities

Liquid assets include cash, deposits placed with PBOC in excess of the statutory requirements, due from and placements with banks and other financial institutions, discounted bills, other accounts receivable, loans (excluding overdue loans) and securities (provided the above-mentioned items have a remaining term to maturity of less than one month), together with bonds and other assets that can be readily converted into cash at any moment on a secondary market.

Liquid liabilities include demand deposits, due to and placements from banks and other financial institutions, time deposits, bonds and bills issued, accounts payable, due to central banks and other liabilities (provided the above-mentioned items have a remaining term to maturity of less than one month).

Operational risk management

In addition to credit, market and liquidity risks, the Bank is also exposed to other risks including errors and omissions, system failures, frauds, or natural disasters such as earthquake, fire and contagions. These risks may result in direct or indirect losses to the Bank. The Bank classifies these risks as operational risks, which are covered in its overall risk management framework.

In the past two or three years, the Bank has worked diligently to address the following three issues in order to effectively manage operational risks:

Information system centralisation

To better control its information processing the Bank implemented a plan to centralise the disparate IT systems. At the end of 2003, in this regard, the number of information centres has been reduced to 8 from 1,040 in 2000. These include five domestic and three overseas information centres. This system integration has yielded encouraging results. Management is now able to obtain relevant risk management and business information on a more timely basis in certain areas. The Bank's IT system is evolving into an effective tool to support management decision-making. There is, however, more work to be done in this area and the Bank is committed to continued progress.



Mr. Wang Yongli (2nd from left), EAP of the Bank, hosts an informal discussion with the Credit Review Committee members at the Head Office

Process reengineering

The Bank continued to move forward with the reengineering of management and business processes. Most significantly, this involved the streamlining of the levels of management and the segregation of the front, middle and back office functions. Based on the principles of operating efficiency, the Bank has centralised the functions within its middle and back offices in selected branches. This will help the Bank to strengthen the internal control systems and prevent operational errors and frauds.

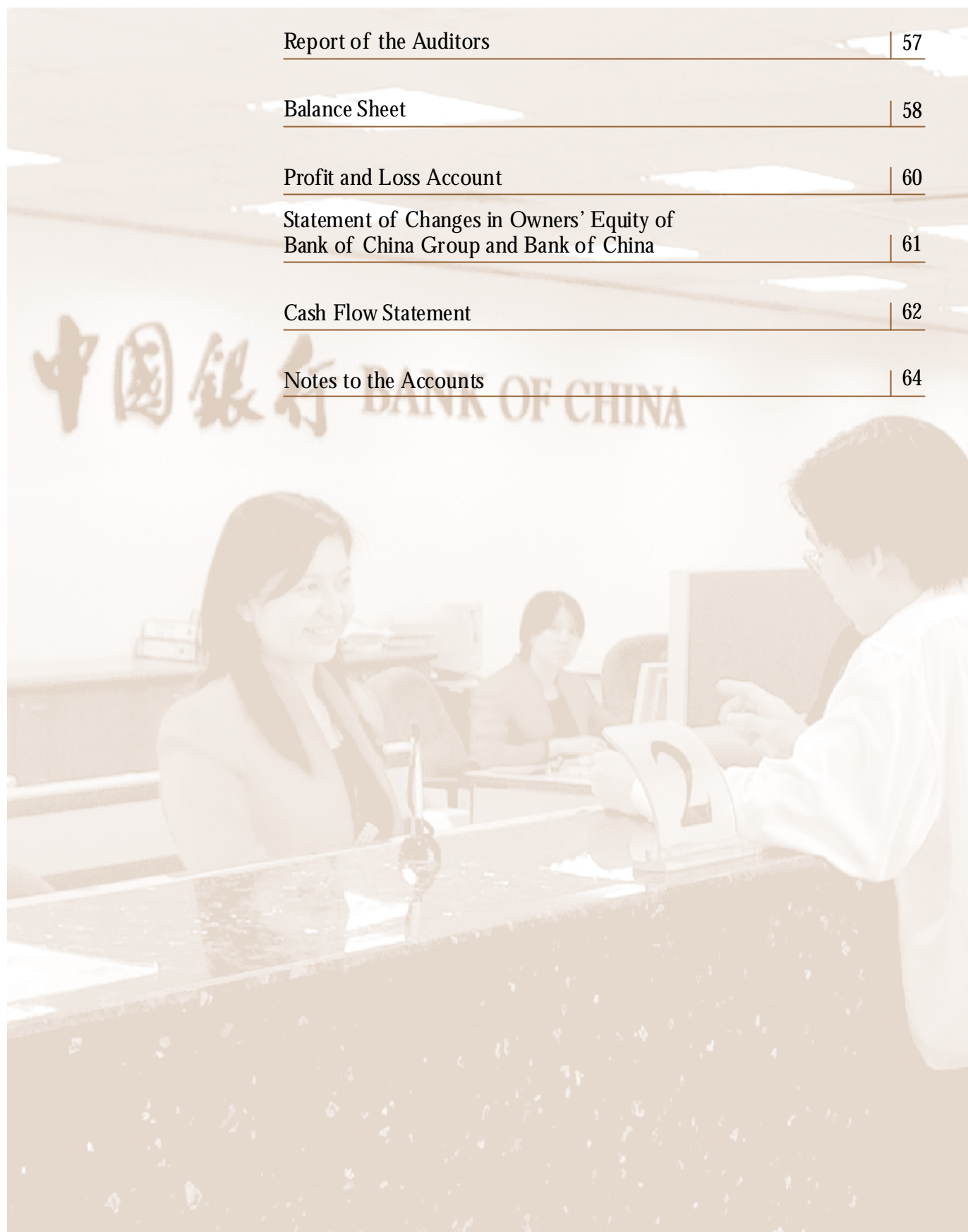
Internal auditing

The Bank undertakes on-site and off-site inspections of its operations regularly or on an ad hoc basis through its independent internal audit function. The Audit Department is responsible for the implementation of the Bank's internal control systems. In 2003, the Audit Department at the Head Office carried out 52 reviews. A total of 220 on-site inspections of domestic tier-2 branches (there are 285 tier-2 branches in total) were performed by the audit departments and 75 on-site inspections were carried out in the overseas branches.

To address potential risks arising from unexpected events, the Bank established a contingency management plan during the period of the SARS epidemic in April 2003. To guard against specific risks, the Bank actively seeks opportunities to reduce risks through external parties, where economically feasible. For example, the Bank has entered into insurance contracts to cover its fixed assets, especially certain expensive IT equipment, from loss or damage due to fire.

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Report of the Auditors

PwC ZT SZ (2004) #1225

To the Board of Directors of Bank of China:

We have audited the balance sheet of Bank of China (the "Bank") as at 31 December 2003 and its profit and loss account and cash flow statement for the year then ended, and the consolidated balance sheet of Bank of China Group (the "Group", comprising the Bank and its subsidiaries) as at 31 December 2003 and its consolidated profit and loss account and cash flow statement for the year then ended. The Bank's management is responsible for preparing these financial statements. Our responsibility is to form an opinion, based on our audit, on the financial statements.

We planned and conducted our audit in accordance with the Independent Auditing Standards issued by the Chinese Institute of Certified Public Accountants, which provides us with reasonable assurance as to whether the financial statements are free from material misstatements. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant accounting estimates made by management in the preparation of the financial statements, and evaluation of the overall adequacy of the financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Bank and the Group present fairly, in all material respects, the financial position of the Bank and of the Group as at 31 December 2003 and their results of operations and cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (1993), the Financial Regulations for Finance and Insurance Institutions, the Provisional Regulations on Consolidated Financial Statements for Wholly State-owned Commercial Banks and other accounting regulations issued by the Ministry of Finance, the People's Bank of China and the China Banking Regulatory Commission applicable to the Bank and the Group as described in Section III of notes to the accounts.

PricewaterhouseCoopers Zhong Tian
Certified Public Accountants Limited Company

5 April 2004

Balance Sheet

As at 31 December 2003

	Note VI	Bank of China Group		Bank of China	
		2003	2002	2003	2002
Assets					
Cash	1	25,714	21,200	22,613	18,508
Due from central banks	2	241,862	193,034	237,148	188,860
Government certificates of indebtedness for bank notes issued	3	34,789	31,966	1,262	1,078
Due from and placements with banks and other financial institutions	4	447,610	354,940	341,612	237,175
Debt investments	5	997,222	961,503	758,061	751,015
Discounted bills and trade finance related receivables	6	142,736	97,087	126,674	81,216
Loans	7	2,016,361	1,739,176	1,687,327	1,402,306
Interest receivable		19,761	29,693	17,175	26,847
Equity investments	8	16,610	31,053	70,768	81,353
Fixed assets	9	66,594	67,803	46,793	45,461
Construction in progress	10	5,452	7,659	5,452	7,659
Other assets	11	95,828	88,631	77,554	78,319
Provisions for bad and doubtful assets	12	(268,386)	(87,576)	(252,227)	(65,746)
Total assets		3,842,153	3,536,169	3,140,212	2,854,051

(Unit: RMB million)

	Note VI	Bank of China Group		Bank of China	
		2003	2002	2003	2002
Liabilities					
Due to central banks	13	68,238	95,003	68,238	95,003
Bank notes in circulation	14	34,836	32,031	1,309	1,142
Due to and placements from banks and other financial institutions	15	217,847	210,287	266,183	250,037
Deposits from customers	16	3,087,111	2,750,305	2,427,114	2,083,053
Interest payable		26,031	25,594	25,103	24,284
Special purpose borrowings	17	77,229	86,391	77,229	86,391
Bonds issued	18	3,823	3,823	4,071	4,071
Other liabilities	19	116,611	96,510	84,594	90,644
Total liabilities		3,631,726	3,299,944	2,953,841	2,634,625
Minority interests	20	24,056	16,799	—	—
Paid-in capital	21	186,390	142,100	186,390	142,100
Capital reserve	21	—	12,957	—	12,957
Surplus reserve	21	—	49,291	—	49,291
Undistributed profits	21	—	10,331	—	10,331
Translation differences	21	(19)	4,747	(19)	4,747
Owner's equity		186,371	219,426	186,371	219,426
Total liabilities and owners' equities		3,842,153	3,536,169	3,140,212	2,854,051

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

Legal Representative:

Xiao Gang

Vice President in charge of
accounting function:

Zhou Zaiqun

General Manager in charge of the
Accounting Department:

Liu Yanfen

Profit and Loss Account

For the year ended 31 December 2003

(Unit: RMB million)

	Note VI	Bank of China Group		Bank of China	
		2003	2002	2003	2002
Interest income	22	104,659	99,312	84,915	76,026
Interest expense	22	(40,295)	(43,443)	(35,348)	(35,474)
Net interest income	22	64,364	55,869	49,567	40,552
Investment income	23	5,665	10,357	13,318	13,843
Other operating income, net	24	14,011	10,975	8,038	5,332
Business tax and surcharges		(3,498)	(3,388)	(3,464)	(3,344)
Operating expenses	25	(33,322)	(30,267)	(26,577)	(23,326)
Operating profit before provisions		47,220	43,546	40,882	33,057
Provision for bad and doubtful debts	12	(24,455)	(26,711)	(22,198)	(19,834)
Operating profit after provisions		22,765	16,835	18,684	13,223
Non-operating expenses, net	26	(12,707)	(2,980)	(11,649)	(2,162)
Profit before tax		10,058	13,855	7,035	11,061
Income tax		(3,194)	(2,867)	(2,448)	(1,552)
Profit after tax		6,864	10,988	4,587	9,509
Minority interests	20	(2,277)	(1,479)	—	—
Net profit		4,587	9,509	4,587	9,509

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

Legal Representative:

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accounting function:

Zhou Zaiqun

General Manager in charge of the
Accounting Department:

Liu Yanfen

Statement of Changes in Owners' Equity of Bank of China Group and Bank of China

For the year ended 31 December 2003

(Unit: RMB million)

	Note	Paid-in capital	Capital reserve	Surplus reserve	Undistributed profits	Translation differences	Total
At 1 January 2003		142,100	12,957	49,291	10,331	4,747	219,426
Capital injection	II	186,390	–	–	–	–	186,390
Net profit		–	–	–	4,587	–	4,587
Reduction in capital	VI, 21	(1,046)	–	–	–	–	(1,046)
Reclassification		–	98	59	(157)	–	–
Other movement		–	(22)	25	(183)	475	295
Equity transferred to specific and other provisions	II VI, 12	(141,054)	(13,033)	(49,375)	(14,578)	(5,241)	(223,281)
At 31 December 2003		186,390	–	–	–	(19)	186,371

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

Legal Representative:

Xiao Gang

Vice President in charge of accounting function:

Zhou Zaiqun

General Manager in charge of the Accounting Department:

Liu Yanfen

Cash Flow Statement

For the year ended 31 December 2003

	Note VI	Bank of China Group	Bank of China
		2003	2003
I. Cash flow from operating activities			
Interest received		87,929	74,396
Commission received		11,050	5,779
Net increase in customer deposits		335,396	344,048
Net increase in due to and placements from banks and other financial institutions		7,560	16,146
Cash received from bad debts written-off previously		731	250
Cash received from other operating activities		24,656	8,528
Cash inflow from operating activities		467,322	449,147
Interest paid		(39,718)	(34,380)
Commission paid		(2,714)	(1,180)
Cash paid to and on behalf of the employees		(14,760)	(10,836)
Net increase in loans		(384,674)	(385,408)
Net increase in statutory deposit reserve with central banks		(41,484)	(41,491)
Net increase in due from and placements with banks and other financial institutions		(87,238)	(106,380)
Net decrease in due to central banks		(9,078)	(9,078)
Net decrease in special purpose borrowings		(9,162)	(9,162)
Income tax paid		(4,139)	(4,011)
Business and other taxes paid		(4,985)	(3,958)
Cash paid for other operating activities		(19,430)	(10,019)
Cash outflow from operating activities		(617,382)	(615,903)
Net cash outflow from operating activities	30(1)	(150,060)	(166,756)

(Unit: RMB million)

	Note VI	Bank of China Group	Bank of China
		2003	2003
II. Cash flow from investing activities			
Cash received from disposal of equity investments		1,302	103
Dividends received		613	3,932
Cash received from interests of debt investments		26,662	20,190
Cash received from net gain on debt security trading		58	320
Proceeds from disposal of fixed assets		2,736	1,365
Cash inflow from investing activities		31,371	25,910
Cash payments for purchase of fixed assets, intangible assets and other long term assets		(9,369)	(8,558)
Net increase in debt investments		(35,784)	(7,111)
Cash outflow from investing activities		(45,153)	(15,669)
Net cash outflow from investing activities		(13,782)	10,241
III. Cash flow from financing activities			
Proceeds from paid-in capital		162,239	162,239
Cash received from minority shareholders as additional capital injection to subsidiaries		15,284	—
Cash inflow from financing activities		177,523	162,239
Dividends payments to minority shareholders		(1,176)	—
Cash payments for interest of debt investments		(140)	(149)
Cash outflow from financing activities		(1,316)	(149)
Net cash inflow from financing activities		176,207	162,090
IV. Effect of foreign exchange rate changes		4,925	4,875
V. Increase in cash and cash equivalents	30(2)	17,290	10,450

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

Legal Representative:

Xiao Gang

Vice President in charge of
accounting function:

Zhou Zaiqun

General Manager in charge of the
Accounting Department:

Liu Yanfen

Notes to the Accounts

For the year ended 31 December 2003
(Amount in millions of Renminbi, unless otherwise stated)

I. General information

Bank of China (the “Bank”) is a wholly state-owned commercial bank founded on 5 February 1912. From its formation until 1949, the Bank variously performed the functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People’s Republic of China (the “PRC”) in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved from a specialised foreign exchange bank towards a state-owned commercial bank.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the “CBRC”) [No.B10311000H0001] and is registered as a Business Enterprise by the State Administration of Industry and Commerce of the PRC [No.1000001000134].

The Bank and its subsidiaries (collectively, “Bank of China Group” or the “Group”) provide a full range of commercial banking, investment banking, insurance and related financial services to its customers in Chinese Mainland, Hong Kong Special Administrative Region of the PRC (“Hong Kong”), Macau Special Administrative Region of the PRC (“Macau”) and other major international financial centres.

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

The Head Office of the Bank (the “Head Office”) and its branches operating in Chinese Mainland are defined as Domestic Operations. Branches and subsidiaries domiciled outside the PRC including those located in Hong Kong and Macau are defined as Overseas Operations.

II. Financial restructuring

The Bank is one of the two state-owned commercial banks selected by the PRC Government as the pilot banks to proceed with the bank reform into a joint stock bank. On 30 December 2003, the PRC Government contributed a capital equivalent to RMB186.39 billion (comprises USD19.60 billion and 7.01 million ounces of gold) to the Bank via Central Huijin Investment Company Limited. In accordance with the government approved financial restructuring arrangement of the Bank, a specific provision equal to the original balances of the owner’s equity as at 31 December 2003 (including the net profit of the Group for 2003) before the capital contribution from the PRC Government was established as “Provisions for bad and doubtful assets” and charged directly to equity (Note VI, 12). According to this financial restructuring arrangement, the specific provision will be applied to write off the non-performing assets brought forward from previous years. The Bank plans to complete in 2004 the write-off process of the non-performing assets brought forward.

III. Basis of preparation and consolidation

1. Basis of preparation

The financial statements are prepared based on the Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (1993), the Financial Regulations for Finance and Insurance Institutions, the Provisional Regulations on Consolidated Financial Statements for Wholly State-owned Commercial Banks and other relevant accounting regulations as applicable to the Group and the Bank.

The financial statements of Overseas Operations are prepared in accordance with the accounting policies set by the Head Office subject to certain accounting standards and regulations applicable to the Overseas Operations in their respective overseas jurisdictions. The effect of the adoption of different accounting policies by its Overseas Operations due to more prudent regulatory and accounting requirements has not been adjusted for in consolidation. Major differences in the accounting policies adopted by Domestic Operations and Overseas Operations are separately disclosed under the respective accounting policies in Note V “Principal accounting policies and accounting estimates”.

In 2001, a new set of accounting system was promulgated by the Ministry of Finance (the “MOF”) for financial institutions in the PRC. The principal differences introduced by the Accounting System for Financial Institutions (2001) include measurement of the impairment of specific assets and recognition of certain liabilities which are not currently reflected in the accounts. The Bank plans to adopt the Accounting System for Financial Institutions (2001) upon the completion of the financial restructuring.

In order to improve the quality of information disclosure, in the current year the Bank has prepared the notes to the accounts in accordance with the Provisional Regulations on Information Disclosure of Commercial Banks issued by the People’s Bank of China (the “PBOC”) in 2002, the Provisional Regulations on Information Disclosure of Financial Statements for Wholly State-owned Commercial Banks issued by the MOF in 2003 and with reference to the disclosure requirements of the Accounting System for Financial Institutions (2001).

2. Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Bank and its subsidiaries as of 31 December. All significant inter-company balances and transactions are eliminated on consolidation.

Consolidated subsidiaries are those entities in which the Bank, directly or indirectly, controls more than 50% of the equity voting rights or has the ability to control the financial and operating policies of the respective entities. The principal subsidiaries which have been consolidated in the Group’s financial statements are set out in Note VI, 8 “Equity investments”.

Investments that are under liquidation, held for resale or pending transfer to China Orient Asset Management Corporation (“COAMC”) are excluded from consolidation.

Minority interests represent the interests of minority shareholders in the operating results and net assets of the Bank’s subsidiaries.

IV. Change in accounting policy

The Bank has been serving as an agent of certain barter trades between the PRC Government and foreign governments. In prior years, balances resulting from these barter trades were recorded as assets and liabilities on the balance sheet of the Bank. In 2003, the Bank changed its accounting policy to record these balances in a memorandum account. The new accounting policy is adopted retrospectively resulting in a decrease in assets and liabilities of RMB26 billion respectively as at 31 December 2002.

V. Principal accounting policies and accounting estimates

1. Accounting year

The accounting year of the Group is from 1 January to 31 December.

2. Foreign currency translation

The Bank’s reporting currency is Renminbi (RMB). Foreign currency transactions are recorded in multi-currency ledgers. Vouchers, journals and financial statements are prepared in the currencies in which the transactions are denominated. All foreign currency assets, liabilities and profit and loss account items are translated and consolidated into RMB at the exchange rates in effect at the balance sheet date. Reserves and capital are translated into RMB using the exchange rates when the transactions took place. Exchange differences arising from foreign currency denominated assets contributed as capital are separately dealt with as “Translation differences” in owner’s equity. Exchange differences arising from other foreign currency positions are dealt with in the profit and loss accounts.

Notes to the Accounts

For the year ended 31 December 2003
(Amount in millions of Renminbi, unless otherwise stated)

3. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents refer to cash, due from central banks (excluding statutory and fiscal deposits with PBOC), and due from banks and other financial institutions.

4. Debt investments

Debt investments are classified according to the investment objectives of the Bank. Investments that the Bank has the intention to hold for long-term investment purpose are classified as investment securities. Investments that are acquired principally for short-term profit making are classified as trading securities.

Domestic Operations

All debt investments held by Domestic Operations are initially recognised at cost. The interest income arising from debt securities is recognised on an accrual basis and calculated according to the face value and the coupon rate. Premium or discount arising from the purchase of debt securities is amortised to the profit and loss account through interest income on a straight-line basis. Debt securities are stated at amortised cost at the balance sheet date. Upon disposal, the difference between the net proceeds and the carrying amount of the debt securities is recognised in the profit and loss account as investment income.

Overseas Operations

Investment securities are carried at amortised cost less any provision for impairment. The interest income arising from debt securities is recognised on an accrual basis and calculated with reference to the face value and the coupon rate. For investment securities, any premium or discount arising from the purchase of debt investments is amortised to the profit and loss account through interest income on a straight-line basis. Trading securities are stated at fair value in the balance sheet and the unrealised gains or losses are recorded in the profit and loss account.

5. Discounted bills

Discounted bills are recorded in the balance sheet at the amount of cash advanced. Interest income equal to the discount is recognised through maturity. Bills that have been subsequently rediscounted with the central banks and other financial institutions without repurchase agreement are derecognised.

6. Loans

Loans originated by the Group are accounted for as loans on the balance sheet. Certain other entrusted loans, which are serviced by the Bank as agent, are recorded off-balance sheet.

Loans originated by the Group are stated at the principal amount outstanding and interest is accrued based on the outstanding principal and applicable interest rates. The Group bears the risk of default by the borrowers.

For entrusted loans, the Bank grants loans to borrowers, as agent, at the direction of the third-party lenders who fund these loans. The Bank has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans including their purposes, amounts, repayment schedule and interest rates. The Bank charges a commission related to its activities in connection with the entrusted loans, but the risk of credit loss is borne by the third-party lenders. Entrusted loans are recorded as off-balance sheet items of the Group.

7. Provisions and bad debt write-offs

Domestic Operations

Pursuant to a notice issued by the MOF (Caijin [2001] 127) “Notice to Financial Institutions on Administrative Policy for Provision for Bad and Doubtful Debts and Bad Debt Write-offs” (the “Caijin [2001]127 Notice”), the Bank makes provisions against all loans, discounted bills, advances, documentary bills, credit card overdrafts, equity investments and debt investments (except for government bonds), inter-bank placements, and interest receivable (excluding interest receivable on loans, government bonds and inter-bank placements). The provisions for bad and doubtful assets are set at 1% of the outstanding balance of each class of assets mentioned above at the balance sheet date and charged to the profit and loss account. The provisions for bad and doubtful assets are utilised upon the write-off of the corresponding assets. Recoveries of assets, which have been written off, are credited to the profit and loss account as other operating income.

Debts are written off only when they meet the criteria set out in the Caijin [2001] 127 Notice and the approval from the Bank’s Asset Disposal Committee is obtained.

Overseas Operations

The provisions of Overseas Operations mainly represent the loan loss provision, which comprises general and specific provisions. General provision is set aside based on certain percentage of the outstanding balance of loans. Specific provision is made to reduce the carrying value of the assets, taking into account available collateral to their expected net realisable value, and based on the management’s assessment of the potential losses on those identified loans on a case-by-case basis. Where it is not possible to reliably estimate the loss, management of the Overseas Operations apply pre-determined provisioning levels to the unsecured portion of loans based on the results of their loan classification procedures.

When there is no realistic prospect of recovery, the outstanding debt is written off.

8. Equity investments

Equity investments comprise investments in subsidiaries, associates, investments acquired through debt-for-equity swap schemes and other equity investments.

Investment in subsidiaries

In the Bank’s unconsolidated accounts, subsidiaries are accounted for using the equity method. The results of subsidiaries accounted for using the equity method are recorded in the “investment income” account.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Bank’s share of its net assets and is recorded in the “investment income” account.

Investment in associates

Associates are investees in which the Group has an interest of between 20% to 50% of the voting rights or otherwise has significant influence over the financial and operating policies of the investees.

The Group accounts for associates using the equity method. The Group accounts for its share of the operating results of associates as investment income in the consolidated profit and loss account. The Group’s shares of the net assets of the associates are recorded in the “equity investments” account in the consolidated balance sheet.

Notes to the Accounts

For the year ended 31 December 2003
(Amount in millions of Renminbi, unless otherwise stated)

Debt-for-Equity Swaps

Debt-for-Equity Swaps are equity investments of Domestic Operations acquired through the debt-for-equity swap schemes and managed by COAMC. Pursuant to the notices issued by the MOF (Caibanjin [2001] 198) "Opinion on Accounting Treatment of Debt-for-Equity Swaps" and (Caijinhuan [2002] 6) "Letter Concerning the Treatment of Debt-for-Equity Swaps of Banks", debt-for-equity swaps are stated at amounts equivalent to the outstanding loan principle plus interest recognised in the profit and loss account. Overdue interest of the loan recorded in the memorandum account is only recognised as income in the profit and loss account on a cash received basis.

Other equity investments

Other equity investments include those investment projects in the process of resale, pending disposal or transfer to COAMC. Other investments held by Domestic Operations are stated at cost, regardless of the percentage of equity interest held by the Bank.

Other equity investments held by Overseas Operations are stated at cost less provision for impairment. The provisions made for impairment of other equity investments by Overseas Operations are included in "Other provision" (Note VI, 12).

9. Fixed assets and depreciation

Fixed assets include buildings and improvements, motor vehicles and equipment used in the Group's operations which have useful lives of more than one year.

Depreciation is calculated to write off the related cost, reduced to reflect management's estimate of residual value (3% of original cost), of individual fixed assets on a straight-line basis over their estimated useful lives. The respective estimated useful lives and the estimated depreciation rates for fixed assets are as follows:

	Useful lives	Annual depreciation rate (%)
Buildings and improvements	15 – 35 years	2.77 – 6.47
Equipment	3 – 11 years	8.82 – 32.33
Motor vehicles	4 – 6 years	16.17 – 24.25

Domestic Operations

Fixed assets are stated in the balance sheet at cost less accumulated depreciation. Subsequent expenditures related to renovation, expansion, and improvements that extend useful lives are capitalised as part of the carrying amount of the related fixed asset. Repair and maintenance costs of fixed assets are charged to the profit and loss account.

When fixed assets are sold, or disposed of, gains and losses are determined by comparing the proceeds with the carrying amount of the assets, reduced by related taxes and expenses, and are included in non-operating income/expenses.

Overseas Operations

Fixed assets are stated at cost or valuation less accumulated impairment losses and accumulated depreciation calculated to write off the assets over their estimated useful lives on a straight-line basis. The fixed assets of Overseas Operations include investment properties. Investment properties (principally located in Hong Kong) represent interests in land and buildings which are held for rental to others or for their investment potential.

Buildings and investment properties are valued periodically. Increases in valuation are first credited to the revaluation reserves. Decreases in valuation are first set off against any specific revaluation reserves resulting from earlier valuations. Amounts in excess of any specific revaluation reserves are charged to the profit and loss account as non-operating expense.

10. Construction in progress

Construction in progress represents fixed assets under construction or being installed and is stated at cost. Cost comprises cost of construction, installation and other direct costs related to putting the related fixed asset into service.

11. Other assets

(1) Precious metal

Precious metal comprises gold, silver and other precious metal traded in international and domestic markets, such as Shanghai Gold Exchange. Precious metals are initially stated at cost and are stated at the respective market prices on the balance sheet date.

(2) Intangible assets

Intangible assets comprise land use rights and computer software. Intangible assets are recorded in the financial statements at cost less accumulated amortisation. Amortisation for intangible assets is calculated on a straight-line basis from the month of acquisition over their estimated beneficial lives or effective periods and is recognised in the profit and loss account.

(3) Deferred assets

Deferred assets are comprised principally of pre-operating expenses, costs incurred for improvements made to fixed assets under operating leases and other deferred expenses, which are amortised over a period of more than one year. Pre-operating expenses are amortised on a straight-line basis over a period of five years starting in the month in which operations commence. Costs incurred for fixed assets improvements are amortised on a straight-line basis over the related lease period. Rental prepayments are amortised over the respective lease period. Other long-term deferred expenses are amortised on a straight-line basis over the related period in which benefits are realised.

(4) Foreclosed assets

Foreclosed assets are recognised initially at a value equal to the collateralised amount of the related outstanding loan principal plus the accrued interest and are stated in the balance sheet at this initially recognised book value.

Pursuant to a notice issued by the MOF (Caijin [2002] 1) "Notice Concerning Financial Institutions Recognising Revenue Arising from Receipt and Disposal of Foreclosed Assets", the value of foreclosed assets in excess of the sum of the outstanding principal and interest receivable is not recognised as income, but recorded in a memorandum account. Any gain or loss from the disposal of foreclosed assets is recorded in the profit and loss account.

The maintenance costs of the foreclosed assets are recorded as non-operating expense as incurred. Expenses incurred in the disposal of the foreclosed assets are netted off against the proceeds of disposal.

12. Repos and reverse repos

Repos refer to securities and bills sold to a counter-party with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement. Reverse repos refer to securities and bills purchased from a counter-party with an obligation to re-sell to the counter-party at a pre-determined price on a specified future date under a resale agreement.

Repos are initially recorded in the balance sheet in "Due to and placements from banks and other financial institutions" or "Due to central banks" at the actual amounts received from the counter-parties. The securities sold under the repurchase agreements are recorded on the balance sheet in "Debt investments" or "Discounted bills and trade finance related receivables". Reverse repos are initially recorded in the balance sheet in "Due from and placements with banks and other financial institutions" at the actual amount paid to counter-parties. The securities purchased under the resale agreements are not recorded on the balance sheet. The difference in prices for purchase and sales are recognised as interest income or interest expenses on the accrual basis in the profit and loss account.

Notes to the Accounts

For the year ended 31 December 2003
(Amount in millions of Renminbi, unless otherwise stated)

Repos or reverse repos denominated in foreign currencies entered into by Domestic Operations are recorded as sales or purchase of securities and the obligations to buy or sell on a specified future date are recorded as off-balance sheet items.

13. Operating Leases

Leases where substantially all the risk and rewards of ownership of assets remain with the lessor are accounted for as operating leases.

Where the Group is the lessee, the assets subject to the lease are not accounted for as fixed assets. Lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

Where the Group is the lessor, the assets subject to the lease are accounted for as fixed assets. Rental income from operating leases is recognised on a straight-line basis over the lease term.

14. Revenue

(1) Interest income

Interest income is recognised in the profit and loss account as it accrues.

Pursuant to the notice issued by the MOF (Caijin [2002] 5) "Notice on Shortening the Accounting Term for Interest Receivable of Financial Institutions", for loans in which either the principal or the interest receivable has been overdue for more than 90 days (excluding 90 days), the Bank ceases to accrue interest income in the profit and loss account. All outstanding interest receivable, which has previously been recognised as income is reversed against interest income and recorded in a memorandum account. The subsequent interest due, regardless of whether the principal is overdue or not, is recorded in the memorandum account and recognised in the profit and loss account only when the amount has been received.

According to the letter issued by the MOF (Caijinhan [2002] 43) "Letter Regarding the Accounting Treatment of Lawsuit Fees", for placements with banks and other financial institutions, when the principal or the interest receivable has been overdue for more than 90 days (excluding 90 days), the Bank ceases to accrue interest income in the profit and loss account. All outstanding interest receivable, which has previously been recognised as income is reversed against interest income and recorded in a memorandum account. The subsequent interest due, regardless of whether the principal is overdue or not, is recorded in the memorandum account and recognised in the profit and loss account only when the amount has been received.

(2) Fee and commission income

Fee and commission income related to financial services provided is recognised in the profit and loss account when the services are rendered and the payments are received or the documents supporting the rights to receive the payment are obtained.

15. Retirement benefit costs and housing subsidies

(1) Employee retirement benefits

(i) Retirement benefits

In accordance with relevant state and local government policies, domestic employees participate in various defined contribution retirement schemes managed by local Labour and Social Security Bureaus. The employer's contribution to the schemes is set at

18% to 22.5% of the employees' average monthly salary of the preceding year with a cap of three times the corresponding local average monthly salary in which the branches are located. Contributions are expensed as paid. Upon retirement of the employees, the Labour and Social Security Bureaus are responsible to pay the basic retirement benefits to these retired employees.

In addition, supplementary payments made to employees after retirement are expensed as incurred.

All eligible employees in Overseas Operations participate in respective local retirement plans. Overseas Operations contribute to these plans based on a certain percentage of the employees' basic salary. Contributions are expensed as incurred.

(ii) **Early retirement benefits**

Early retirement benefits are paid to those employees who accept the voluntary redundancy before the normal retirement dates. Such benefits are expensed as paid.

(2) **Housing subsidies and housing funds**

(i) **Housing subsidies**

Pursuant to "Regulation Addressing Issues in Relation to Housing System Reform of Financial Institutions" issued by the MOF (Caijin [2001] 28), cash subsidies should be made to employees to compensate for the withdrawal of allocation of staff quarters. The Head Office and certain local branches have adopted cash subsidy plans, whereby, for those eligible employees who joined the Bank before 31 December 1998 and have either not been allocated staff quarters or have been allocated staff quarters below the level to which they were entitled before the staff quarters allocation scheme was terminated, the Head Office and the local branches will pay such employees one-time cash subsidies in amounts based on their years of service, positions and other criteria. These cash subsidies are charged to the profit and loss account as paid.

As of 31 December 2003, the terms of the one-time cash subsidies have not been finalised in some locations and therefore the amount payable cannot be measured reliably. Accordingly no such liabilities have been recognised in the accounts.

(ii) **Housing funds**

All domestic full-time employees are entitled to participate in various government-sponsored housing funds. The Head Office and the branches operating in Chinese Mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are expensed in the profit and loss account as incurred.

16. Taxation

Domestic Operations

(i) **Income tax**

Income tax is provided for at the income tax rate applicable to the Bank's Domestic Operations which is 33%.

Pursuant to "Provisional Regulation for the Income Tax of Overseas Income (Revised)" issued by the MOF and National Tax Bureau, dividend income received from overseas subsidiaries and profits remitted from overseas branches is taxed at 33% less foreign tax credits.

Notes to the Accounts

For the year ended 31 December 2003
(Amount in millions of Renminbi, unless otherwise stated)

(ii) Deferred tax

Deferred tax represents temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets, revaluations of properties, general provision for bad and doubtful debts and tax losses carried forward.

Domestic Operations account for its tax using the tax payable method and no deferred taxation is provided for.

(iii) Other taxes

Other taxes mainly include the business tax which is provided for at 5% of taxable operating revenues.

Overseas Operations

(i) Income tax

Income tax of the Bank's Overseas Operations is calculated subject to the relevant local tax regulations where they operate.

(ii) Deferred tax

Deferred tax liabilities are provided in full on all taxable temporary differences and recorded in "Other liabilities". Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are recorded in "Other assets".

17. Derivative financial instruments

Derivative financial instruments include forwards, options, swaps and other transactions undertaken by the Bank in the foreign exchange, interest rate and other markets. Derivative financial instruments are utilised by the Bank for trading purposes and for hedging purposes.

Currency forward contracts represent commitments to purchase/sell foreign currencies. Currency and interest rate swaps are commitments to exchange one set of cash flows for another. 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 a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price.

Domestic Operations

Currency forward contracts and future contracts are marked to market based on quoted market prices. The unrealised gain or loss arising from changes in market price is recognised in the profit and loss account. Mark-to-market of other derivative financial instruments has not been reflected in the financial statements.

Unrealised gains on transactions which are marked to market are included in "Other assets". Unrealised losses on transactions which are marked to market are included in "Other liabilities".

Overseas Operations

For Overseas Operations, derivative financial instruments entered into by the Group for trading purposes are recorded in the balance sheet at fair values. Changes in fair values are recorded in the profit and loss account. Unrealised gains/losses as a result of fair value measurement are recorded in "Other assets" or "Other liabilities" in the balance sheet.

Derivative financial instruments entered into by the Group for hedging purposes are measured on the same basis as the corresponding hedged assets, liabilities or net positions. Any profit or loss arising from the fair value measurement is recognised in the profit and loss account on the same basis as the corresponding assets, liabilities or net positions.

VI. Notes to the consolidated financial statements

1. Cash	31 December 2003	31 December 2002
RMB	12,649	10,693
Foreign currencies	13,065	10,507
Total	25,714	21,200

2. Due from central banks	31 December 2003	31 December 2002
Domestic Operations		
Settlement account with PBOC	74,950	59,365
RMB statutory deposit reserve with PBOC	121,640	81,987
Foreign currency statutory deposit reserve with PBOC	10,943	10,792
Fiscal deposit with PBOC	2,953	1,266
Sub-total	210,486	153,410
Overseas Operations		
Due from overseas central banks	31,376	39,624
Total	241,862	193,034

Domestic Operations are required to place a RMB statutory deposit reserve, a foreign currency statutory deposit reserve and a fiscal deposit with the PBOC. According to the notice issued by PBOC (Yin Fa [2003] 168) "Notice of Increase in the Required Statutory Deposit Reserve Ratio", the required RMB deposit reserve ratio has been raised from 6% to 7% (2002: 6%) of customer deposits denominated in RMB effective 21 September 2003. The required foreign currency deposit reserve ratio is 2% (2002: 2%) of customer deposits denominated in foreign currencies. The fiscal deposit of Domestic Operations comprises funding from the MOF allocated to or receivable from government agencies, funding from local governments to local enterprises and proceeds of bonds issued on behalf of the MOF. The foreign currency deposit reserve and fiscal deposits placed with PBOC are non-interest bearing.

3. Government certificates of indebtedness for bank notes issued

Bank of China (Hong Kong) Limited and Bank of China Macau Branch are note issuing banks for Hong Kong dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits of funds to secure the currency notes in circulation.

Notes to the Accounts

For the year ended 31 December 2003
(Amount in millions of Renminbi, unless otherwise stated)

4. Due from and placements with banks and other financial institutions

	31 December 2003	31 December 2002
Due from banks		
Domestic Operations		
Due from domestic banks	1,082	1,090
Due from overseas banks	423	704
Overseas Operations		
Due from overseas banks	13,148	7,522
Sub-total	14,653	9,316
Placements with banks and other financial institutions		
Domestic Operations		
Placements with domestic banks and other financial institutions	186,205	26,006
Placements with overseas banks and other financial institutions	43,703	112,954
Overseas Operations		
Placements with overseas banks and other financial institutions	203,049	206,664
Sub-total	432,957	345,624
Total	447,610	354,940

Included in placements with domestic banks and other financial institutions were placements with domestic non-bank financial institutions of RMB1,785 million (2002: RMB2,279 million).

5. Debt investments

(1) Analysed by investment objectives

	31 December 2003	31 December 2002
Domestic Operations		
Investment securities	674,012	670,365
Trading securities	25,916	22,357
Sub-total	699,928	692,722
Overseas Operations		
Investment securities	176,185	156,770
Trading securities	121,109	112,011
Sub-total	297,294	268,781
Total	997,222	961,503

(2) Analysed by currency and issuer	31 December 2003	31 December 2002
Debt securities denominated in RMB		
PRC Government	106,211	97,954
COAMC	160,000	160,000
Financial institutions and others	35,604	31,517
Sub-total	301,815	289,471
Debt securities denominated in foreign currencies		
Foreign Governments	164,441	152,416
Financial institutions and others	530,966	519,616
Sub-total	695,407	672,032
Total	997,222	961,503

The Bank transferred certain non-performing assets to COAMC in 1999 and 2000. COAMC issued a ten-year debt paper of par value of RMB160 billion to the Bank as consideration. The interest rate of the debt paper is 2.25% per annum.

6. Discounted bills and trade finance related receivables	31 December 2003	31 December 2002
Discounted bills	91,463	62,193
Inward and outward documentary bills	44,015	32,472
Trust receipts finance and others	7,258	2,422
Total	142,736	97,087

Discounted bills included discounted bills purchased from financial institutions of RMB8,215 million (2002: RMB15,352 million).

7. Loans

(1) Analysed by collateral category	31 December 2003	31 December 2002
Unsecured loans	348,741	245,386
Guaranteed loans	803,651	675,855
Collateralised and other secured loans	863,969	817,935
Total	2,016,361	1,739,176

(2) Analysed by maturity	31 December 2003	31 December 2002
Within 1 year (including 1 year)	1,214,140	977,524
1-5 years (including 5 years)	398,297	339,090
Above 5 years	403,924	422,562
Total	2,016,361	1,739,176

Notes to the Accounts

For the year ended 31 December 2003
(Amount in millions of Renminbi, unless otherwise stated)

7. Loans (continued)

(3) Analysed by currency	31 December 2003	31 December 2002
RMB	1,232,482	981,136
USD (United States Dollar)	372,112	341,438
HKD (Hong Kong Dollar)	307,678	329,829
EUR (Euro)	39,470	30,563
JPY (Japanese Yen)	38,145	27,635
Others	26,474	28,575
Total	2,016,361	1,739,176

(4) Analysed by industry sector	31 December 2003	31 December 2002
Corporate Loans		
Manufacturing	509,981	446,812
Commercial and services	346,858	335,236
Real estate	216,734	198,629
Energy, mining and agriculture	188,821	154,427
Transportation and logistics	174,669	157,607
Public services	75,465	63,088
Construction	44,548	35,170
Financial services	40,046	37,739
Others	35,846	26,921
Sub-total	1,632,968	1,455,629
Consumer credit (including residential mortgages)	383,393	283,547
Total	2,016,361	1,739,176

8. Equity investments

	Bank of China Group		Bank of China	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
Investment in subsidiaries (1)	–	–	65,472	63,935
Investment in associates (2)	1,060	1,149	–	–
Equity investments acquired through debt-for-equity swap	2,272	10,920	2,272	10,920
Other equity investments (3), (Note VI, 32)				
Domestic Operations	2,832	6,295	2,832	6,295
Overseas Operations	10,446	12,689	192	203
Total	16,610	31,053	70,768	81,353

(1) Investment in subsidiaries

The principal subsidiaries of the Bank are set out below:

Name	Date of incorporation / establishment	Equity held (%)	Paid-in capital (in millions)	Principal business
Directly controlled				
BOC Hong Kong (Group) Limited	12 September 2001	100.00	HKD40,156	Holding company
BOC International Holdings Limited	10 July 1998	100.00	HKD3,539	Investment banking
Bank of China Group Insurance Company Limited	23 July 1992	100.00	HKD669	Insurance services
Bank of China Group Investment Limited	18 May 1993	100.00	HKD200	Holding of industrial and other investments
Tai Fung Bank Limited	1942	50.31	MOP1,000	Commercial banking
Bank of China (Luxembourg) S. A. Limited	7 May 1991	99.98	EUR 6.2	Commercial banking
Bank of China (Kazakhstan)	28 April 1993	100.00	KZT1,065	Commercial banking
Bank of China (Canada)	18 May 1993	100.00	CAD58	Commercial banking
Bank of China (Eluosi)	1 November 1993	100.00	RUR109	Commercial banking
Bank of China (Zambia)	22 July 1997	99.99	ZMK3,820	Commercial banking
Bank of China (Malaysia) Berhad	16 December 2000	100.00	MYR304	Commercial banking
Bank of China (Hungary)	8 January 2003	100.00	HUF2,261	Commercial banking
Indirectly controlled				
BOC Hong Kong (Holdings) Limited*	12 September 2001	65.94	HKD52,864	Holding company
Bank of China (Hong Kong) Limited	16 October 1964	65.94	HKD43,043	Commercial banking
Nanyang Commercial Bank Limited	2 February 1948	65.94	HKD600	Commercial banking
Chiyu Banking Corporation Limited**	24 April 1947	70.49	HKD300	Commercial banking
BOC Credit Card (International) Limited	9 September 1980	65.94	HKD100	Credit card services
BOC Group Trustee Co., Limited***	1 December 1997	100.00	HKD200	Provision of trustee services

* Listed on the Stock Exchange of Hong Kong

** Bank of China (Hong Kong) Limited holds 70.49% share of this company.

*** Bank of China (Hong Kong) Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited holds 60%, 6% and 34% share of this company respectively.

Notes to the Accounts

For the year ended 31 December 2003
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8. Equity investments (continued)

(2) Investment in associates

The significant associates of the Group are set out below:

Name	Equity held (%)	Paid-in capital (in millions)	Principal business
BOCI Securities (China) Limited	49.00	RMB 1,500	Security underwriting, investment advisory, and brokerage services
CJM Insurance Brokers Limited	33.00	HKD6	Insurance broker
Joint Electronic Teller Services Limited	19.96	HKD10	Operation of a private inter-bank message switching network and ATM services
Kincheng-Tokyo Finance Company Limited	50.00	HKD100	Deposit taking company
Tri Lease International Limited	40.00	HKD30	Provision of leasing finance
Zhejiang Commercial Bank Limited	25.00	USD40	Banking and related financial services

(3) Other equity investments

At 31 December 2003, the Group had 289 investment projects (Domestic: 216, Overseas: 73), which are under liquidation, held for resale or pending for transfer to COAMC (2002: Domestic: 931, Overseas: 109). The cost of the investment was RMB4,642 million (Domestic: RMB2,713 million, Overseas: RMB1,929 million; 2002: Domestic: RMB6,094 million, Overseas: RMB3,396 million).

9. Fixed assets

	Original Cost					Total	Accumulated depreciation	Net book value
	Buildings and improvements	Investment properties	Motor vehicles	Equipment				
At 1 January 2003	59,381	6,484	3,003	23,179	92,047	(24,244)	67,803	
Additions	3,170	55	738	2,455	6,418	(5,182)		
Transfers from CIP	3,305	–	–	1	3,306	–		
(Loss)/write-back on revaluation	(1,060)	(394)	–	–	(1,454)	219		
Disposals	(3,603)	(823)	(305)	(1,945)	(6,676)	2,160		
At 31 December 2003	61,193	5,322	3,436	23,690	93,641	(27,047)	66,594	

10. Construction in progress

	Buildings and improvements	Equipment	Total
At 1 January 2003	7,657	2	7,659
Additions	1,435	16	1,451
Transfers to fixed assets	(3,305)	(1)	(3,306)
Disposals	(352)	–	(352)
At 31 December 2003	5,435	17	5,452

11. Other assets

	31 December 2003	31 December 2002
Precious metal	32,637	24,783
Foreclosed assets	14,745	16,053
Intangible assets	3,085	2,580
Fixed assets pending for resolution	2,509	6,619
Deferred assets	2,404	2,456
Accounts receivable and temporary payments		
Domestic Operations	18,971	22,636
Overseas Operations	21,477	13,504
Total	95,828	88,631

12. Provisions for bad and doubtful assets

	General provision (i)	Specific provision		Other provision (iv)	Total
		Charge against profit and loss account (ii)	Transferred from owner's equity (iii)		
At 1 January 2003	(28,124)	(44,762)	–	(14,690)	(87,576)
(Charge)/write back for the year	(19,634)	(5,206)	–	385	(24,455)
Transfer from owner's equity	–	–	(219,681)	(3,600)	(223,281)
Write-off during the year	18,178	29,979	17,603	1,166	66,926
At 31 December 2003	(29,580)	(19,989)	(202,078)	(16,739)	(268,386)

- (i) General provision comprises: (a) provision for bad and doubtful assets of Domestic Operations at 1% of the outstanding balance of relevant risk asset classes (Note V, 7); and (b) general provision for loan losses of Overseas Operations.
- (ii) The amount mainly represents specific provision set aside through the profit and loss account to cover the loan losses.
- (iii) In accordance with the government approved financial restructuring arrangement of the Bank, a specific provision equal to the original balances of the owner's equity as at 31 December 2003 (including the net profit of the Group for 2003) before the capital contribution from the PRC Government was established to write off the non-performing assets brought forward from previous years. Debts written off fulfil the criteria set out in the Caijin [2001]127 Notice.
- (iv) Other provision represents provision for impairment in equity investments and other non-loan assets. Included in the other provision is a provision of RMB12.6 billion (2002: RMB9 billion) set aside for the debt paper issued by COAMC in accordance with the relevant directive of the government.

Notes to the Accounts

For the year ended 31 December 2003
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13. Due to central banks	31 December 2003	31 December 2002
Borrowings from central banks	4,290	3,994
Special foreign exchange deposits of government agencies	59,446	68,820
Others	4,502	22,189
Total	68,238	95,003

14. Bank notes in circulation

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Limited and Bank of China Macau branch.

15. Due to and placements from banks and other financial institutions

	31 December 2003	31 December 2002
Due to banks		
Domestic Operations		
Due to domestic banks	84,052	68,323
Due to overseas banks	3,289	1,888
Overseas Operations		
Due to overseas banks	11,199	4,738
Sub-total	98,540	74,949
Placements from banks and other financial institutions		
Domestic Operations		
Placements from domestic banks and other financial institutions	26,663	104,986
Placements from overseas banks and other financial institutions	19,628	15,735
Overseas Operations		
Placements from overseas banks and other financial institutions	73,016	14,617
Sub-total	119,307	135,338
Total	217,847	210,287

16. Deposits from customers

	31 December 2003	31 December 2002
Demand deposits		
RMB demand deposits	869,201	679,772
Foreign currency demand deposits	506,532	399,740
Time deposits		
RMB time deposits	923,937	744,444
Foreign currency time deposits	787,441	926,349
Total	3,087,111	2,750,305

Included in deposits from customers are guarantee deposits from customers relating to issuance of bank acceptances, letters of credit and letters of guarantee of RMB89,834 million at 31 December 2003 (2002: RMB65,761 million).

17. Special purpose borrowings

	31 December 2003	31 December 2002
Export credit loans	25,941	31,390
Foreign government loans	20,956	20,702
Other subsidised loans	30,332	34,299
Total	77,229	86,391

Special purpose borrowings are long-term borrowings from foreign governments and/or banks in form of export credit loans, foreign government loans and other subsidised loans. These special purpose loans are normally used to finance projects of special commercial purpose and the Bank is obliged to repay these loans when they fall due.

18. Bonds issued

Issue date	Maturity date	Interest rate	31 December 2003	31 December 2002
10 March 1994	15 March 2014	8.25%	827	827
23 April 1997	23 April 2004	6 months LIBOR+0.375%	1,962	1,962
4 May 1999	4 June 2004	6 months LIBOR+1.2%	1,034	1,034
Total			3,823	3,823

The Bank and the bond holders are prohibited from redeeming or requesting an early redemption of the bonds before the maturity dates.

Notes to the Accounts

For the year ended 31 December 2003
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19. Other liabilities	31 December 2003	31 December 2002
Remittances and promissory notes	39,226	35,912
Insurance business related liabilities	5,668	5,558
Tax payable	5,195	7,627
Cash receipts on behalf of customers (Domestic Operations)	4,201	1,893
Due to COAMC	3,947	5,582
Salary and welfare payable	2,835	1,512
Social security fund payable	1,528	–
Accrued expense and others		
Domestic Operations	25,760	23,608
Overseas Operations	28,251	14,818
Total	116,611	96,510

Insurance business related liabilities comprise reserves for policyholders of RMB4,089 million (2002: RMB4,310 million) and outstanding claims of RMB1,579 million (2002: RMB1,248 million) of the insurance business engaged by Bank of China Group Insurance Company Limited, a wholly owned subsidiary of the Bank, as at 31 December 2003. Reserves for policyholders are determined by appointed actuaries in accordance with the requirements of the Insurance Companies Regulations in Hong Kong. Outstanding claims include those “incurred but not reported claims” and the related handling expenses.

20. Minority interests

At 1 January 2003	16,799
Share of current year profit	2,277
Increase of shares in a subsidiary	6,423
Dividend paid to minority shareholders	(1,234)
Others	(209)
At 31 December 2003	24,056

21. Owner's equity

Owner's equity represents the ownership over the Bank's net assets. Paid-in capital as at 31 December 2003 represents the registered capital of the Bank; capital reserve comprises the surplus resulting from asset count, donated assets and share premium; surplus reserve represents statutory reserve appropriated from profit after tax based on relevant rules and regulations issued by the relevant government authorities; undistributed profits represent the accumulated profits to be distributed in future years and translation differences (Note V, 2).

Pursuant to the notice issued by the MOF (Caijin [2000]112) “Letter Concerning the Disposal and Asset Transfer of China Orient Trust & Investment Corporation”, the Bank has transferred the security brokerage and industrial investment businesses of China Orient Trust & Investment Corporation (a former wholly owned subsidiary of the Bank, which was subsequently liquidated with its businesses transferred to the Bank) at a net asset value of RMB1,046 million to China Galaxy Securities

Company Limited and COAMC respectively. Pursuant to Caijin [2000]112 Notice and the government approved financial restructuring arrangement of the Bank, the transfer was reflected as a reduction in paid-in capital in the balance sheet.

22. Net interest income

	2003	2002
Interest income		
Interest income from loans	68,080	60,660
Interest income from inter-bank placements	9,966	12,800
Interest income from debt securities	26,613	25,852
Sub-total	104,659	99,312
Interest expense		
Interest expense on customer deposits	(33,548)	(35,508)
Interest expense on inter-bank placements	(3,750)	(4,125)
Interest expense on bonds issued and special purpose borrowings	(2,997)	(3,810)
Sub-total	(40,295)	(43,443)
Net interest income	64,364	55,869

Pursuant to a notice issued by the MOF (Caijin [2002] 5) "Notice on Shortening the Accounting Term for Interest Receivable of Financial Institutions", overdue interest receivable of RMB8,633 million (2002: RMB9,136 million) was netted off against interest income from loans.

23. Investment income

	Bank of China Group		Bank of China	
	2003	2002	2003	2002
Equity investment income				
Share of profit of subsidiaries	–	–	15,205	9,058
Net profit from disposing shares of BOC Hong Kong (Holdings) Limited (1)	7,341	5,587	–	–
Dividend from shares converted from debt-for-equity swaps	323	591	323	591
Others (2)	(2,057)	294	(2,530)	345
Sub-total	5,607	6,472	12,998	9,994
Bond investment income	58	3,885	320	3,849
Total	5,665	10,357	13,318	13,843

(1) Profit from disposing shares of BOC Hong Kong (Holdings) Limited is net of social security fund payable levy of RMB1,528 million (2002: RMB2,066 million).

(2) Others include a net loss of RMB2,652 million on transfer of historical investments to COAMC (2002: RMB361 million).

Notes to the Accounts

For the year ended 31 December 2003
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24. Other operating income, net	2003	2002
Fee and commission income	10,967	9,480
Less: fee and commission expenses	(2,856)	(1,784)
Net fee and commission income	8,111	7,696
Income from treasury activities, net	4,677	2,269
Others	1,223	1,010
Total	14,011	10,975

25. Operating expenses	2003	2002
Staff costs	16,083	13,497
General operating expenses	12,057	11,379
Depreciation	5,182	5,391
Total	33,322	30,267

26. Non-operating expenses, net	2003	2002
Non-operating income		
Gain on disposal of fixed assets	138	72
Penalty income	20	18
Other income	1,191	1,090
Sub-total	1,349	1,180
Non-operating expenses		
Loss on disposal of staff quarters	(6,132)	(1,767)
Loss on disposal of foreclosed assets	(2,946)	(172)
Loss on disposal of fixed assets	(161)	(324)
Loss on write-off of other assets	(2,463)	(544)
Revaluation of buildings and investment properties	(933)	(802)
Other non-operating expenses	(1,421)	(551)
Sub-total	(14,056)	(4,160)
Non-operating expenses, net	(12,707)	(2,980)

Other non-operating expenses include one-time housing subsidies amount of RMB620 million (2002: zero).

27. Derivative financial instruments

Derivative financial instruments mainly arise from forwards, swaps, options and other transactions undertaken by the Group in the foreign exchange, interest rate and other markets. Except for the transactions arising from the execution of trade orders from customers, the counter-parties of the Bank in derivative transactions are financial institutions.

The following is a summary of the notional amounts of each significant type of derivative financial instruments:

	31 December 2003	31 December 2002
Currency forwards	493,149	391,207
Interest rate and cross currency swaps	221,646	149,922
Interest rate and currency options		
options written	107,477	100,278
options purchased	23,124	5,230

The notional amounts of the derivative financial instruments do not indicate the fair value of these instruments, or the Group's exposure to credit or market risks.

28. Major off-balance sheet exposures

	31 December 2003	31 December 2002
Bank acceptances	168,251	104,517
Letters of guarantee issued	155,416	148,941
Confirmed letters of credit	1,455	557
Letters of credit issued	103,842	78,337
Entrusted loans	34,876	22,789

Repos or reverse repos denominated in foreign currencies entered into by Domestic Operations are recorded as sales or purchase of securities. At 31 December 2003, the Bank has commitments related to foreign currency denominated repurchase and resale agreements of RMB71 million and RMB6,471 million respectively.

29. Capital adequacy ratios

The capital adequacy ratio and core capital adequacy ratio are calculated based on the notices issued by the PBOC (Yin Fa [1996] 450) "Notice on the Management, Supervision Guidance and Review of the Ratios of Assets to Liabilities of Commercial Banks" and "Notice on the Completion Instruction on Return of Offsite Supervision and Report of Commercial Banks" (Yin Fa [1997] 549).

The capital adequacy ratio and core capital adequacy ratio at 31 December 2003 listed below were submitted to CBRC and calculated based on the capital structure of the Bank before the capital injection.

	31 December 2003 (Before capital injection)	31 December 2002
Core capital, net	188,780	181,404
Capital, net	204,158	188,179
Weighted risk assets, net	2,656,453	2,309,861
Core capital adequacy ratio	7.11%	7.85%
Capital adequacy ratio	7.69%	8.15%

On 23 February 2004, CBRC issued "Regulation Governing Capital Adequacy of Commercial Banks" (CBRC [2004] 2). The Bank plans to calculate and report the capital adequacy ratio and core capital adequacy ratio based on the regulation as set out in the CBRC [2004] 2 in 2004.

Notes to the Accounts

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30. Notes to cash flow statement

(1) Reconciliation of net profit to cash flows from operating activities:	Bank of China Group	Bank of China
	2003	2003
Net profit	4,587	4,587
Plus/(minus): Minority interest	2,277	□
Provision for bad and doubtful debts	24,455	22,198
Revaluation loss of premises and investment properties revaluation	933	□
Depreciation of fixed assets	5,182	4,437
Amortisation of intangible assets and deferred assets	1,047	1,047
Loss on disposal of fixed assets and staff quarters	6,155	6,155
Investments income	(5,665)	(13,318)
Interest income arising from bonds investment	(26,613)	(20,142)
Interest expenses arising from bonds issued	137	146
Increase in operating receivables	(294,635)	(304,127)
Increase in operating payables	132,080	132,261
Net cash outflow from operating activities	(150,060)	(166,756)

(2) Net increase in cash and cash equivalents	Bank of China Group	Bank of China
	2003	2003
Cash and cash equivalents at 31 December 2003	146,581	129,974
Less: Cash and cash equivalents at 1 January 2003	(129,291)	(119,524)
Net increase in cash and cash equivalents	17,290	10,450

(3) Cash and cash equivalents as at 31 December

For the purpose of the cash flow statement, cash and cash equivalents comprises the following:

	31 December 2003		31 December 2002	
	Bank of China Group	Bank of China	Bank of China Group	Bank of China
Cash on hand (Note VI, 1)	25,714	22,613	21,200	18,508
Due from Central Bank excluding mandatory reserves with Central Bank (Note VI, 2)	106,244	101,612	98,900	94,815
Due from banks and other financial institutions excluding restricted deposit with other banks (Note VI, 4)	14,623	5,749	9,191	6,201
Total	146,581	129,974	129,291	119,524

31. Segment reporting

(1) By geographic segments

The Group has chosen geographical segment information as its primary segmental reporting format. A geographical segment is a distinguishable component of the Group that is engaged in providing products and services within a particular economic environment, which is subject to risk and rewards that are different from those of other geographical segments.

2003	Domestic		Overseas		Eliminations	Total
	Chinese Mainland	Hong Kong and Macau	Other overseas operations			
Loans	1,630,099	342,970	43,292	□	2,016,361	
Debt investments	699,928	249,929	47,638	(273)	997,222	
Due from central banks	210,487	5,151	26,224	□	241,862	
Due from and placements with banks and other financial institutions	315,835	230,121	110,385	(208,731)	447,610	
Other assets	338,388	109,399	16,242	(56,545)	407,484	
Less: Provision for bad and doubtful assets	(247,940)	(17,039)	(3,407)	□	(268,386)	
Total assets	2,946,797	920,531	240,374	(265,549)	3,842,153	
Deposits from customers	2,339,028	701,128	46,955	□	3,087,111	
Due to central banks	68,238	□	□	□	68,238	
Due to and placements from banks and other financial institutions	183,287	59,820	183,471	(208,731)	217,847	
Other liabilities	183,602	71,204	4,028	(304)	258,530	
Total liabilities	2,774,155	832,152	234,454	(209,035)	3,631,726	
Net interest income	47,169	15,250	1,945	□	64,364	
Generated from third parties	46,556	15,023	2,785	□	64,364	
Generated from inter segments	613	227	(840)	□	□	
Investment income (Note)	(1,989)	7,496	158	□	5,665	
Other operating income, net	6,990	6,278	743	□	14,011	
Operating profit before provisions	23,708	21,989	1,523	□	47,220	
Less: Provision for bad and doubtful debts	(21,160)	(2,645)	(650)	□	(24,455)	
Operating profit after provisions	2,548	19,344	873	□	22,765	
Net profit/(loss)	(9,966)	13,989	564	□	4,587	

Note: The investment income of Chinese Mainland segment does not include share of profit from overseas subsidiaries using the equity method. The net profit from disposal of shares of BOC Hong Kong (Holdings) Limited (Note VI, 23) is included in the Hong Kong and Macau segment.

Notes to the Accounts

For the year ended 31 December 2003
(Amount in millions of Renminbi, unless otherwise stated)

31. Segment reporting (continued)

(1) By geographic segments (continued)

2002	Domestic		Overseas		Eliminations	Total
	Chinese Mainland	Hong Kong and Macau	Other overseas operations			
Loans	1,311,811	351,271	76,094		–	1,739,176
Debt investments	692,722	221,090	47,964		(273)	961,503
Due from central banks	153,410	4,688	34,936		–	193,034
Due from and placements with banks and other financial institutions	266,141	210,619	50,502		(172,322)	354,940
Other assets	313,642	105,692	13,989		(58,231)	375,092
Less: Provision for bad and doubtful assets	(50,472)	(22,794)	(14,310)		–	(87,576)
Total assets	2,687,254	870,566	209,175		(230,826)	3,536,169
Deposits from customers	1,996,033	707,311	46,961		–	2,750,305
Due to central banks	95,003	–	–		–	95,003
Due to and placements from banks and other financial institutions	192,064	41,678	148,867		(172,322)	210,287
Other liabilities	185,729	54,319	4,637		(336)	244,349
Total liabilities	2,468,829	803,308	200,465		(172,658)	3,299,944
Net interest income	37,535	16,067	2,267		–	55,869
Generated from third parties	36,656	15,490	3,723		–	55,869
Generated from inter segments	879	577	(1,456)		–	–
Investment income (Note)	4,341	5,570	446		–	10,357
Other operating income, net	4,810	5,890	275		–	10,975
Operating profit before provisions	21,472	20,277	1,797		–	43,546
Less: Provision for bad and doubtful debts	(16,861)	(7,518)	(2,332)		–	(26,711)
Operating profit/(loss) after provisions	4,611	12,759	(535)		–	16,835
Net profit/(loss)	2,036	8,340	(867)		–	9,509

Note: The investment income of Chinese Mainland segment does not include share of profit from overseas subsidiaries using the equity method. The net profit from disposal of shares of BOC Hong Kong (Holdings) Limited (Note VI, 23) is included in the Hong Kong and Macau segment.

(2) By business segments

Total Assets	31 December 2003	31 December 2002
Commercial banking	3,806,401	3,509,695
Investment banking	13,691	9,439
Insurance services	8,327	7,852
Unallocated	13,734	9,183
Total	3,842,153	3,536,169
Net profit	2003	2002
Commercial banking	3,519	9,161
Investment banking	220	49
Insurance services	144	81
Unallocated	704	218
Total	4,587	9,509

32. Significant related parties and related party transactions

The significant related parties of the Group include associate companies (see Note VI, 8 (2)) and unconsolidated subsidiaries (see Note VI, 8 (3)). For the significant transactions entered into between related parties, the transaction prices are consistent with those for third-party transactions and there are no material outstanding balances.

For Domestic Operations, there are loans to the investment projects undertaken by related parties, which are recorded as "Loans" in the balance sheet. The loan principal and interest receivable from the related parties was RMB5,185 million (2002: RMB19,066 million) and RMB2,743 million (2002: RMB10,014 million) respectively as at 31 December 2003.

For Overseas Operations, the loans to the investment projects undertaken by related parties are non-interest bearing and recorded in "Other equity investments" account. The outstanding balance of these loans in aggregate was RMB5,370 million at 31 December 2003 (2002: RMB4,780 million).

33. Contingencies

At 31 December 2003, the Group was involved in certain lawsuits as defendant arising from its business operations. The aggregate of the individual claims larger than RMB10 million amounts to RMB2,527 million. The Group anticipates that the outcome of these lawsuits will not have a material impact on the financial position of the Group.

34. Other significant items

On 10 November 2003, the Group disposed of certain loans with an aggregate book value before provision of RMB15,194 million, to an independent third party.

35. Comparatives

The 2002 financial statements of the Group were audited by another accounting firm, which had issued an unqualified opinion.

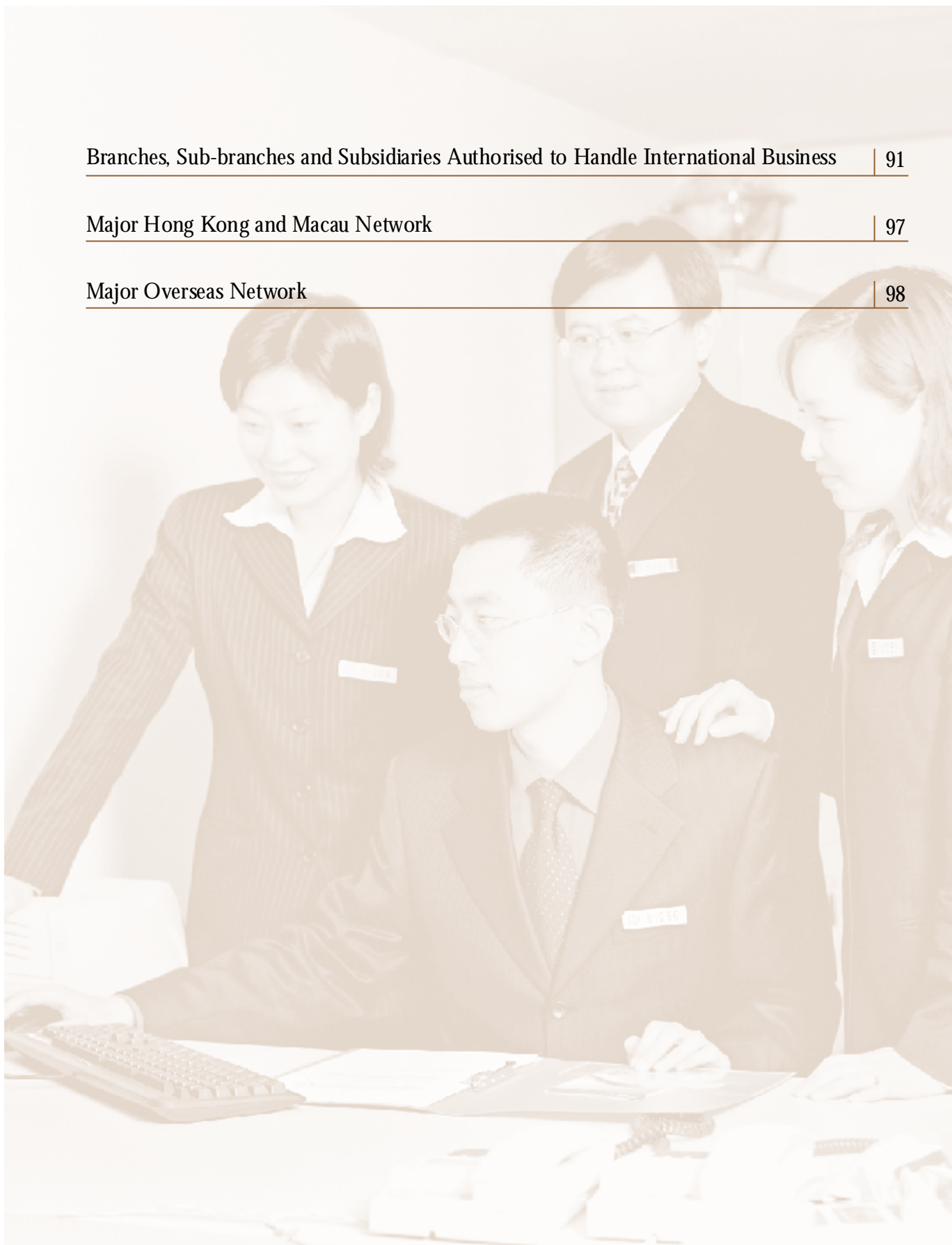
Certain comparative balances have been restated in order to conform to current year's presentation.

List of Branches and Subsidiaries

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Branches, Sub-branches and Subsidiaries Authorised to Handle International Business

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FAX: (86) 0662-3227743
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TLX: 885009 BCJMS CN
TEL: (86) 0454-8628208
FAX: (86) 0454-8628208
POST CODE: 154002

MUDANJIANG BRANCH
9 TAIPING ROAD,
MUDANJIANG 157000,
HEILONGJIANG PROV., CHINA
SWIFT: BKCH CN BJ 87E
TLX: 883007 BOCMDJ CN
TEL: (86) 0453-6678036
(86) 0453-6678035
FAX: (86) 0453-6678032
POST CODE: 157000

QIQIHAR BRANCH
3 BUKUI SOUTH STREET,
LONGSHA DISTRICT,
QIQIHAR 161005,
HEILONGJIANG PROV., CHINA
SWIFT: BKCH CN BJ 87C
TLX: 880012 QQBOC CN
TEL: (86) 0452-2408041
FAX: (86) 0452-2408041
POST CODE: 161005

HENAN PROVINCE

HENAN BRANCH
40 HUA YUAN ROAD,
ZHENGZHOU 450008,
HENAN PROV., CHINA
SWIFT: BKCH CN BJ 530
TLX: 46053 ZHBOC CN
TEL: (86) 0371-5728288
FAX: (86) 0371-5724678
POST CODE: 450008

Branches, Sub-branches and Subsidiaries Authorised to Handle International Business

HUBEI PROVINCE

HUBEI BRANCH

65 HUANGSHI ROAD,
WUHAN 430013,
HUBEI PROV., CHINA
SWIFT: BKCH CN BJ 600
TLX: 40112 HBBOC CN
TEL: (86) 027-82843904
82813723
FAX: (86) 027-82838479
82844607
POST CODE: 430013

HANKOU SUB-BRANCH

1021 ZHONGSHAN AVENUE,
WUHAN 430021,
HUBEI PROV., CHINA
SWIFT: BKCH CN BJ 600
TLX: 40263 BCJBH CN
TEL: (86) 027-82841735
82813252
FAX: (86) 027-82841735
POST CODE: 430021

HUNAN PROVINCE

HUNAN BRANCH

593 FURONG ROAD(M),
CHANGSHA 410011,
HUNAN PROV., CHINA
SWIFT: BKCH CN BJ 970
TLX: 98107 HNBOC CN
TEL: (86) 0731-2580703
FAX: (86) 0731-2580707
POST CODE: 410011

XIANGTAN BRANCH

249 JIANSHE NORTH ROAD,
XIANGTAN 411100,
HUNAN PROV., CHINA
SWIFT: BKCH CN BJ 98D
TLX: 998020 XTBOC CN
TEL: (86) 0732-8222758
FAX: (86) 0732-8227476
POST CODE: 411100

ZHUZHOU BRANCH

23 TIANTAI ROAD, HEXI,
ZHUZHOU 412007,
HUNAN PROV., CHINA
SWIFT: BKCH CN BJ 98C
TLX: 995020 ZZBOC CN
TEL: (86) 0733-8817047
FAX: (86) 0733-8817003
POST CODE: 412007

INNER MONGOLIA*

INNER MONGOLIA BRANCH

88 XINCHENG DONG JIE,
HUHHOT 010010,
INNER MONGOLIA*, CHINA
SWIFT: BKCH CN BJ 880
TLX: 85008 BOCHB CN
TEL: (86) 0471-4690020
FAX: (86) 0471-4690084
POST CODE: 010010

BAOTOU BRANCH

XINGYUAN HOTEL, GANG TIE
DAJIE, QINGSHAN QU,
BAOTOU 014030,
INNER MONGOLIA*, CHINA
SWIFT: BKCH CN BJ 89A
TLX: 85098 BOCBT CN
TEL: (86) 0472-5128888
FAX: (86) 0472-5151311
POST CODE: 014030

ERDOS CITY BRANCH

29 ERDOS WEST STREET,
DONG SHENG 017000,
INNER MONGOLIA*, CHINA
SWIFT: BKCH CN BJ 89C
TLX: 850136 BOCDN CN
TEL: (86) 0477-8363266
FAX: (86) 0477-8324641
POST CODE: 017000

HULUNBEIR CITY BRANCH

SHENGLI SAN LU, HEDONG,
HULUNBEIR CITY 021008,
INNER MONGOLIA*, CHINA
SWIFT: BKCH CN BJ 89D
TLX: 854025 BOCHALS CN
TEL: (86) 0470-8223721
FAX: (86) 0470-8223193
POST CODE: 021008

MANZHOU LI BRANCH

28 ERDAO JIE,
MANZHOU LI 021400,
INNER MONGOLIA*, CHINA
SWIFT: BKCH CN BJ 89K
TLX: 854060 ZHMZH CN
TEL: (86) 0470-6223707
FAX: (86) 0470-6223707
POST CODE: 021400

JIANGSU PROVINCE

JIANGSU BRANCH

148 ZHONG SHAN NAN LU,
NANJING 210005,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 940
TLX: 34116 BOCJS CN
TEL: (86) 025-84207888-30906
FAX: (86) 025-84208843
POST CODE: 210005

CHANGZHOU BRANCH

150 HEPING SOUTH ROAD,
CHANGZHOU, 213003,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95E
TLX: 361008 BOCCZ CN
TEL: (86) 0519-8198902
FAX: (86) 0519-8108903
8119666
POST CODE: 213003

LIANYUNGANG BRANCH

1 MIDDLE HAILIAN ROAD,
XIN PU DISTRICT,
LIANYUNGANG 222002,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95A
TLX: 369057 BOCLY CN
TEL: (86) 0518-5414790
FAX: (86) 0518-5414790
5514665
POST CODE: 222002

NANTONG BRANCH

19 QING NIAN XI ROAD,
NANTONG 226006,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95G
TLX: 365003 BOCNT CN
TEL: (86) 0513-3516888
FAX: (86) 0513-3518921
POST CODE: 226006

SUZHOU BRANCH

188 GAN JIANG ROAD,
SUZHOU 215002,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95B
TLX: 363010 BOCSU CN
TEL: (86) 0512-65112719
FAX: (86) 0512-65114906
POST CODE: 215002

WUXI BRANCH

258 ZHONG SHAN ROAD,
WUXI 214002,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95C
TLX: 362021 BOCWX CN
TEL: (86) 0510-2705888
FAX: (86) 0510-2705888-1000
POST CODE: 214002

YANGZHOU BRANCH

NO.279 WEN CHANG MIDDLE
ROAD, YANGZHOU 225002,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95H
TLX: 364034 YZBOC CN
TEL: (86) 0514-7361078
FAX: (86) 0514-7361030
POST CODE: 225002

ZHENJIANG BRANCH

NO.235 EAST ZHONGSHAN ROAD,
ZHENJIANG 212001, JIANGSU
PROV., CHINA
SWIFT: BKCH CN BJ 95D
TLX: 360029 BOCZJ CN
TEL: (86) 0511-5027934
FAX: (86) 0511-5027934
POST CODE: 212001

ZHANGJIAGANG SUB-BRANCH

NO.45 REN MIN ROAD(M),
ZHANGJIAGANG 215600,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95L
TEL: (86) 0512-58685888
FAX: (86) 0512-58684349
POST CODE: 215600

JIANGXI PROVINCE

JIANGXI BRANCH

1 ZHANQIAN WEST ROAD,
NANCHANG 330002,
JIANGXI PROV., CHINA
SWIFT: BKCH CN BJ 550
TLX: 95013 BOCNC CN
TEL: (86) 0791-6471503
FAX: (86) 0791-6471505
POST CODE: 330002

JINGDEZHEN BRANCH

521 CI DU AVENUE,
JINGDEZHEN 333000,
JIANGXI PROV., CHINA

SWIFT: BKCH CN BJ 56A
TLX: 95207 BOCJD CN
TEL: (86) 0798-8570628
FAX: (86) 0798-8570625
POST CODE: 333000

JILIN PROVINCE

JILIN BRANCH

699 XI AN DA LU, CHANG CHUN
130061, JILIN PROV., CHINA

SWIFT: BKCH CN BJ 840
TLX: 83006 CCBOC CN
TEL: (86) 0431-8409055
FAX: (86) 0431-8409054
POST CODE: 130061

CHANGCHUN XI AN DA LU SUB-BRANCH

1 TONGZHI STREET,
CHANGCHUN 130061,
JILIN PROV., CHINA

SWIFT: BKCH CN BJ 85A
TLX: 83124 JCBOC CN
TEL: (86) 0431-8948667
FAX: (86) 0431-8948747
POST CODE: 130061

JILIN CITY BRANCH

1 SHENZHEN AVENUE,
JILIN 132011,
JILIN PROV., CHINA

SWIFT: BKCH CN BJ 85B
TLX: 84010 BYOOL CN
TEL: (86) 0432-4670216
FAX: (86) 0432-4670299
POST CODE: 132011

YANBIAN BRANCH

107 RENMIN LU,
YANJI 133000,
JILIN PROV., CHINA

SWIFT: BKCH CN BJ 85C
TLX: 842109 YJBOC CN
TEL: (86) 0433-2536454
FAX: (86) 0433-2516877
POST CODE: 133000

LIAONING PROVINCE

LIAONING BRANCH

9 YAN'AN ROAD,
ZHONG SHAN DISTRICT,
DALIAN 116001,
LIAONING PROV., CHINA

SWIFT: BKCH CN BJ 810
TLX: 86163 CDB CN
TEL: (86) 0411-2356777
FAX: (86) 0411-2637098
POST CODE: 116001

DALIAN ZHONGSHAN SQUARE SUB-BRANCH

9 ZHONGSHAN
GUANG CHANG, DALIAN 116001,
LIAONING PROV., CHINA

SWIFT: BKCH CN BJ 82N
TEL: (86) 0411-2805711
FAX: (86) 0411-2637486
POST CODE: 116001

SHENYANG BRANCH

253 SHIFU ROAD, SHENHE
DISTRICT, SHENYANG 110013,
LIAONING PROV., CHINA

SWIFT: BKCH CN BJ 82A
TLX: 80058 BCSB CN
TEL: (86) 024-22856666
FAX: (86) 024-22857333
POST CODE: 110013

ANSHAN BRANCH

4, 219 ROAD TIEDONG
DISTRICT, ANSHAN 114001,
LIAONING PROV., CHINA

SWIFT: BKCH CN BJ 82D
TLX: 810044 BOCAS CN
TEL: (86) 0412-2298011
FAX: (86) 0412-2298014
POST CODE: 114001

DALIAN DEVELOPMENT ZONE BRANCH

BANK OF CHINA TOWER,
158 JIN MA LU, DALIAN ECONOMIC
AND TECHNICAL DEVELOPMENT
ZONE, DALIAN 116600, LIAONING
PROV., CHINA

SWIFT: BKCH CN BJ 82H
TLX: 86060 BOC DK CN
TEL: (86) 0411-7619999
FAX: (86) 0411-7612554
POST CODE: 116600

DANDONG BRANCH

60 JINSHAN DAJIE, DANDONG
118000, LIAONING PROV.,
CHINA

SWIFT: BKCH CN BJ 82B
TLX: 812028 BOCDD CN
TEL: (86) 0415-2127688
FAX: (86) 0415-2127688
POST CODE: 118000

JINZHOU BRANCH

25 SECTIONS 5, JIEFANG ROAD,
LINGHE DISTRICT,
JINZHOU 121000,
LIAONING PROV., CHINA

SWIFT: BKCH CN BJ 82F
TLX: 813039 JZZGH CN
TEL: (86) 0416-3131278
FAX: (86) 0416-3131278
POST CODE: 121000

YINGKOU BRANCH

8 WEST, BOHAI DAJIE,
ZHANQIAN DISTRICT,
YINGKOU 115000,
LIAONING PROV., CHINA

SWIFT: BKCH CN BJ 82C
TLX: 814010 BOCYK CN
TEL: (86) 0417-2805131
FAX: (86) 0417-2833680
POST CODE: 115000

NINGXIA HUI*

NINGXIA BRANCH

170 JIEFANG XI STREET,
YINCHUAN 750001,
NINGXIA HUI*, CHINA
SWIFT: BKCH CN BJ 260
TLX: 750003 BOCYC CN
TEL: (86) 0951-5044671
FAX: (86) 0951-5044671
POST CODE: 750001

QINGHAI PROVINCE

QINGHAI BRANCH

218 DONG GUAN STREET,
XINING 810000,
QINGHAI PROV., CHINA

SWIFT: BKCH CN BJ 280
TLX: 77019 BOCXN CN
TEL: (86) 0971-8180192
FAX: (86) 0971-8180192
POST CODE: 810000

SHAANXI PROVINCE

SHAANXI BRANCH

38 JUHUA YUAN DONGDA STREET,
XI'AN 710001,
SHAANXI PROV., CHINA

SWIFT: BKCH CN BJ 620
TLX: 70128 BOCXA CN
TEL: (86) 029-87264646
87261726
FAX: (86) 029-87218223
POST CODE: 710001

SHANDONG PROVINCE

SHANDONG BRANCH

37 XIANGGANG ZHONG LU,
QINGDAO 266071,
SHANDONG PROV., CHINA

SWIFT: BKCH CN BJ 500
TLX: 32235 BOCQD CN
TEL: (86) 0532-5828936
5828937
FAX: (86) 0532-5828936
POST CODE: 266071

JINAN BRANCH

22 LUO YUAN DAJIE,
JINAN 250063,
SHANDONG PROV., CHINA

SWIFT: BKCH CN BJ 51B
TLX: 391103 BOCJN CN
TEL: (86) 0531-6995076
6995004
FAX: (86) 0531-6995223
(86) 0531-6995236
POST CODE: 250063

RIZHAO BRANCH

24 HUANGHAI YI LU,
RIZHAO 276826,
SHANDONG PROV., CHINA

SWIFT: BKCH CN BJ 51E
TLX: 320020 BOCRZ CN
TEL: (86) 0633-8331660
FAX: (86) 0633-8331264
POST CODE: 276826

WEIHAI BRANCH

9 NORTH QINGDAO ROAD,
WEIHAI 264200,
SHANDONG PROV., CHINA

SWIFT: BKCH CN BJ 51D
TLX: 327222 BOCWH CN
TEL: (86) 0631-5326988
FAX: (86) 0631-5317207
POST CODE: 264200

Branches, Sub-branches and Subsidiaries Authorised to Handle International Business

YANTAI BRANCH

166 JIE FANG ROAD,
YANTAI 264001,
SHANDONG PROV.,
CHINA

SWIFT: BKCH CN BJ 51A
TLX: 32513 BOCYT CN
TEL: (86) 0535-6238888
FAX: (86) 0535-6238888-6232
POST CODE: 264001

SHANGHAI CITY

SHANGHAI BRANCH

200 MID. YINCHENG RD.
SHANGHAI 200121, CHINA

SWIFT: BKCH CN BJ 300
TLX: 33062 BOCSH CN
TEL: (86) 021-38824588
FAX: (86) 021-64729384
POST CODE: 200121

BOC INTERNATIONAL (CHINA) LIMITED

39/F., BANK OF CHINA TOWER,
200 YINCHENG ROAD CENTRAL,
PUDONG, SHANGHAI 200121,
CHINA

TEL: (86) 021-68604866
FAX: (86) 021-58883554
E-MAIL: china@bocigroup.com

SHANXI PROVINCE

SHANXI BRANCH

288 YINGZE DAJIE,
TAIYUAN 030001,
SHANXI PROV., CHINA

SWIFT: BKCH CN BJ 680
TLX: 28004 BOCTB CN
TEL: (86) 0351-4048556
FAX: (86) 0351-4040364
POST CODE: 030001

SHUOZHOU BRANCH

45 KAIFA NAN LU,
SHUOZHOU 036000,
SHANXI PROV., CHINA

SWIFT: BKCH CN BJ 69A
TLX: 291004 BOCPS CN
TEL: (86) 0349-2024719
FAX: (86) 0349-2020861
POST CODE: 036000

SICHUAN PROVINCE

SICHUAN BRANCH

35 MIDDLE RENMIN ROAD
(2 DUAN), CHENGDU 610031,
SICHUAN PROV., CHINA

SWIFT: BKCH CN BJ 570
TLX: 60143 BOCCD CN
TEL: (86) 028-86403267
86741950

FAX: (86) 028-86403365
POST CODE: 610031

CHENGDU SHUDUDADAO SUB-BRANCH

18 NORTH SHUMO THREE
STREET, CHENGDU 610016,
SICHUAN PROV., CHINA

SWIFT: BKCH CN BJ 58A
TEL: (86) 028-86717652
(86) 028-86662260

FAX: (86) 028-86679727
(86) 028-86676787
POST CODE: 610016

SHENZHEN CITY

SHENZHEN BRANCH

INTERNATIONAL FINANCE
BUILDING, 2022 JIANSHE ROAD,
SHENZHEN 518001,
GUANGDONG PROV., CHINA

SWIFT: BKCH CN BJ 45A
TLX: 420309 BOCSZ CN
TEL: (86) 0755-82288288
FAX: (86) 0755-82239383
POST CODE: 518001

SHEKOU SUB-BRANCH

18 TAIZI ROAD, SHEKOU,
SHENZHEN 518067,
GUANGDONG PROV., CHINA

SWIFT: BKCH CN BJ 45B
TLX: 420243 BOCSK CN
TEL: (86) 0755-26811848
(86) 0755-26815208
FAX: (86) 0755-26811849
POST CODE: 518067

BANK OF CHINA GROUP INSURANCE COMPANY LTD. SHENZHEN BRANCH

31/F, INTERNATIONAL
FINANCIAL BUILDING,
2022 JIANSHE ROAD,
SHENZHEN 518001,
GUANGDONG PROV., CHINA
TEL: (86) 0755-25155678
FAX: (86) 0755-25179843
POST CODE: 518001

TIANJIN CITY

TIANJIN BRANCH

80 JIEFANG NORTH ROAD,
TIANJIN 300040, CHINA

SWIFT: BKCH CN BJ 200
TLX: 23233 TJBOC CN
TEL: (86) 022-27102335
(86) 022-27102329

FAX: (86) 022-23312809
(86) 022-27102349
POST CODE: 300040

TANGGU BRANCH

29 DONG TING LU, ECONOMIC
AND TECHNOLOGICAL
DEVELOPMENT AREA,
TIANJIN 300457, CHINA

SWIFT: BKCH CN BJ 21A
TEL: (86) 022-25292620
FAX: (86) 022-25292619
POST CODE: 300457

TIBET*

TIBET BRANCH

28 LINKUO XI LU,
LHASA CITY 850000,
TIBET*, CHINA

SWIFT: BKCH CN BJ 900
TLX: 68008 LSBOC CN
TEL: (86) 0891-6835078
FAX: (86) 0891-6835078
POST CODE: 850000

XINJIANG UYGUR*

XINJIANG BRANCH

2 DONGFENG ROAD
URUMQI 830002,
XINJIANG UYGUR, CHINA

SWIFT: BKCH CN BJ 760
TLX: 79170 BOCXJ CN
TEL: (86) 0991-2336007
FAX: (86) 0991-2828619
POST CODE: 830002

YUNNAN PROVINCE

YUNNAN BRANCH

515 BEIJING ROAD,
KUNMING 650051,
YUNNAN PROV., CHINA

SWIFT: BKCH CN BJ 640
TLX: 64034 KMBNK CN
TEL: (86) 0871-3175556
FAX: (86) 0871-3188976
POST CODE: 650051

ZHEJIANG PROVINCE

ZHEJIANG BRANCH

320 YAN'AN ROAD,
HANGZHOU 310006,
ZHEJIANG PROV., CHINA

SWIFT: BKCH CN BJ 910
TLX: 35019 BOCHZ CN
TEL: (86) 0571-87077996
FAX: (86) 0571-87074837
POST CODE: 310006

NINGBO BRANCH

139 YAOXING JIE,
NINGBO 315000,
ZHEJIANG PROV., CHINA

SWIFT: BKCH CN BJ 92A
TLX: 37039 NBBOC CN
TEL: (86) 0574-87196666
FAX: (86) 0574-87198889
POST CODE: 315000

SHAOXING BRANCH

201 MIDDLE RENMIN ROAD,
SHAOXING 312000,
ZHEJIANG PROV., CHINA

SWIFT: BKCH CN BJ 92D
TLX: 37429 BOCSX CN
TEL: (86) 0575-5111333
FAX: (86) 0575-5134405
POST CODE: 312000

WENZHOU BRANCH

XIHU JINYUAN RENMIN WEST
RD. WENZHOU 325000 ZHEJIANG
PROV., CHINA

SWIFT: BKCH CN BJ 92B
TLX: 37110 WZBOC CN
TEL: (86) 0577-88265566
FAX: (86) 0577-88267887
POST CODE: 325000

ZHOUSHAN BRANCH

33 JIEFANG DONGLU RD,
DINGHAI ZHOUSHAN 316000,
ZHEJIANG PROV., CHINA

SWIFT: BKCH CN BJ 92E
TLX: 378031 BOCZS CN
TEL: (86) 0580-2068120
FAX: (86) 0580-2068008
POST CODE: 316000

* REFERS TO AUTONOMOUS
REGION

Major Hong Kong and Macau Network

BOC HONG KONG (HOLDINGS) LIMITED

52/F., BANK OF CHINA TOWER,
1 GARDEN ROAD, HONG KONG

TEL: (852) 28462700
FAX: (852) 28105830
<http://www.bochkholdings.com>

BANK OF CHINA (HONG KONG) LIMITED

1 GARDEN ROAD, HONG KONG

SWIFT: BKCH HK HH
TLX: 73772 BKCH IHX
TEL: (852) 28268888
FAX: (852) 28105963
<http://www.bochk.com>

NANYANG COMMERCIAL BANK, LIMITED

151 DES VOEUX ROAD CENTRAL,
HONG KONG

TEL: (852) 28520888
FAX: (852) 28153333
<http://www.ncb.com.hk>
E-MAIL: nanyang@ncb.com.hk

CHIYU BANKING CORPORATION LIMITED

78 DES VOEUX ROAD CENTRAL,
HONG KONG

TEL: (852) 28430111
FAX: (852) 28104207
<http://www.chiyubank.com>
E-MAIL: chiyu@chiyubank.com

BOC CREDIT CARD (INTERNATIONAL) LIMITED

20/F., BOC CREDIT CARD CENTRE
68 CONNAUGHT ROAD WEST,
HONG KONG

TEL: (852) 28538888
FAX: (852) 25415415
<http://www.boci.com.hk>

BOC INTERNATIONAL HOLDINGS LIMITED

35/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 22308888
FAX: (852) 21479065
<http://www.bocigroup.com>
E-MAIL: info@bocigroup.com

BOCI ASIA LIMITED

35/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 22308888
FAX: (852) 25226797
E-MAIL: info@bocigroup.com

BOCI RESEARCH LIMITED

20/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 28676333
FAX: (852) 21479513
E-MAIL: info@bocigroup.com

BOCI SECURITIES LIMITED

20/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 28676333
FAX: (852) 25247327
E-MAIL: securities@bocigroup.com

BOCI COMMODITIES & FUTURES LIMITED

SUITES 1614-16, 16/F., CITY PLAZA ONE,
1111 KING'S ROAD,
HONG KONG

TEL: (852) 28676360
FAX: (852) 29700838
E-MAIL: futures@bocigroup.com

BOCI ONLINE TRADING LIMITED

SUITES 1614-16, 16/F., CITY PLAZA ONE,
1111 KING'S ROAD,
HONG KONG

TEL: (852) 28676600
FAX: (852) 21856060
E-MAIL: service@bocigroup.com

BOCI CAPITAL LIMITED

35/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 22308888
FAX: (852) 28770096
E-MAIL: info@bocigroup.com

BOCI ASSET MANAGEMENT LIMITED

27/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 20808000
FAX: (852) 21510968
E-MAIL: info@bocigroup.com

BOC GROUP TRUSTEE CO., LIMITED

27/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 22808000
FAX: (852) 25166573
E-MAIL: info@bocigroup.com

BOCI-PRUDENTIAL ASSET MANAGEMENT LIMITED

27/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 22808000
FAX: (852) 21510968
<http://www.boci-pru.com.hk>
E-MAIL: info@boci-pru.com.hk

BOCI-PRUDENTIAL TRUSTEE LIMITED

27/F., BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG

TEL: (852) 22808000
FAX: (852) 21510968
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BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

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BOC GROUP LIFE ASSURANCE COMPANY LIMITED

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BANK OF CHINA MACAU BRANCH

BANK OF CHINA BUILDING,
AVENIDA DO UTOR MARIO SOARES,
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Major Overseas Network

ASIA-PACIFIC AREA (EXCLUDING HONG KONG & MACAU)

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HOUSE, SINGAPORE 069113

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NORTH SUB-BRANCH

133 MIDDLE ROAD BOC PLAZA
SINGAPORE 188974

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KATONG SUB-BRANCH

188-192 EAST COAST ROAD
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