中國銀行
BANK OF CHINA

Annual Report 2001

Contents

90 Years in Review

In 1912

After the establishment of the Provisional Government of the Republic of China, Dr. Sun Yat-sen, the Provisional President, sanctioned the change of the Da Qing Bank into the Bank of China, with functions as central bank. On 5 February, the Bank of China (BOC) started operations at Number 3, Hankou Road, Shanghai, the premises of the former Da Qing Bank. Afterwards, the Bank of China issued bank notes.

In 1916

The Government of the Northern Warlords wired to BOC the Order to Suspend Redemption of Bank Notes for Silver. To maintain the Bank's creditworthiness, BOC Shanghai Branch rejected the Order and continued the redemption as usual, which not only halted a run on the Bank, but also enormously enhanced the reputation and prestige of BOC.

In 1928

BOC was changed into a government chartered international exchange bank.

In 1929

BOC London Agency was established, also the first overseas branch of the Chinese banks. From then on, BOC built up its global network with 34 overseas branches opening within the two decades.

In 1949

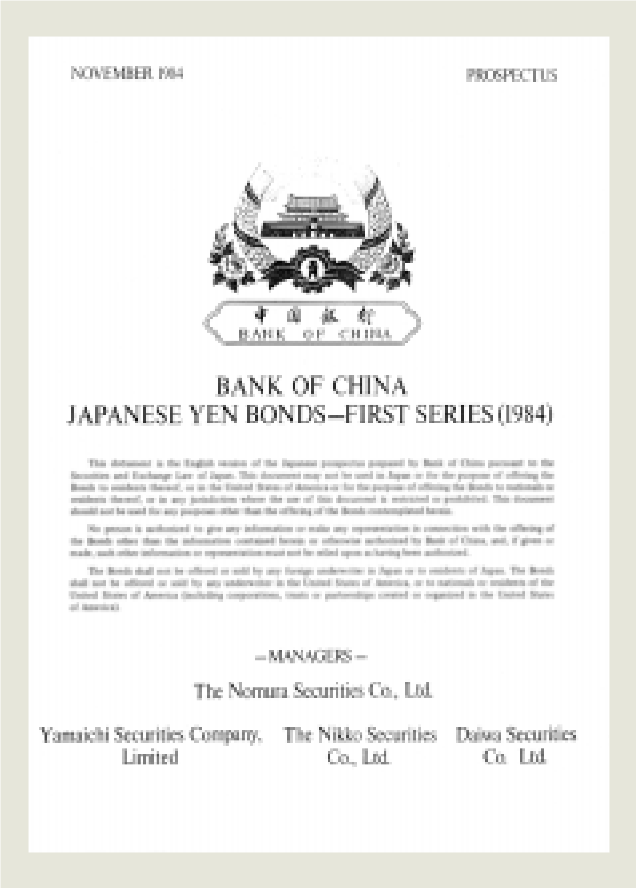
On 5 June, BOC resumed normal business operations. The Bank became the specialised foreign exchange bank, which actively supported foreign trade and contributed greatly to the recovery and development of the national economy.

In 1950

On 9 April, the first meeting of the first board of directors of BOC since the founding of New China was held in Beijing. Mr. Nan Hanchen was appointed Board Chairman and Madam He Xiangning Chief Supervisor.

In 1984

On 6 November, BOC successfully issued in Japan, 20 billion yen of Samurai bonds, which was the first overseas bond issue by modern China. By the end of 2001, BOC had issued bonds in the international capital market 27 times, raising funds in excess of US$5 billion. BOC is now an established issuer.


NOVEMBER 1984 PROSPECTUS

中国银行
BANK OF CHINA

BANK OF CHINA
JAPANESE YEN BONDS—FIRST SERIES (1984)

—MANAGERS—

The Nomura Securities Co., Ltd.

Yamaichi Securities Company, Limited
The Nikko Securities Co., Ltd.
Daiwa Securities Co. Ltd.

In 1993

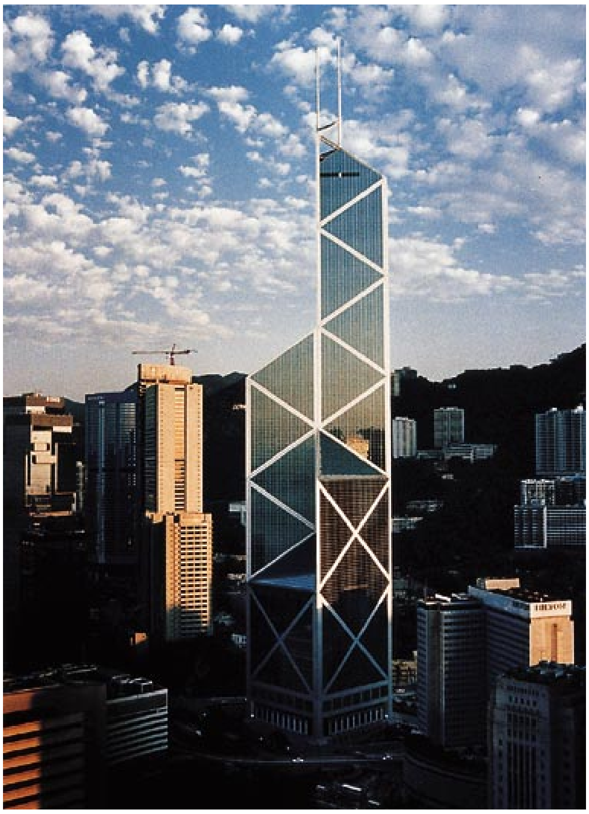
China initiated a process of foreign exchange system reform and hence captured the world's interest. BOC played a critical role in the unification of exchange rates, foreign exchange purchases and sales, the incorporation of foreign-funded enterprises into the foreign exchange sales system etc. In 1994, BOC embarked on a transformation from a specialised bank to a wider based state-owned commercial bank.

In 1994

On 1 May, BOC became the third note issuing bank in Hong Kong by issuing its first BOC Hong Kong Dollar notes. In October 1995, BOC similarly issued Macau Pataca notes. The issuing of both Hong Kong Dollar and Macau Pataca notes helped stabilise the financial markets of Hong Kong and Macau; it also reflected BOC's substantial financial strength.

In 1998

BOC International Holdings Ltd., the wholly-owned subsidiary of BOC specialising in investment banking, was located and incorporated in Hong Kong. This is the most internationalised investment bank established overseas by the Chinese banking industry, and correspondingly has the strongest professional team, the largest international distribution and retail network, and the most assets under management.



In 2001

On 1 October, Bank of China (Hong Kong) Ltd. was incorporated as a result of the merging of 10 member banks of the former BOC Group, which not only marked a new level of BOC's operations in Hong Kong, but also a critical move forward for the restructuring of BOC.

In 2002

On 4 February, BOC celebrated solemnly its 90th oncoming anniversary.

Consolidated Financial Highlights

	2001	2000
Operating results (in millions of RMB)		
Pre-tax profit	10,914	11,877
After-tax profit	7,908	7,723
Net interest income	50,930	53,266
Other operating income	14,709	13,935
Assets and liabilities (in millions of RMB)		
Total assets	3,361,619	3,441,311
Bills discounted and loans	1,631,769	1,546,262
Total liabilities	3,140,528	3,232,781
Customer deposits	2,477,143	2,390,440
Owner's equity	218,420	202,242
Financial ratios (%)		
Pre-tax profit/Total assets	0.32	0.35
Pre-tax profit/Owner's equity	5.00	5.87
Profit from overseas/Total profit	79.40	81.92
Net interest income/(Net interest income + Other operating income)	77.59	79.26

Our Mission

Build the 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

Chairman and President

Liu Mingkang

Message from the Chairman and President

The first year of the new century has been a remarkable one for China, with a number of significant events occurring: despite the economic slowdown that has impacted all economies around the world and the adverse influence of the September 11th events that further weakened China's export growth, the Chinese economy has maintained its position as the fastest growing major economy in the world, due largely to strong domestic demand and direct foreign investment; with this continued economic success China finally joined the WTO at the end of the year and hosted the Ninth APEC Economic Leader's Meeting in Shanghai.

In 2001 the BOC Group realized a pre-tax consolidated profit of RMB10.914 billion, of which RMB2.248 billion was generated by the domestic operations and RMB8.666 billion by the overseas ones. Those of the domestic operations, in particular, were achieved after setting aside provisions of RMB15.4 billion, and reversing overdue interest receivable of RMB7.2 billion. If the proceeds used to address the heavy historical burden were taken into account in the operating profits, the domestic operations actually realized operating profits of RMB25.3 billion in 2001, an increase of RMB10.1 billion or 66.7% over the previous year. Affected by the gloomy world economy, the overseas operations generated pre-tax profits equivalent to RMB8.666 billion, down 10.9%. If the provisions were again adjusted for, the overseas operations realized profits of RMB16.3 billion. In summary, the domestic and overseas operations produced operating profits totaling RMB41.6 billion in 2001, which showed a steady increase over 2000. In addition, the number of profitable domestic provincial-level branches rose by 4, and hence the total proportion of branches making profits mounted up from 30.3% to 42.4%. This was achieved through strenuous effort. I would therefore like to extend heartfelt gratitude to the over 200,000 staff at home and abroad for their hard work over the past year.

2001 was an encouraging year for the Bank of China. We were successful in executing our development strategy and made substantial progress in building a good corporate governance framework.

- Firstly, in line with our strategy, the entire Bank was focused on the development of its core activities as these were seen as a clear priority.

- Secondly, we continued to build robust decision-making systems. Based on a due diligence process and a system of follow-up evaluation, we established and developed the Risk Management Committee, Asset Disposition Review Committee and Procurement Review Committee, hence reinforcing our unique segregation of duties, review and oversight processes for decision-making by the senior management and in our risk management activities. The three committees played a strong role in these processes by preventing the moral hazard of inappropriate decisions around credit extension, asset disposition, and the wholesale procurement of infrastructure, electronic equipment, etc.

- Thirdly, we followed prudent accounting principles to improve transparency. In 2001 BOC took the lead in adopting the internationally prevailing five-tier approach to loan classification in order to disclose information about asset quality. In accordance with prudent accounting principles, in our domestic operations we wrote off RMB8.006 billion of bad assets, made provisions of RMB15.357 billion, reversed overdue interest receivable of RMB7.221 billion and charged off other losses amounting to RMB310 million. This was the greatest of such moves in the Bank's history to date.
- Fourthly, we progressed in the reform of our performance-based reward and disciplinary processes. Based on the performance evaluation methods used for the operations and management by the heads of the 32 domestic provincial-level branches in 2000, we extended the evaluation scope to include executives of 20 overseas institutions and initiated the overall evaluation of the individual employees of the entire Bank in 2001. The evaluation results are linked to bonuses, promotions, training and job assignment, improving management skills and laying a foundation for the further reform of the personnel and compensation system.
- Fifthly, greater attention was devoted to training, which was one of the four measures highlighted to retain talented staff (the other three include career development prospects, building a sense of belonging, and appropriate compensation). To this end, we initiated a high-level joint MBA programme in Beijing to accelerate the training of our talented people.
- Sixthly, we revised BOC's Articles of Association to improve the functions and procedural rules of the Board of Directors, laying a solid foundation for establishing a board of directors in its international meaning.

This year, we continued to implement our business strategy, which focuses on information technology and puts equal emphasis on corporate and retail banking. While focusing on our most valuable customers, we have been able to closely track market changes, and upgrade our service quality. Leveraging on our global network and established foreign exchange business, we provided global credit facilities for large-sized multinationals, to support the business of these corporations in China as well as the development of domestic companies' overseas business. Furthermore, we are the first organisation that has ever offered a one-stop service for overseas Chinese national students and further diversified our retail banking channels. Through the innovation of our products and our marketing approach, the expansion of all business lines prospered. In 2001, Renminbi corporate deposits and savings deposits maintained strong growth. The retail loan business increased rapidly and market share further expanded. The growth margin of our international trade-related business was higher than that of the national foreign trade during the same period and our competitive strength grew dramatically.

To accommodate the all-around demand of our customers, we lost no time in promoting the business development of BOC International and BOC Group Insurance in the Chinese mainland. BOC International was approved to establish operations in the mainland and BOC Group Insurance's Shenzhen Office formally started operations in December 2001. The operation of the two companies in the mainland is a key strategic initiative of our Bank with an aim of building an international first-class universal bank, encompassing the coordinated development of a commercial bank, investment bank and insurance company.

The planned structural changes of the domestic and overseas operations advanced steadily. Following a successful reorganisation, BOC (Hong Kong) Ltd. started operations, marking a new era of BOC's activities in Hong Kong. BOC Singapore Branch and the Singapore Branch of the Kwangtung Provincial Bank merged as scheduled. The Manila Branch already started operations in early 2002 and a subsidiary in Hungary is in preparation. The overseas network has been further improved. The domestic operations have continued to further concentrate on business development in the urbanised areas.

2001 also was a landmark year for the development of our IT centralisation and business process re-engineering and integration programme. Through hard efforts, 1,040 domestic data processing centres that had been dispersed across the network and working in isolation have been combined to form 33. The IT centralisation process acted as a precursor for the unification of other business and management systems. From May 2001, we started a feasibility study into the re-engineering of the management and business processes. Following extensive investigation, we invited an expert group from Citibank to help design a holistic analysis of our management and business processes. Presently, the preliminary plans for the integration of management and business processes have been completed. The plans aim to help us pursue a higher level of market orientation, customer focus, the separation of the front, middle and back offices, a flat management structure and increase the effectiveness of our resource allocation mechanisms.

During the year, the risk management and internal control infrastructure were further strengthened, and the customer base was increasingly optimised from a risk and reward perspective and asset quality gradually upgraded. By the end of 2001, the ratio of non-performing assets of BOC Group was 27.51% according to the five-tier classification methods, down 1.13 percentage points from the end of the previous year on a consistent basis. The domestic operations collected RMB21.6 billion of NPLs in the form of cash in 2001. In addition, the proportion of our corporate customers with internal ratings of A and B increased substantially, whilst that with the poorer ratings of C and D continued to decrease. Three overseas audit centres have been established. In coordination with the domestic and overseas regulatory authorities, we enforced changes to bring the Bank into compliance with international regulatory requirements, severely punished misconduct and strengthened the control environment as a preventative measure to ensure the healthy development of the business.

The future holds much uncertainty, particularly for the international economy and the financial markets. This is further accentuated for the Chinese banks due to China's accession to the WTO. We recognise these challenges but still believe there are many exciting opportunities ahead.

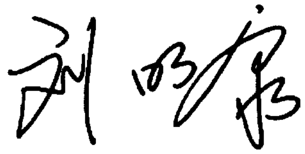
We firmly believe that we can develop and refine ourselves amid global competition and, within 3-5 years, build BOC into a large international bank that has diversified functions, client focused networks, unique competitive advantages and operating on a basis of good corporate governance. In 2002, we will focus on profitability and risk control, continue to press ahead with enhancing our corporate governance framework and highlight our competitive advantages. Under the prerequisites of sound development, we expect to realise rapid growth in all our businesses.

While emphasizing business innovation and refining our customer-focused marketing approach for our domestic operations, we will continue to optimise the portfolio of our corporate customers and strive to double retail loans on a year-on-year basis. In addition, we will proactively develop intermediary businesses including international settlement and fund custody. In the overseas operations, we will expand local corporate business and retail banking and aim to list BOC (Hong Kong) in the overseas capital markets. Through the synergy of our commercial bank, investment bank and insurance business, as well as the close coordination of the domestic and overseas operations, we will bring the Bank's overall advantages into full play and sharpen our competitive edge.

By borrowing from the experience of international banks, and following a programme of business and management process re-engineering, we will establish a management accounting system by different departments, products and customers, separate the front office, middle office and back office, and eventually realise a flat-management structure. The rebuilding of our information technology base will be accelerated and five nationwide information centres and three overseas information centres will be set up by the end of the year. We aim to build an integrated technology platform to support the future development of BOC over the next 3-4 years.

Strengthening risk management and improving asset quality is still the Bank's major focus. We will closely follow the development of the regulatory requirements of the New Basle Accord, design and implement quantitative methods of credit risk, market risk and operational risk management and explore the application of internal ratings-based methodologies. We will establish a real-time monitoring system for the measurement of market risk of the global treasury business within 2002. We will continue to optimise our asset structure and try to reduce the amount and ratio of non-performing loans. Meanwhile, the reform of our HR management system will be enhanced and performance-based assessment will be improved so as to build a corporate culture that focuses everyone to work together in achieving the Bank's strategies.

BOC celebrated its 90th birthday on 5 February, 2002. Inspired with the traditions of the Bank, we will continue to build the reputation of BOC as creditworthy and to strive for success through innovation. In retrospect, we are full of pride of our achievements. However, we cannot afford to stop and look back. We can only closely follow our plan for the future. A famous poet is quoted as saying that "The infinite past ends in the present and the present is the start of an infinite future". We believe that BOC, with a 90-year history, will continue to build on what has already been achieved to date, and work at full speed and with renewed energy to create an even greater organisation in the future. We at BOC look forward to working with you to develop a brighter future as we move towards our illustrious 100th birthday.



Liu Mingkang
Chairman and President

Vice Chairmen

Sun Changji (Left)
Liu Jinbao (Right)

Chairman of the Supervisory Board

Cui Leiping

Top Management

Front (from left to right):

Liu Mingkang	Chairman and President, in charge of the Internal Supervision Department and the Overseas Business Management Department; also Chairman of the Bank of China (Hong Kong) Ltd. and the Bank of China International Holdings Ltd. (BOCI)
Sun Changji	Vice Chairman and Executive Vice President, in charge of the Human Resource Department, the Information Technology Department and the School for Advanced Study of International Finance
Ping Yue	Managing Director, in charge of the Audit Department and the Inspection Department

Back (from left to right):

Hua Qingshan	Executive Vice President, in charge of the Executive Office, the Retail Banking Department, the Bank Card Centre and the Institute of International Finance
Li Zaohang	Executive Vice President, in charge of the Investment Management Department, the Fund Custody Department, the Clearing Centre and the General Affairs Department; also Chairman of the Bank of China Group Insurance Company Ltd.
He Guangbei	Executive Vice President, in charge of the Financial Institutions Department, the Treasury Department, the Corporate Banking Department and the BOCI
Zhou Zaiqun	Executive Vice President, in charge of the Asset-Liability Management Department, the Accounting Department and the Banking Department
Zhang Yanling	Executive Vice President, in charge of the Risk Management Department, the NPA Management Department, the Settlement Department and the Legal Department

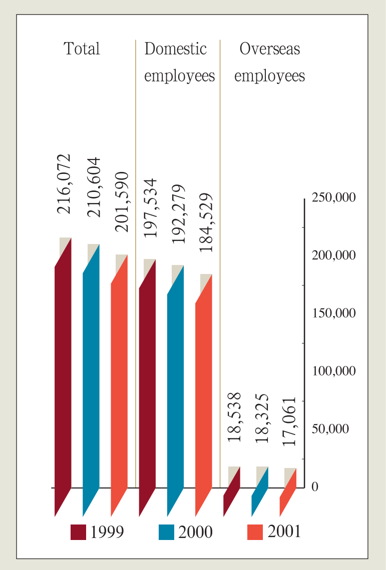
Financial Review

Summary

In 2001, the BOC Group realised a pre-tax consolidated profit of RMB10.914 billion, of which RMB2.248 billion was generated by the domestic operations and RMB8.666 billion by overseas ones. Those of domestic operations, in particular, were achieved after setting aside provisions of RMB15.4 billion, and reversing overdue interest receivable of RMB7.2 billion. If the proceeds used to address the heavy historical burden were taken into account in the operating profits, the domestic operations actually realised operating profits of RMB25.3 billion in 2001, an increase of RMB10.1 billion or 66.7% over the previous year. Affected by the gloomy world economy, the overseas operations generated pre-tax profit equivalent to RMB8.666 billion, down 10.9%. If the provisions were again adjusted for, the overseas operations realised operating profits of RMB16.3 billion. In summary, the domestic and overseas operations produced operating profits totaling RMB41.6 billion in 2001, which showed a steady increase over 2000. In addition, the number of profitable domestic provincial-level branches rose by 4, and hence the total proportion of branches making profits mounted up from 30.3% to 42.4%.

In 2001, the Group's return on assets (pre-tax profit/balance of assets at the end of year) was 0.32%, down 0.03 of a percentage point from 2000, and its return on net assets (pre-tax profit/balance of net assets at the end of year) was 5.00%, down 0.87 of a percentage point from 2000. The decrease of return on assets and return on net assets is due to the decrease of overseas pre-tax profit and the increase of assets and net assets of the Group.

Number of employees of the Group



By the end of 2001, the BOC Group had a total of 13,089 locations, a decrease of 453 from the end of the previous year. The total number of employees was 201,590, a decrease of 9,014 from the end of the previous year. The Group operated at 12,529 offices in the mainland, a decrease of 438 from the end of the previous year; the number of staff was reduced by 7,750, bringing the total figure down to 184,529. By the end of 2001, the Group had a total of 560 overseas locations, down 15 from the end of the previous year; the number of overseas employees decreased by 1,264 to 17,061.

Earnings

Interest income

Interest Income of the Group

In millions of RMB

Interest income	2001	2000	Changes	(%)
Interest income from loans	75,013	94,039	-19,026	-20.23
Interest income from inter-bank placements	27,429	47,658	-20,229	-42.45
Interest income from debt securities	30,753	26,619	4,134	15.53
Total	133,195	168,316	-35,121	-20.87

The Group's interest income from loans and inter-bank placements received for 2001 was lower than that for 2000. Factors contributing to the decrease included: (1) The interest rate of foreign currencies continued to fall; (2) the amount of due from banks and inter-bank placements decreased sharply; (3) in 2001, the Ministry of Finance adjusted the method for the calculation of interest receivable (see the Notes to the Financial Statements).

In 2001, the Group's interest income from debt securities increased by RMB4.134 billion. Factors contributing to the increase included: (1) In managing the liquidity structure of assets, the Group increased the amount held of Chinese Government Bonds and also bonds denominated in foreign currencies; (2) the Group recognized the whole year's interest related to the Renminbi bonds issued to the Group by the Orient Asset Management Company (The bonds were issued by the Company to the Group on 1 July, 2000, and hence the Group only recognized half a year's worth of interest income within the comparative period).

Interest expense

Interest Expense of the Group

In millions of RMB

Interest expense	2001	2000	Changes	(%)
Interest expense on customer deposits	65,839	83,313	-17,474	-20.97
Interest expense on inter-bank placements	16,051	31,221	-15,170	-48.59
Interest expense on bonds issued	375	516	-141	-27.33
Total	82,265	115,050	-32,785	-28.50

The Group's interest expense for 2001 was correspondingly lower than 2000. Factors contributing to the decrease were: (1) the lowering of foreign currency interest rates led to a reduction in the related interest expense on deposits; (2) the decrease of the Group's inter-bank borrowing caused a reduction in the related interest expense.

Net interest income and expense

Interest Income and Expense of the Group

In millions of RMB

	2001	2000	Changes	(%)
Interest income	133,195	168,316	-35,121	-20.87
Interest expense	82,265	115,050	-32,785	-28.50
Net interest income	**50,930**	**53,266**	**-2,336**	**-4.39**
Average balance of interest-bearing assets[1]	3,190,930	3,079,195	111,735	
Average interest rate on interest-bearing assets (%)[2]	4.18	5.47	-1.29	
Average balance of interest-bearing liabilities[3]	3,029,040	2,962,310	66,730	
Average interest rate on interest-bearing liabilities (%)[4]	2.72	3.89	-1.17	
Average interest margin (%)	1.46	1.58	-0.12	

1. Average balance of interest-bearing assets refers to the average balance of due from central banks, due from banks, bills discounted, loans and overdrafts and debt securities.

*2. Average interest rate on interest-bearing assets = interest income / average balance of interest-bearing assets *100%.*

3. Average balance of interest-bearing liabilities refers to the average balance of due to central banks, due to banks, customer deposits and bonds issued.

*4. Average interest rate on interest-bearing liabilities = interest expense / average balance of interest-bearing liabilities *100%。*

Non-interest income and expense

Non-interest Income and Expense of the Group

In millions of RMB

		2001	2000	Changes	(%)
Non-interest income		**17,133**	**16,950**	**183**	**1.08**
Including:	Investment income	2,607	807	1,800	223.05
	Fee and commission income	8,495	11,489	-2,994	-26.06
	Income from treasury operations	5,210	3,284	1,926	58.65
	Others	821	1,370	-549	-40.07
Non-interest expense		**34,718**	**34,248**	**470**	**1.37**
Including:	Operating expense	27,651	25,944	1,707	6.58
	Fee and commission expense	1,755	2,270	-515	-22.69
	Turnover tax and surtax	4,643	5,289	-646	-12.21
	Others	669	745	-76	-10.20

■ Investment income

The Group's investment income for 2001 reached RMB2.607 billion, an increase of RMB1.8 billion from that of the previous year. The main factor was that in 2001 the Group received dividends arising from "debt for equity swaps".

■ Fee and commission income

The Group's fee and commission income for 2001 amounted to RMB8.495 billion, a decrease of RMB2.994 billion from that of the previous year. The main factor was that in 2000 the Group received irregular foreign exchange fee and commission income, which did not occur in 2001.

■ Operating expense

The Group's operating expense for 2001 amounted to RMB27.651 billion, an increase of RMB1.707 billion over that of the previous year. Amongst these, the expense for personnel slightly increased, the business expense remained at the same level and the depreciation expense decreased slightly.

Operating Expense of the Group

In millions of RMB

	2001	2000	Changes	(%)
Personnel expense	11,981	10,179	1,802	17.70
Business expense	11,033	10,918	115	1.05
Depreciation	4,637	4,847	-210	-4.33
Total	**27,651**	**25,944**	**1,707**	**6.58**

Provisioning

In 2001, the Group made RMB23.194 billion of provisions. The changes for the provisioning of domestic and overseas operations were:

(1) In 2001, the Ministry of Finance reformed the practice of writing off bad assets and provisioning for domestic banks. On one hand, the scope for calculating provisions was expanded; on the other hand, the practice of writing off bad assets in the current year and then replenishing the utilized provisions in the following year was changed, so that the provisions were replenished to the required levels in the same year. Therefore, in 2001, the Bank made these additional provisions, including the write-off utilized for the current year, while it also had to replenish the provision that was utilized in 2000. Furthermore, in 2001, the Bank wrote off a large amount of bad assets. All these factors led to an increase in provisioning for the domestic operations in 2001.

(2) The overall provisioning of the overseas operations decreased in 2001. The main factors were that the former Bank of China Group in Hong Kong accumulated a certain amount of general provisions according to prudent accounting principles in the past, and did not make any general provisions in 2001 considering the relevant regulations and policies of the Hong Kong Monetary Authority and the Group.

Assets and Liabilities

As of 31 December, 2001, the Group's total assets amounted to the equivalent of RMB3,361.6 billion, a decrease of RMB79.7 billion, or down 2.3% from the previous year; its total liabilities decreased by RMB92.3 billion, or 2.9% to the equivalent of RMB3,140.5 billion from the previous year; and the owner's equity reached the equivalent of RMB218.4 billion, an increase of RMB16.2 billion, or 8.0%, due to the considerable changes in the capital items brought about by the restructuring of the Group in Hong Kong. The main changes in the Group's assets and liabilities at the end of the year were as follows:

1. Due from banks and inter-bank placements The total volume of the Group's due from banks and inter-bank placements at the end of 2001 reached RMB566.2 billion, a 32.6% decrease. The main factors were: (1) With the lowering of interest rates on inter-bank lending in the international market at large in 2001, the Bank adjusted its positioning in foreign currencies by cutting the amount of lending to banks; (2) Before the restructuring of the Hong Kong operations finished, the 12 banks in Hong Kong held their own accounts and made their own inter-bank lending. With the completion of the restructuring, the financial management was centralized and the amount of inter-bank lending rationalised accordingly.

2. Accounts receivable The total volume of the Group's accounts receivable at the end of 2001 amounted to RMB74.2 billion, a 12.2% decrease. The major reason was that in accordance with the new requirements of the Ministry of Finance, interest accrued before 31 December, 2000 should be reversed against interest income gradually over 5 years. In 2001, the reversed interest income of the Bank amounted to RMB7.2 billion.

3. Investments As of the end of 2001, the Group's investments amounted to RMB841.6 billion, up 17.4% from that of the previous year. The primary factor was that the Bank reassessed its positioning and increased its holdings of debt securities in foreign currencies to optimize the relative yield earned in the changing international fixed income market.

4. Net value of fixed assets As of the end of 2001, the Group's net value of fixed assets stood at RMB72.1 billion, up 29.1% over the prior year. The main factor was that in the restructuring of the Hong Kong operations, the real estate of the member banks was revalued, leading to an increase in the value of their fixed assets.

5. Due to central banks As of the end of 2001, the Group's balance of due to central banks stood at RMB98.6 billion, down 30.7% from the prior year. The major factors were that the amounts deposited by government bodies for central banking purposes decreased and meanwhile, the Bank has repaid part of its borrowings from the Central Bank.

6. Due to banks and inter-bank placements As of the end of 2001, the Group's balance of due to banks and inter-bank placements stood at RMB401.7 billion, down 24.8% from the prior year. The most important factor was that as a result of the relatively sufficient liquidity, the Bank reduced the amount of repurchase agreements with other banks.

Capital Adequacy Ratio

The Group's capital adequacy ratio and core capital adequacy ratio were calculated in accordance with the relevant regulations of the Central Bank. The capital adequacy ratio is the ratio of total capital to total risk assets, while the core capital adequacy ratio refers to the ratio of core capital to total risk assets. Core capital refers to the sum of net assets after 50% off the deduction item. Total capital refers to the sum of core capital and tier-two capital after 50% off the deduction item. If 50% of the deduction item is more than tier-two capital, tier-two capital is calculated as equal to total capital. The deduction item refers to total equity investments and bad loans that have not been written off. Tier-two capital refers to the sum of various provisions and bonds issued with maturity of five years or longer.

Capital Adequacy of the Group

In millions of RMB

	31 December, 2001
Core capital	182,790
Total capital	182,790
Risk assets	2,201,020
Core capital adequacy ratio (%)	8.30
Capital adequacy ratio (%)	8.30

As of the end of 2001 both the core capital adequacy ratio and capital adequacy ratio of the Group were 8.30%.

Corporate Governance

The Bank of China (BOC) recognises the importance of establishing a sound system of corporate governance for both protecting the interests of the Bank's stakeholders and achieving its long-term business goals. This is reflected in the Bank's strategy which is stated as "to exploit competitive advantages and effectively allocate resources so as to operate through a robust system of corporate governance". Development of a transparent and robust corporate governance framework will bolster the confidence of depositors, creditors and potential investors and enhance the Bank's credibility in the market.

What Have We Done?

Over the last two years, BOC has begun to develop a formalised approach to corporate governance. In accordance with the Bank's strategy, we plan to be in compliance with global industry standards in this area within 3 to 5 years. We see this strategic focus as core to our long-term goal to be one of the leading players in the international banking community.

BOC continues to strategically assess and amend its processes and internal operations so as to more fully embrace the concepts of Corporate Governance. Given the size of the Bank and the historic legacy that the Bank has inherited, such changes are being staged over a number of years. The Bank has made large strides to this end. The measures outlined here demonstrate the commitment of the Bank to such a transition.

To achieve our corporate governance goals we have focused initial efforts in six key areas. As described below, we have achieved significant progress in each area, and have established plans to develop further in the coming year.

Clear Strategy for Business Expansion. In 2000, BOC announced its strategy to "create an integrated corporate banking business and retail banking business based on an advanced IT system". In the corporate banking business the Bank planned to integrate its lending, international trade financing, international settlement, clearing and investment banking business so as to provide corporate clients with comprehensive financial services and financing solutions. In the retail banking business the Bank plans to combine bank deposit, consumer credit, personal financial management, bank cards and foreign exchange transactions so that clients would enjoy integrated quality services. We expect that the two business lines will achieve synergistic benefits. For the last two years, this strategy has been successful in guiding our business operations and promoting our development. In 2001, we developed this strategy further through enhancing cooperation between domestic and overseas operations, and the interplay between the commercial banking, investment banking, corporate and retail businesses. The result was a common focus across the whole bank and allowed us to consolidate our market position. Guided by our business strategy, we also focused on restructuring our distribution networks. We closed 438 loss-making outlets at county level or below with no growth potential and relocated some offices into economically developed regions and other important cities. In addition, we further winded up those affiliate companies such as trust and investment companies to concentrate on the core business of the Bank.

Sound Decision-making Mechanisms and Strengthened Financial Risk Control. In 2001, we further perfect the Bank's decision-making systems. Based on the strict due diligence and follow-up evaluation mechanisms, we have established risk management committees, asset disposition committees and procurement review committees at domestic and overseas branches to gradually develop a system of segregation of duties, oversight and review, around the decision-making processes of management, and this has proved to be effective in practice. During 2001 at Head Office, the Risk Management Committee vetoed 94 credit applications, the rejection rate was 20.9%; the Asset Disposition Committee vetoed 457 inappropriate bad loan write-off programmes, the rejection rate was 5.3%; the Procurement Review Committee vetoed 57 procurement plans, the rejection rate was 44.2%.

In addition we have strengthened the functions of the Audit Committee at Head Office and set up internal audit centres at major domestic branches. The internal audit function is now vertically integrated through the branch structure and independent of branch management. The quality of internal audit has been further enhanced through employing additional chief and general auditors experienced in both banking and management. Preparations for the development of three overseas regional audit centres have been finished. The American and European centres have already started operations, and the Asia-Pacific region centre will be established during 2002.

Prudent Accounting Principles and Increased Transparency. We have continued to develop the use of internationally recognised accounting principles. In the Group's 2000 annual report, we disclosed the asset quality under the five-tier classification method, being the first amongst the Chinese state-owned commercial banks to do so. The domestic operations made unprecedented achievements in resolving the legacy problems and losses in 2001. They wrote off bad assets of RMB8 billion and other losses of RMB0.3 billion, made provisions of RMB15.4 billion and reversed overdue interest receivable of RMB7.2 billion. Beginning in 2001, we began a five year project to allocate provisions against the loan portfolio in line with international standards. At the same time, overdue interest receivable as at the end of 2000 are scheduled to be reversed to reflect our actual financial status and profitability over a five-year period. In connection to transparency, we are continuing to disclose information on non-performing assets and risks in line with internationally accepted standards. We also continue to improve our annual report in line with international best practices of disclosure and to satisfy the needs of the market. We aim to develop the market's faith in BOC through increasing transparency.

Strategically Linked Performance Evaluation. In 2001, BOC promoted the importance of and improved its performance evaluation system. Under this system, Head Office evaluated the performance of the heads of both domestic and overseas branches, and the major domestic branches evaluated the performance of the heads of sub-branches under their management and the outlets evaluated the performance of their staff respectively. We have linked the remuneration of managers and staff with the achievement of their performance goals, which has greatly enhanced their motivation and focus. In 2002, we will continue to set performance goals throughout the organisation and reform our compensation system.

Human Resource Development. Our human resource management system has received additional investment with the aim of developing our employees' talents to their full ability. To develop better qualified professionals, we have increased the frequency and quality of our training programmes, and provided it to a wider range of staff. We have also launched joint MBA training programmes with well-known domestic universities and have begun preparations for joint Executive MBA programmes with foreign universities. We are committed to developing our human resource management further in 2002.

Board of Directors. In 2001, we revised BOC's Articles of Association to improve the functions and procedural rules of the Board of Directors. In 2002, we are aiming to start a unique reform programme which will lead to the establishment of the Bank as a joint-stock company. As a result there will emerge a truly accountable Board, which will be the highest decision-making body of BOC.

Corporate Governance of the Bank of China (Hong Kong) and the Bank of China International

During 2001, while restructuring BOC Group in Hong Kong, we designed the new management structure, risk management system and internal control mechanism for the organisation in strict accordance with the basic principles of corporate governance (outlined above). Bank of China (Hong Kong) now has four independent directors, an audit committee, a compensation committee and a risk management committee, all being core elements of the new governance system.

The Bank of China International Holdings Ltd., our wholly-owned investment bank, also improved its corporate governance structure by the appointment of two independent directors, a risk management committee, a personnel compensation committee and an audit committee.

The changes in the two institutions' governance systems reflect our aggressive and innovative approach to establishing good corporate governance practices and have laid a firm foundation for future developments.

The Board of Supervisors

The Board of Supervisors for Bank of China was originally appointed by the State Council of the PRC at the same time as similar boards were appointed to supervise the operations of each of the other state-owned commercial banks in 2000.

The Board has the overall responsibility for ensuring that the Bank is making effective use of state-owned assets under its charge, in accordance with the "Interim Regulations on the Board of Supervisors of Key State-owned Financial Institutions", issued by the State Council.

Within this framework the Board has the following tasks:

- ensuring that the Bank has implemented all relevant financial and economic laws, administrative statutes, regulations and rules;
- monitoring the Bank's financial position through reviewing its financial statements, accounts and other materials related to operation and management, and, through this, verifying its financial reports;
- examining the Bank's business performance, distribution of profits, maintenance of stakeholder value and growth of state-owned assets, and funding operations; and
- reviewing the operational conduct of the most senior executives of the Bank, evaluating their business performance, and making proposals to the State Council on their appointments and any disciplinary measures.

The Board performs its duties primarily through progress reports presented by the Bank's top management, reviewing the financial statements and accounts, as well as analyzing the financial position and cash flows, and through conducting regular and ad hoc checks within the Bank.

Through these activities the Board has also been able to promote the strengthening of the Bank's internal management, an improvement in the quality of its assets, a steady growth profile and greater profitability.

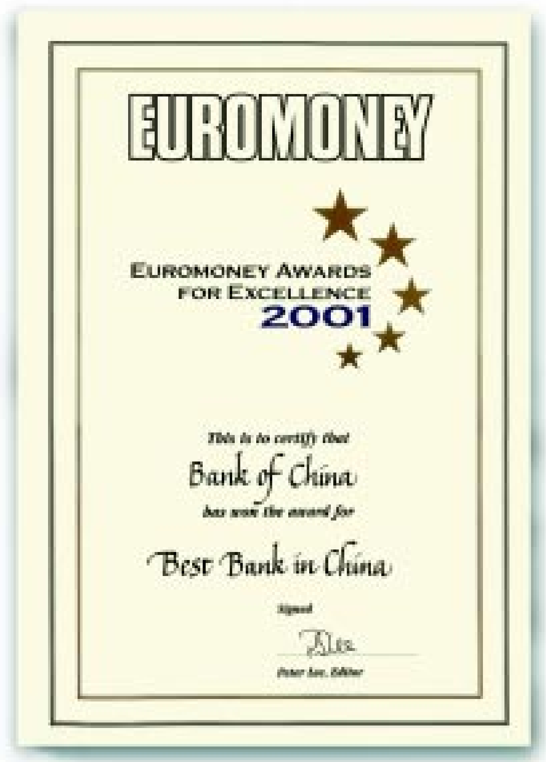
During 2001, our Board of Supervisors reviewed the Bank's business operations with a focus on the quality of controls over assets. The Board comprehensively examined nine provincial branches and the international settlement business of three branches. In view of the results of the examinations, the Board proposed certain changes to the management and operations of BOC.

The Board continuously strives to improve the quality of its oversight and is committed to improving BOC's internal management, economic performance and asset quality, and the further development of steady operational performance.

Business Development

Awards won by the Bank in 2001

Euromoney:	the Best Bank in China
The Asset:	the Best Domestic Bank in China
Asian Banker:	the Best Retail Bank for China



In line with the developing trends of the international banking industry, BOC has bolstered its foothold in commercial banking while expanding its investment banking and insurance arms. The Bank has continued to advance towards its goal of becoming a full-fledged leading universal international bank. In 2001, BOC International Holdings Ltd. and the Bank of China Group Insurance Co., Ltd. were approved to establish outlets and began operations in the mainland. Thus, the Bank has been able to develop on three fronts – commercial banking, investment banking and insurance.

Competitive Edges

BOC has created many "Firsts" in the Chinese banking industry. In addition, its earnings have been the best amongst its Chinese peers. BOC has been included within the Fortune Global 500 for 12 consecutive years, starting in 1989. Between 1992 and 2001, BOC was awarded "the Best Domestic Bank" by Euromoney eight times (the Best Bank in China in 2001).

1929, BOC London Agency, the first overseas branch of a Chinese bank, went into operation.

1979, BOC signed China's first energy loan agreement with the Export and Import Bank of Japan.

1980, BOC became the first bank in China to provide export seller's credit.

1984, BOC successfully issued Samurai bonds in Japan, becoming the first Chinese bank to issue bonds abroad.

1986, BOC offered Renminbi Great Wall Credit Card service in the domestic financial sector, the first credit card in China.

1991, BOC introduced the first telephone banking service in China.

1992, BOC launched the first international factoring service in China.

1994, BOC became the first Chinese bank to issue Yankee bonds in the US.

1994, BOC Hong Kong Branch became Hong Kong Dollar note issuing bank, the third issuer of the HKD note. In 1995, BOC began to also issue notes in the Macau Pataca.

1997, BOC offered Renminbi forward purchases and sales for foreign exchange, the first bank to do so in China.

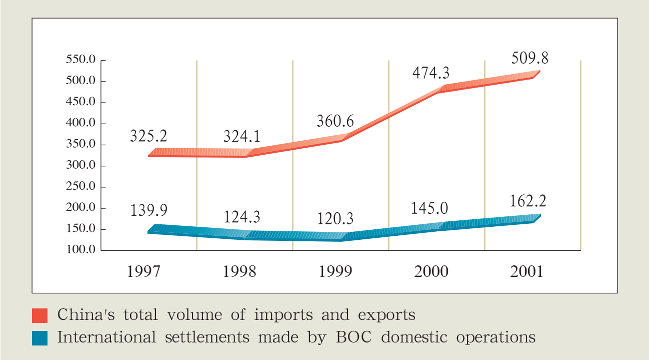
1998, BOC, as the lead manager and agent, arranged a syndicated loan for the State Development Bank, which was the first syndicated loan arrangement in China.

2001, BOC International Holdings Ltd. and the Bank of China Group Insurance Co., Ltd. began to establish outlets and launched operations in the mainland. Thus, the Bank is able to develop on three fronts - commercial banking, investment banking and insurance.

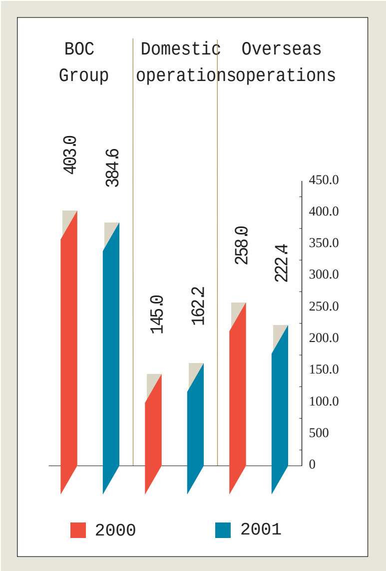
2001, BOC launched exclusively the "Global Credit Line" product to multi-nationals and the foreign currency loans for students studying abroad, which was the first of its kind in China.

International settlement has always been a key business vied for by all the players in Chinese banking industry. BOC has maintained the biggest share of the

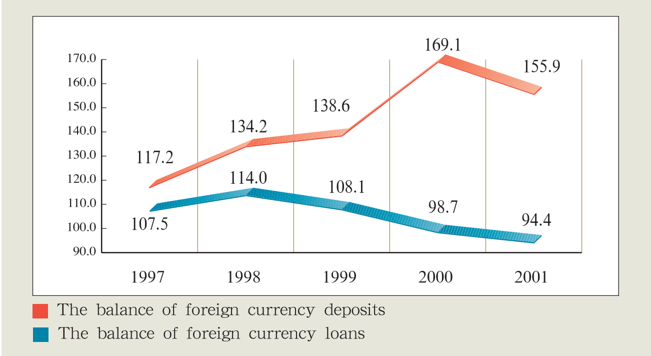
International settlements | In billions of US$



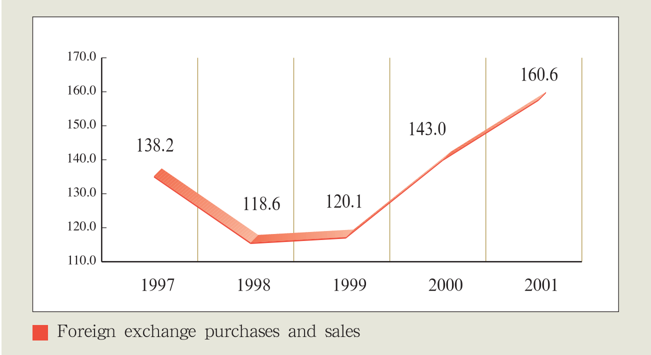
International settlements In billions of US$



Foreign currency deposits and loans of the Group In billions of US$



Foreign exchange purchases and sales of domestic operations In billions of US$



domestic market in this regard. By the end of 2001, the Bank had increased its share by 1.18 percentage points to 36.97%.

BOC has been engaged in the foreign currency business for many years. The Bank has an established business and boasts a pool of talented professionals in international finance. The Bank has maintained the biggest share of foreign exchange market for China. At the end of 2001, the Bank's share of the domestic foreign currency deposit market is 47.3%, and that of the domestic foreign currency credit market is 51.1%.

BOC has always been the leader in the domestic market for foreign exchange purchases and sales.

Commercial Banking

Overview

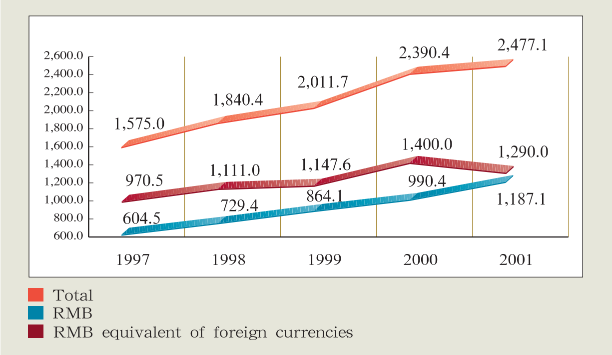
In 2001, the global economy continued to slow down and some regions slid into recession following the September 11th events in the United States. Despite the global economic downturn, the Chinese economy maintained its strong growth. The economy grew by 7.3% while inflation was only 0.7% as compared with the same period of the previous year. New foreign investment funds used amounted to US$46.8 billion, up 14.9% from the previous year. The total volume of imports and exports for the year reached US$509.8 billion, up 7.5% from the previous year. Meanwhile, the financial markets of China ran smoothly. The total balance of Renminbi deposits and loans in all the financial institutions in China stood at RMB14.4 trillion and RMB11.2 trillion, an increase of 16% and

11.6% respectively over the end of 2000.

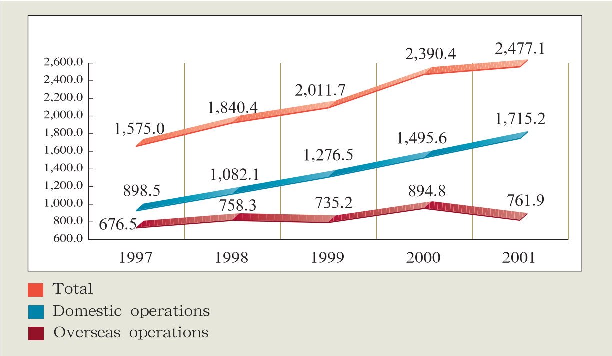
As China entered the WTO in 2001, fierce competition in the banking industry began to surface. To respond to the challenges brought about by the opening of the market, all of the domestic banks are developing businesses where they enjoy considerable edges, readjusting deployment, making management innovations and integrating operating processes. The commercial banks have forged strategic alliances to strengthen their competitive edges, address their weaknesses, build customer loyalty and to maintain their market shares.

During 2001, guided by its development strategy and adhering to the principle of "customer focus and market orientation", BOC made progress in upgrading its IT capabilities, strengthening its competitive advantages, promoting product innovation as well as service innovation, and vigorously developing its intermediary business. BOC also started to develop its marketing system and integrate its business operations with a view to improving the core competitive power and profitability of the Bank.

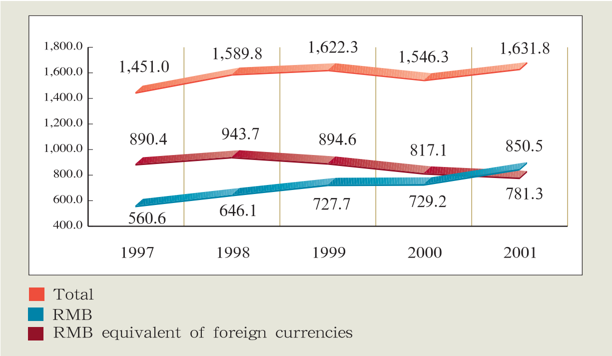
Currency structure of the balance of deposits of the Group In billions of RMB



Regional distribution of the balance of deposits of the Group In billions of RMB



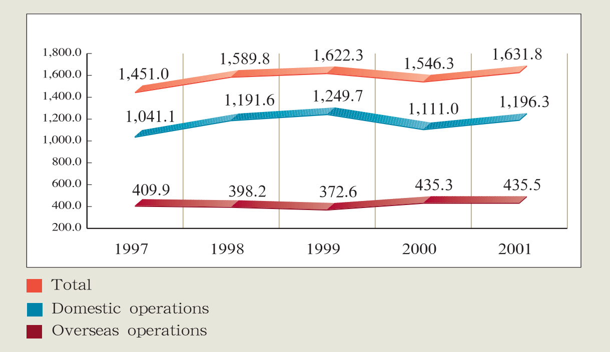
Currency structure of the balance of loans of the Group In billions of RMB



In 2001, BOC further expanded its overseas network. Bank of China (Hungary) is in preparation, which will be the first institution of BOC in Eastern Europe and be very important in growing BOC's business in this region. The Manila Branch started operations in early 2002, which is also another important step forward in BOC's growth of its overseas branch network in Southeast Asia.

Since 2001, BOC has implemented a matrix management system in the overseas operations. The various departments of Head Office, by responsibility, now plan, manage, and organise businesses of the overseas operations through this structure. This mode of new dynamic network management simplifies information flows, maximises information sharing, facilitates communication between the various departments of Head Office and between Head Office and the various branches, and accelerates the responsiveness of the overseas operations to the international market.

Regional distribution of the balance of loans of the Group In billions of RMB



By the end of 2001, the balance of all deposits of the BOC Group stood at the equivalent of RMB2,477.1 billion, an increase of RMB86.7 billion, or 3.6%, over the end of the previous year. The balance of loans of BOC Group stood at an equivalent of RMB1,631.8 billion, an increase of RMB85.5 billion, or 5.5%, over the end of the previous year.

The balance of deposits in the domestic operations stood at the equivalent of RMB1,715.2 billion, an increase of RMB219.6 billion, or 14.7%, over the end of the previous year. Within this balance, Renminbi deposits reached RMB1,187.1 billion, an increase of RMB196.6 billion, or 19.9% (the average growth rate of all the domestic financial institutions was 16%), and deposits in foreign currencies reached US$63.8 billion, an increase of US$2.8 billion, or 4.6%. The balance of loans in domestic operations stood at an equivalent of RMB1,196.3 billion, an increase of RMB85.3 billion, or 7.7%, over the end of the previous year. Within the balance, Renminbi loans reached RMB850.5 billion, an increase of RMB121.3 billion, or 16.7% (the average growth rate of all the domestic financial institutions was 11.6%), and loans in foreign currencies reached US$41.8 billion, a decrease of US$4.3 billion, or 9.4%, due to declining credit demand.

The balance of deposits in the overseas operations stood at US$92.1 billion, a decrease of US$16 billion, or 14.8%. The balance of loans originated by the overseas operations stood at US$52.6 billion, almost the same as that of the end of the previous year.

Corporate banking

Our corporate banking is building on the backbone of our core credit products to meet the needs of our clients and provide them with individual and innovative financial services. Hence, in addition to the provision of financing products, our strategy is also to provide clients with settlement, foreign exchange, treasury and investment banking services.

BOC consistently enhances its client focus. Through differentiated treatment, it aims to build stronger relationships with its more valuable clients (world renowned multinationals, established domestic groups, high performing foreign-funded enterprises, listed companies with recognised corporate governance structures, and outstanding private enterprises), while gradually reducing exposure to less valuable clients.

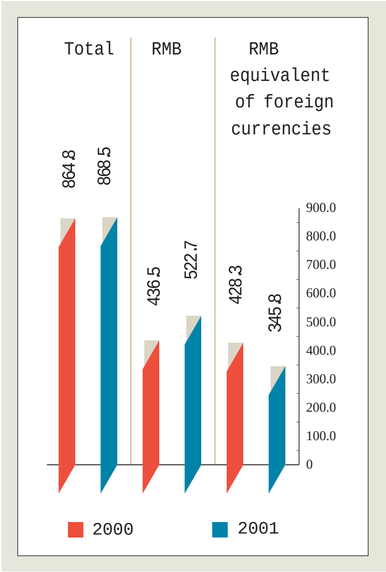
Corporate deposits

After the success in growing the corporate deposit base in 2000, BOC continued to grow it in 2001. By year-end, the balance of corporate deposits of the Group stood at the equivalent of RMB868.5 billion, an increase of RMB3.7 billion, or 0.4%, over the end of the previous year.

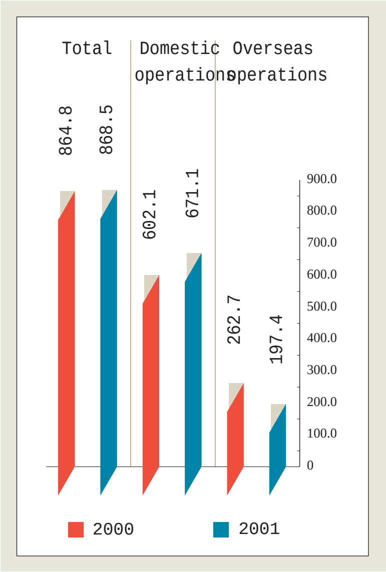
The balance of deposits in RMB and foreign currencies of the domestic operations rose to an equivalent of RMB671.1 billion, an increase of RMB69 billion, or 11.5% over the end of the previous year. Within that balance, the corporate deposits in RMB rose to RMB522.7 billion, an increase of RMB86.2 billion, or 19.7%; this accounted for 7.5% of the market share among the financial institutions, an increase of 0.37 of a percentage point over the end of the previous year, the biggest growth in market share among all the state-owned commercial banks. Corporate deposits in foreign currencies were US$17.9 billion, a decrease of US$2.1 billion, or a 10.5% drop from the end of the previous year; as a result of the fierce competition in the market, the market share of corporate deposits in foreign currencies held by BOC went down to 33.6%, a decline of 3.4 percentage points.

The balance of deposits in the overseas operations stood at US$23.9 billion, a decrease of US$7.8 billion or 24.6%, from the end of the previous year.

Currency structure of the balance of corporate deposits of the Group In billions of RMB



Regional distribution of the balance of corporate deposits of the Group In billions of RMB

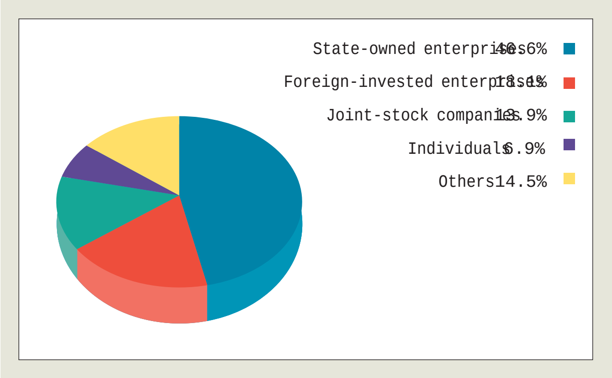


Corporate loans

By the end of 2001, the balance of corporate loans of the Group stood at the equivalent of RMB1,424.5 billion, an increase of RMB46.1 billion, or 3.3%, over the end of the previous year.

The balance of corporate loans in RMB and foreign currencies in domestic operations rose to an equivalent of RMB1,113.9 billion, an increase of RMB49.3 billion, or

The structure of customers receiving domestic loans

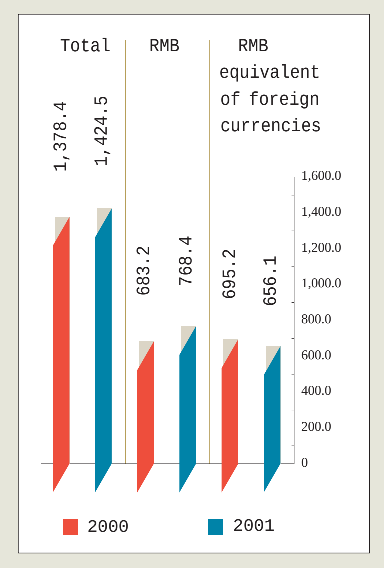


4.6% over the end of the previous year. Of that balance, Renminbi lending rose to RMB768.4 billion, an increase of RMB84.8 billion, or 12.4%; this accounted for 7.3% of Renminbi lending market of all the financial institutions, an increase of 0.11 of a percentage point from the end of the previous year. The balance of loans in foreign currencies reached US$41.7 billion, a decrease of US$4.3 billion, or 9.3%; the balance of loans in foreign currencies (exclusive of onlending under agreements) accounted for 50.6% share in foreign currency lending market of all the financial institutions, a decrease of 1.5 percentage points from the end of the previous year.

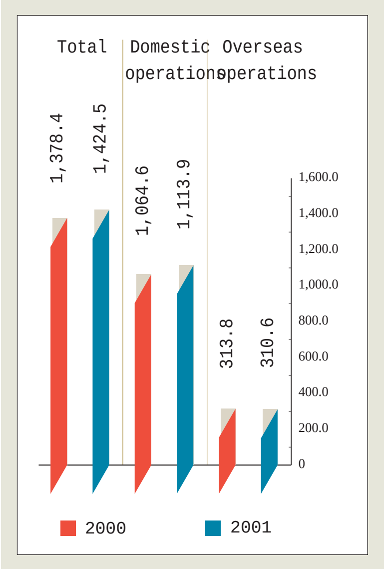
The balance of loans in the overseas operations stood at US$37.5 billion, a decrease of US$400 million, or 1.1%, from the end of the previous year.

The main reasons for the slowdown in growth of BOC's corporate foreign currency loan portfolio were that, firstly, the credit demand from our clients declined substantially due to the global economic recession; secondly, with the development of the capital market in China and the improvement of financial management awareness within domestic enterprises, the high quality enterprises have increasingly resorted to the capital market for financing, thus reducing the reliance on the funds from the commercial banks; and finally, BOC has enhanced its internal risk management which has led to a tightening of the selection criteria for the potential clients it will approach, and reduced the amount of credit granted to higher risk clients.

Currency structure of the balance of corporate loans of the Group
In billions of RMB



Regional distribution of the balance of corporate loans of the Group
In billions of RMB



■ Business with financial institutions

In terms of business with financial institutions, BOC targets the banks both at home and abroad, together with domestic securities companies and insurance companies as core clients, while the postal savings and remittance offices, fund management companies and other financial companies as potential clients. This policy has yielded good results.

Up to the end of 2001, the balance of Renminbi deposits from financial institutions in domestic operations rose to RMB72.6 billion, an increase of RMB22.5 billion, or 44.9% over the end of the previous year. Of the total Renminbi deposit of four state-owned commercial banks, BOC accounted for a 10.8% share, up 3.3 percentage points. The balance of deposits in foreign currencies from financial institutions reached US$5.79 billion, an increase of US$2.47 billion, or 74.4% over the end of the previous year.

In 2001, China opened the B share market to its domestic citizens. BOC took the opportunity of introducing a primary B share clearing service, which helped BOC to take the lead amongst the Chinese banks. By the end of 2001, 151 members selected BOC as their B share clearing bank for the Shenzhen Securities Exchange. This number accounted for 60.2% of all members clearing their B shares on the Shenzhen Securities Exchange. During the same period, 24 members selected BOC as their B share clearing bank for the Shanghai Securities Exchange. That number accounted for 32.0% of all the members clearing their B shares on the Shanghai Securities Exchange.

During 2001, China started to reform the client transaction and settlement processes used by securities institutions, requiring the separation of the clients funds from the securities house's own account. Recognising this opportunity, BOC acquired the necessary qualifications to act as a custodian for client transactions and settlement funds. Within the year, 72 securities institutions appointed BOC as their custodian.

We continue to push ahead in the fund custody market. We established a clear business strategy in this field, namely: to initially concentrate on providing our domestic clients with differential services and other value-added services that best suit their needs, and gradually widen our services beyond the domestic market to provide global custody services to all the clients. Our target clients are those that demand custody services on a large scale such as pension funds, insurance companies and fund management companies. The introduction of open-ended funds was a major event in the Chinese securities market in 2001. BOC responded proactively by tapping into the fund custody market. Within the year, BOC was the custodian for four close-ended securities investment funds. We signed preliminary open-ended fund sales contracts with Hua'an Fund Management Company Ltd., and custody and sales contracts with E Fund Management Company Ltd.. We also developed good relationships with other potential fund custody business clients, thus laying a solid foundation for future business expansion.

■ Treasury operations

During 2001, BOC focused on the improvement of services in its treasury business. The Bank provides timely market information to relevant clients, and in accordance with their circumstances suggests practical options and risk management advice. In 2001, BOC domestic operations provided hedging services for assets and liabilities worth US$3.3 billion, an increase of 36.7% over the previous year.

The foreign exchange purchases and sales business of BOC grew smoothly in 2001. The total volume of purchases and sales of foreign exchange increased by 12.3% to US$160.6 billion. Of this total, the spot foreign exchange transactions totaled US$152.1 billion, a 15.7% year-on-year increase, whereas forward transactions totaled US$8.58 billion, a 25.4% decrease from the same period.

■ Settlement and clearing business

Influenced by the world economic situation, in 2001, the volume of international settlements of the Group decreased by 4.6% from the previous year to US$384.6 billion, Within this total, the international settlement made by domestic operations was US$162.2 billion, a sharp increase of 11.9% from the previous year. Settlement business by the overseas operations reached US$222.4 billion, a decrease of 13.8% from the previous year. In 2001, Head Office implemented a matrix management structure to its overseas branches, which enabled a higher level of synergy between the branches of BOC at home and abroad and countered the downward trend of the trade settlement volumes of the overseas operations.

The Bank took the lead in foreign currency clearing business in domestic market in 2001. The international clearing volume of the domestic operations numbered 3.5 million, worth US$94.6 billion in 2001. At the same time, the clearing business of the overseas operations developed steadily. In 2001, the dollar clearing system of the BOC New York Branch performed reliably and helped increase the reputation of the operations by clearing business. In the wake of the September 11th terror attacks, the New York Branch immediately worked out emergency measures, and at the same time, managed to keep in close contact with the American Clearing System and other financial counterparties, which not only supported the safe and timely dollar clearing of the Branch on that day, but also ensured the stability of the clearing channels in the ensuing period. Within the week after the September 11th terror attacks, the volume of clearing business rose nearly 20% from before the attacks. In 2001, the New York Branch handled 2.96 million transactions through their electronic clearing worth some US$4.3 trillion, up 8.0% and down 11.6% respectively. It handled 2.32 million transactions via paper-based clearing, again worth some US$2.85 billion, up 3.8% and down 8.1% respectively. The ranking of the New York Branch

by the New York clearing house climbed from 13th in 2000 to 11th, a reflection of the relative strength of BOC operations in New York's clearing market.

The official circulation of the Euro was a big event for the international financial community and at the same time a challenge for BOC. BOC placed a large amount of effort into account updating, cash conversions, credit card payment systems, etc. The Frankfurt Branch's Euro clearing business is also progressing steadily. In 2001, the Frankfurt Branch cleared 230,000 transactions with EUR414.3 billion, up 14.2% and down 1.9% respectively.

■ Enhancing financial innovation to fully satisfy customer needs

During 2001, to address the individual demands of clients, BOC created and provided innovative financial products. In addition, BOC actively adjusted the structure of its assets and developed valuable clients as a top priority. BOC further engaged in a broad range of industry sectors such as telecommunications, electric power, petroleum, petro-chemicals and transportation, and supported major construction projects such as the South Sea Petrochemical Project, Yangtze Petrochemical-BASF Integration, Shanghai BP Petrochemical Project and Guangdong LNG Project. The above focuses led to even wider business co-operation with Sinopec, PetroChina, CNOOC, Shell, BP Amoco, Motorola, Nokia, Ericsson and other multinationals.

In 2001, while targeting those domestic corporate clients with a strategy of globalisation, BOC made full use of its numerous overseas outlets and abundant experience in international finance and launched exclusively the "Global Credit Line" product. This move was critical to the overseas development of Chinese enterprises. Currently, we have signed contracts for global credit line with such enterprises as Haier, Sinopec, PetroChina, and Tsingtao Brewery.

To meet the borrowing demands and comprehensive financial services required by multinationals, especially their enterprises funded in China, BOC provided them also with the brand-new product of "Global Credit Line". Head Office uniformly set down the aggregate credit line for foreign multinational clients to guide BOC's outlets at home and abroad in providing integrated financial services to them. Based on their unified credit extension, BOC enhanced its service to these corporate clients by standardising the business flow, format and wording of documentation, and adopting similar standards of guarantee requirement and comparable prices for subsidiaries with similar credit qualities. Currently, BOC has provided this product to LG Electronics and Hyundai Motors.

BOC has learnt from the internationally popular business of factoring and forfaiting and introduced "Purchase of Accounts Receivable" services which is currently the leader among the domestic banks. This service has helped to optimise clients' financial structures, improve fund liquidity, and bridge temporary funding gaps; it has also helped the enterprises maintain relation-ships with their clients and upgrade their competitive capability. During 2001, BOC signed the first such contract to buy receivables without recourse in China with Motorola.

To meet group companies' demands to strengthen internal financial management, BOC introduced a unique cash management solution and provided it to major clients such as Ericsson, Nokia, Sony, China Mobile, and Samsung. For the use of this cash management product, BOC set up information and funding platforms that allow timely flows of funds between the parent and its subsidiary companies and has improved the overall utilisation of group funds.

Combining the conventional services of the Bank with the latest marketing philosophies, BOC has developed two new products, "Distribution Passport" and "Start-up Winner" to provide credit to the sales outlets of multinationals. The two products extended our available services for multinationals from the traditional manufacturing field to the sales and distribution fields, thus covering their complete business process. These unique products have been acclaimed by our multinational clients. Currently, the products have been successfully applied to Kodak, GE, and Nippon.

Apart from product and service innovation, BOC has proactively explored new marketing strategies. BOC made full use of the branches at home and abroad and its investment bank, and established a cross business line, multi-level, concerted and cooperative marketing model. Take the financing projects of the South Sea Petrochemical Project and the Shanghai BP project, they were both major joint-venture projects that had critical requirements around the ability of tendering banks to provide full-scale financial services. Head Office and various branches of BOC together with Bank of China International worked closely, demonstrated our strong comprehensive capability and finally the Bank won the bid.

■ Outlook

The year 2002 is the first full year since China entered the WTO. As promised, China will take steps to open the financial markets, which will bring about great changes in the demands of the Bank's clients and the market.

As far as the clients are concerned, the financial demands from the high value corporate clients are now rapidly shifting from the traditional products of deposits, foreign exchange, remittance, and lending to a requirement for full-scale financial services inclusive of the whole enterprise's financial management. The service is extending from handling individual client's business to supporting the enterprises' whole value chain. It is predicted that with the further perfection of the financial market system, new types of financial institutions will appear and their demands will also multiply.

As far as the market is concerned, competition will be stiffer. Foreign-funded banks, with their extensive business lines and traditional relationships with multinationals, will compete directly with the domestic banks. Meanwhile, the opportunity for cooperation between BOC and the foreign-funded banks will be even greater.

BOC intends to deepen research into the market trends, further perfect its marketing system, strengthen co-ordinated action between Head Office and branches at home and abroad, and also between the commercial banking and the investment banking units, and make more efforts in targeting high value corporate clients, major state construction projects and economically developed regions. Meanwhile, the Bank will speed up internal restructuring of business processes to continuously provide comprehensive, customized and value-added financial products to meet clients' demands as successfully as possible.

Retail banking

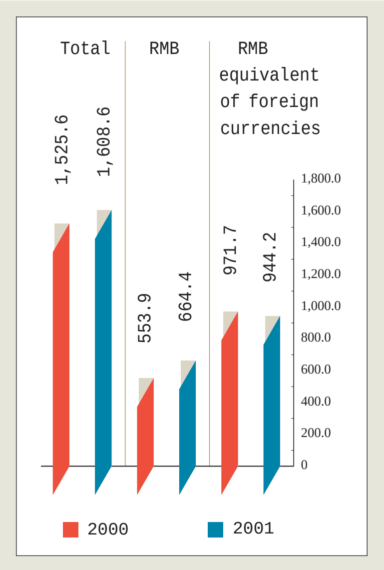
BOC's strategy for retail banking is to focus on customer demands and carry out intensive innovation in the fields of operations, product development and promotion, and business management. The Bank aims to integrate its resources to develop an integrated personal financial service system based around our Great Wall Card so that the customers will have access to comprehensive and convenient services including a wide range of products such as savings deposits, bank cards, consumer credit and agency business via the branch network, ATMs, self-service bank outlets, online banking, home banking, telephone banking and other channels.

■ Savings deposits

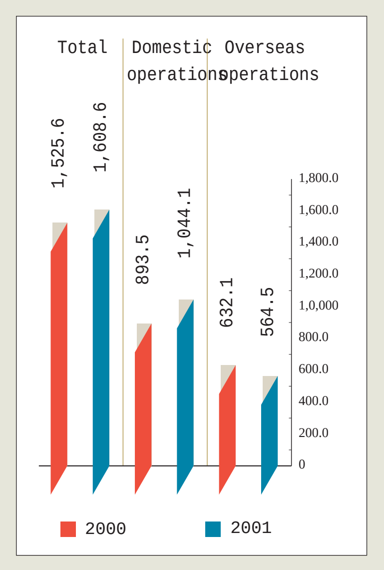
By the end of 2001, the balance of savings deposits of the Group stood at the equivalent of RMB1,608.6 billion, an increase of RMB83 billion, or 5.4%, over the end of the previous year.

The balance of savings deposits in the domestic operations amounted to the equivalent of RMB1,044.1 billion, an increase of RMB150.6 billion, or 16.9% over the previous year. This included savings deposits in RMB of RMB664.4 billion, an increase of RMB110.5 billion, or 19.9% over the previous year-end. The RMB savings deposits of BOC accounted for 9.0% of the market,

Currency structure of the balance of savings deposits of the Group
In billions of RMB



Regional distribution of the balance of savings deposits of the Group
In billions of RMB



defined as all Chinese financial institutions, up 0.2 of a percentage point from the end of the previous year. Factors contributing to the steady increase in the level of RMB savings deposits were, firstly, the wealth of Chinese residents continued to increase which in turn improved their ability to save; and secondly, a variety of promotional campaigns launched by BOC also helped to increase growth. As at the end of 2001, the total balance of savings deposits in foreign currencies stood at US$45.9 billion, an increase of US$4.9 billion, or 12.0% as compared with the previous year-end. The savings deposits in foreign currencies at BOC accounted for 56.3% of the market, again, defined as all Chinese financial institutions, up 0.1 of a percentage point from previous year. In 2001, foreign currency interest rates were repeatedly lowered, and part of the savings deposits in foreign currencies were lured to the B share market which was newly opened to domestic citizens. To cope with these challenges, BOC made full use of its advantage in foreign currency business, and introduced a transfer facility account linked to a bank-securities transfer, which effectively mitigated the otherwise downward trend of its market share of savings deposits in foreign currencies.

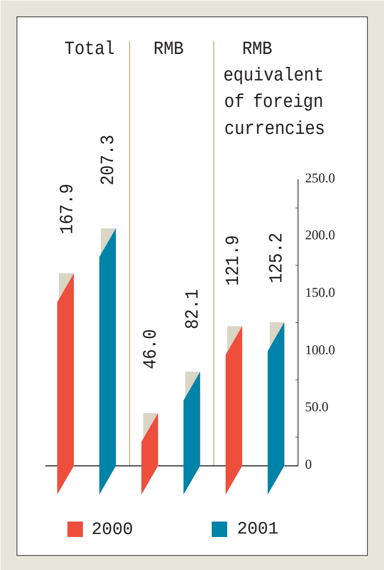
The balance of savings deposits in the overseas operations stood at US$68.2 billion, a decrease of US$8.2 billion, or 10.7%, from the end of the previous year.

■ Consumer credit

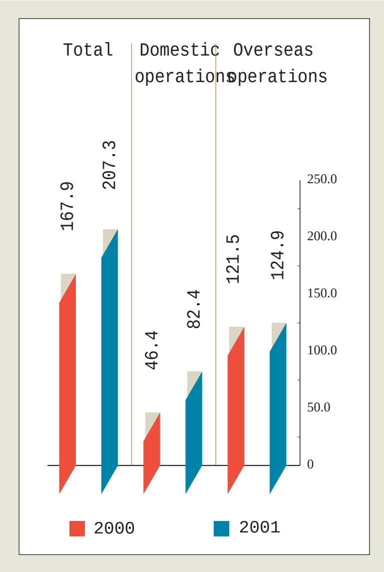
By the end of 2001, the balance of consumer loans of the Group stood at the equivalent of RMB207.3 billion, an increase of RMB39.4 billion, or 23.5%, over the end of the previous year.

The total balance of consumer loans in domestic market amounted to RMB82.4 billion, an increase of RMB36 billion, or 79% over the previous year. The balance accounted for 11.6% of the market of the financial institutions, up 1 percentage point from the end of the previous year. BOC further improved the structure of the consumer loan portfolio during the year, such that by the year-end, the balance of residential mortgage loans in domestic market stood at RMB53.3 billion, or 64.7% of the total balance of the consumer loans. In addition, BOC proactively developed the

Currency structure of the balance of consumer loans
In billions of RMB



Regional distribution of the balance of the consumer loans of the Group In billions of RMB



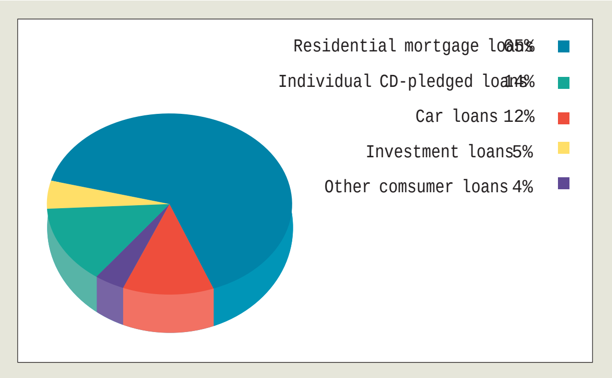
car loan business and by the end of the year, the balance of the loans for car purchase reached RMB9.5 billion. The balance of consumer loans in the overseas operations stood at US$15.1 billion, an increase of US$400 million, or 2.7%, over the end of the previous year.

In 2001, BOC was given approval to launch foreign currency loans for studying abroad, which was the first product of its kind in China. Well received by students, this product facilitated the educational exchange between China and other countries, and captured much attention both home and abroad.

■ Agency business

In 2001, BOC proactively developed the personal banking business and lines of business have grown from 50 to 70. By the end of 2001 in the domestic market, personal clients for whom BOC acted as agent numbered 19.95 million, 8.31 million or 71.4% more than that by the end of 2000; the number of corporate clients that signed agency business contracts with BOC reached 100,000, an increase of 30,000, or 39.4% over the previous year. In total, BOC handled 142.7 million agency transactions, representing a total volume of receipts and payments of RMB235.6 billion.

The structure of consumer loans of domestic operations

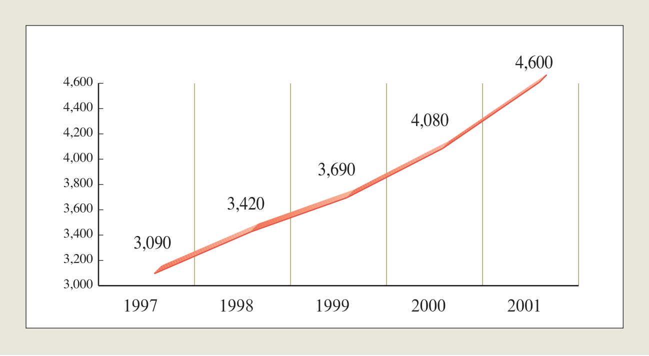


In 2001, the total volume of foreign exchange transactions on behalf of individuals handled by BOC domestic operations reached US$9.8 billion, up 97.2% over the previous year. Within the year, BOC further improved on the operating system for individual foreign exchange trading and combined the system with that for time deposits and other savings. Clients were able to perform foreign exchange transactions through multiple channels such as at branch counters, through telephone banking, mobile-phone banking and on-line banking etc, so giving them extra convenience. Meanwhile, BOC effectively developed an insurance agency business and offered such services in 30 domestic branches, distributing the insurance products of China Life Insurance Company and Ping An Insurance Company.

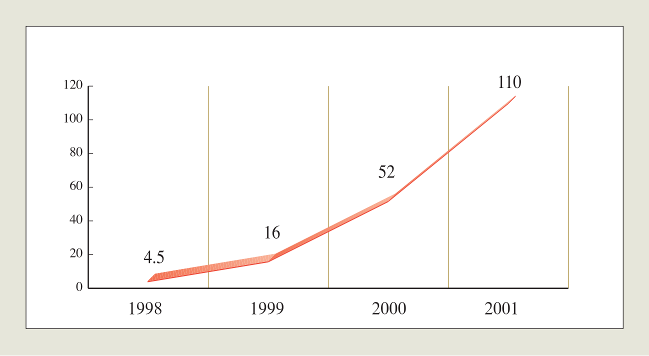
■ Bank card business

Supported by an integrated system, information centralisation and knowledge sharing, BOC vigorously developed its bank card business focusing on both its debit card product and its international card. Making full use of the information system advantage of having two bank card centres, one at home and one abroad, BOC made great efforts to develop the Great Wall International Card into the premier bank card in China. In parallel, BOC also worked hard to develop the Great Wall Electronic Debit Card into one with comprehensive payment capabilities, thus allowing clients at all levels to enjoy diversified products and services, supported by card products.

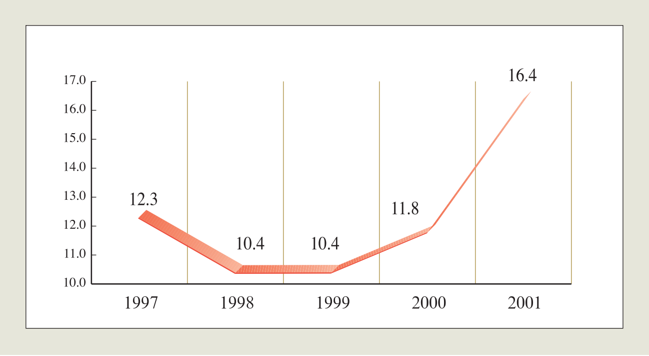
Number of the Great Wall Reminbi credit cards issued by the domestic operations In thousands



Number of the Great Wall International Cards issued by the domestic operations In thousands



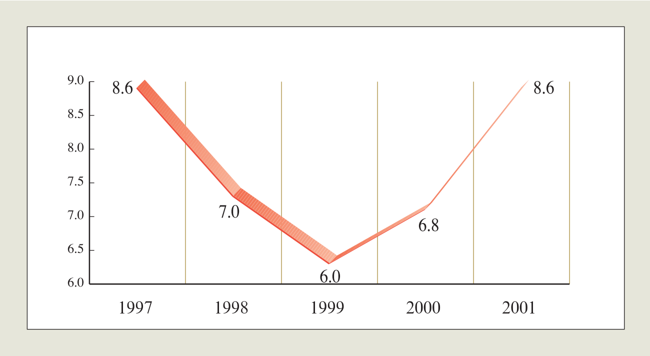
Goods and services purchased with the Great Wall Cards of the domestic operations In billions of RMB



In 2001, BOC's domestic bank card business grew strongly. By the end of 2001, the number of Great Wall Renminbi Credit Cards issued rose to 4.6 million in total, an increase of 520,000 cards, or 13% over 2000. By the year-end, the issuing volume of the Great Wall Renminbi Credit Card accounted for 19.9% of the market as defined as the financial institutions. The average purchase per Great Wall Renminbi Credit Card reached RMB2,649, registering a year-on-year increase of 9.5%. The total goods and services purchased directly with the Reminbi series of cards totaled RMB16.4 billion, an increase of 39% over the previous year. By the year-end, the authorised merchants of the Great Wall Reminbi Credit Card rose to 93,000, an increase of 19,000, or 26% over the end of 2000.

By the end of 2001, the number of Great Wall International Cards in circulation increased to

Total transaction volumes for foreign credit cards handled by the domestic operations In billions of RMB



110,000 in total, 58,000 cards, or 112% more than the end of 2000. In 2001, BOC became the No.1 issuer in China of international cards with a market share exceeding 50%. BOC was also awarded by VISA the "International Card Promoter", the only honour won in the Greater China Region. The average annual consumption per international card reached HK$10,700, far higher than that of the average level in the Hong Kong market.

By the end of 2001 in domestic operations, the total volume of transactions arising from foreign credit cards for which BOC acted as agent, reached RMB8.6 billion, up 15% over 2000. Although there existed exceptionally fierce competition in the market, the Bank's volume of transactions for foreign credit cards still accounted for as much as 62% of the market.

In 2001, the development of the support technology for the bank card business made good progress. This has laid good foundations for BOC to continue its development in this fiercely competitive market. BOC is exploring the opportunities offered by the Golden Card Project. BOC recognised the benefits of upgrading its bank card technology and has started cross-regional and inter-bank transaction processing of bank cards in line with international standards. This will provide the technological platform for the consistent development of the Bank's card business. Apart from this, with the support of internationally renowned consulting companies, BOC started the integration and restructuring of the operational process, management method and knowledge management processes in relation to the card businesses. Already, the initial aspects have been designed.

■ Product innovation for greater advantage

In 2001, BOC invested more effort in the integration of the cards business with the development and promotion of new products in response to the changes in the market and the demands of customers. These efforts yielded remarkable results.

During the year, BOC introduced the Great Wall International Debit Card which was well received by those studying or traveling abroad, thus enlarging and building loyalty in our customer base. Apart from this, BOC introduced the "Great Wall Talent Card" which was an important step in penetrating the market of those in higher education. The "BOC Consumer Credit Card", jointly introduced with the CYTS, made BOC the first bank in China to provide overseas credit facilities attached to a bank card. The "Agreement on the Issuing of International Card by Agency", signed with CYTS, further widened the marketing channels of BOC's card business.

BOC continued to promote the Co-branded Great Wall and Eastern Airlines Card. Since its introduction at the end of 2000, 20,000 of these cards have been issued with the average consumption volume per card exceeding RMB4,500, and the card has been well received by the market and international organisations. At the annual Asia-Pacific meeting of MasterCard, the Co-branded Great Wall and Eastern Airlines Card won the "Excellent Co-branded Card in Asia-Pacific Region" award, and was the only card of its kind, to receive such an award.

■ Looking to the future

In the few years after the accession of China to WTO, foreign-funded banks will compete with the Chinese banks using their flexible technology, rich experience in operations and advanced network technologies and mature retail banking products. Furthermore, they will likely expand rapidly by cooperating with Chinese banks. The retail banking business of BOC will face unprecedented challenges.

BOC will continue to focus on the general business strategy of "integrated retailing", continuing to comprehensively integrate the operational process and streamline the operations, so as to build a brand-new retail banking operating system that can excel in the marketplace. While effectively managing risk, centred around the cards business, BOC will vigorously expand the personal savings deposit business, steadily develop the consumer credit business and promote personal banking services so that the profitability and competitiveness of BOC can continue to advance at speed.

Bank of China (Hong Kong)

■ Restructuring

On 1 October 2001, Bank of China (Hong Kong) Ltd. (hereinafter referred to as BOCHK) was created, signifying the beginning of a new era for BOC's business in Hong Kong.

BOCHK was incorporated in Hong Kong. It was formed as the result of the merger of 10 of the 12 member banks of the Bank of China Group, namely, the Bank of China Hong Kong Branch, the Hong Kong branches of seven other banks incorporated in the Chinese mainland (The Kwangtung Provincial Bank, Sin Hua Bank Limited, The China & South Sea Bank Limited, Kincheng Banking Corporation, The China State Bank Limited, The National Commercial Bank Limited and The Yien Yieh Commercial Bank Limited), as well as Hua Chiao Commercial Bank Limited and Po Sang Bank Limited, both of which were incorporated in Hong Kong. At the same time the Nanyang Commercial Bank Ltd., Chiyu Banking Corp. Ltd. and the Bank of China Credit Card (International) Ltd., all of which were registered in Hong Kong, became BOCHK subsidiaries.

The restructured BOCHK has a clear equity structure. The previously decentralised organisations merged and formed a unified and efficient management system. This improves the operation and management efficiency, enhances the customer-focused mechanisms, unifies the market image, enhances the overall competitive edge and displays both the enormous effect of economies of scale and overall synergy.

Based in Hong Kong and serving Hong Kong, BOCHK has become an integral part of the Hong Kong economy and society. BOCHK boasts a huge business network and client base and not only enjoys the benefits of a fully developed product range and immense market experience in retail banking and corporate banking, but also enjoys the added support of a wider financial services group including Bank of China Group Insurance, BOC Group Life Assurance and Bank of China International (the investment banking arm). Apart from this, there remains space for cooperation between BOCHK and the Bank of China in further expanding the business and reducing the operating cost base. Overall, BOCHK is well positioned to provide a full range of financial services and will soon become the leading comprehensive financial service provider in Hong Kong. Because BOCHK continues to operate as one of the three note-issuing banks in Hong Kong, its brand awareness and market position continue to be enhanced.

BOCHK will aim to maximise the advantages arising from the restructuring, and make use of the formidable support of the Bank of China Group to increase returns on equity and to build itself to be a financial institution with massive competitive value and a solid market position in Hong Kong and on the globe.

■ Corporate governance and organisational framework

In collaboration with the internationally renowned investment banks and management consulting firms, BOCHK has established good corporate governance mechanisms. Based on the corporate regulations and the requirement of financial supervision, BOCHK set up a complete board of directors and invited experienced and internationally well-known individuals to be independent directors and senior advisors. In line with international standards and considering the actual situation of BOCHK, the Risk Management Committee, Audit Committee and Remuneration Committee are established under the board of directors. The independent directors make up the majority of the Audit Committee and exercise the function of supervision and inspection. The Audit Department is directly accountable to the Audit Committee. The Risk Management Committee is set up to enhance the risk management capabilities of the Bank. The Risk Management Department is directly accountable to the Risk Management Committee. The Legal and Compliance Department directly reports to the Chief Executive. The independent risk management and supervision mechanisms ensure that the Bank strictly follows the related regulations of the Hong Kong SAR and the requirements of the banking supervisor.

With a view to reducing the number of middle management layers, simplifying managerial relationships, extending management's responsibilities and clarifying the accountability mechanisms, BOCHK has developed a brand new organisational framework, and introduced new operating concepts, management mechanisms, accountability mechanisms and corporate culture. It has also initiated a series of new mechanisms for risk management, performance evaluation, remuneration and marketing.

The organisational framework of BOCHK is divided into the front office, middle office and back office. The front office focuses on business development, the middle office is in charge of management and the back office provides support. The departments have been arranged, based on these principles as well as that of independent monitoring. Directly facing the customers, the front office provides one-stop and comprehensive service solutions. The middle office coordinates and defines the development of the front office. The back office offers centralised business processing and logistical support.

Independent monitoring is performed by risk management, audit, legal and compliance departments.

Based on the modern bank's operating concepts and business management features, BOCHK introduced the concept of strategic business units (SBUs). The four SBUs are each presided over by a vice president, who is completely responsible for certain operational and managerial activities. The departments with monitoring roles are subordinate to the board of directors or president and not integrated into an SBU. As profit centres, the retail banking SBU and corporate banking and treasury SBU have independent decision-making powers as regards their business operations as well as the corresponding auxiliary support systems. The other two SBUs and other departments subordinated to the board of directors and president are cost centres.

BOCHK took effective measures to control the non-performing loans. On the one hand, it improved the credit risk control system, regulated the credit mix and tightened monitoring over loan risks to prevent the emergence of a large number of new non-performing assets; on the other hand, it disposed of the non-performing assets already held through prompt debt collection, security disposition and writing off of such bad assets. In the whole year, the non-performing assets were cut by nearly HK$20 billion. In particular, the risk control system and the internal control mechanisms established after the restructuring played a positive role in the control of asset quality and disposition of non-performing assets. The measures effectively checked the rise of non-performing assets even after a rigorous loan rating method was applied. BOCHK will continue to accelerate its actions to reduce the level of non-performing assets to approach or reach the average of other local banks in Hong Kong.

■ Looking to the future

Following the successful restructuring, BOCHK's strategic initiatives have focused on market positioning, product development, and organisational network realignment, setting priorities and initiating steps. Accordingly a new enterprise culture is taking shape, and BOCHK is now on the right track towards rapid development. In the meantime, we have realised that the success of this restructuring is but a new starting point for BOC's development in Hong Kong. We will focus on clients, understanding exactly and fully their demands. We are looking to offer a better product portfolio and organise ourselves more effectively to be able to do cross-selling and to realise business development opportunities in order to improve profitability. We will continue to improve our operating processes, accelerate the standardisation of operating procedures, and upgrade service quality, efficiency and cost-effectiveness. We will also strive to tighten risk management and internal controls in order to lay down a solid foundation for the consistent improvement of our asset quality. We are fully confident that, with the extensive support we get and the intensive efforts we make, BOCHK will soon be able to utilise such competitive advantages arising from the restructuring, actively expand the business and make an even greater contribution to the financial and economic development of Hong Kong.

Message from the Chief Executive of the Hong Kong Monetary Authority

To adapt to the changing market environment and the need of future development, BOC (Hong Kong) accelerated its reform to restructure its original framework. The effort aims at establishing a governance structure and operating mechanism fit for the development of modern banks and generating the effect of scale and synergy. The significant restructuring, with its unprecedented scale, will have far-reaching influence.

We hope that Hong Kong banks will develop toward consolidation and integration. The banks should develop proper plans themselves to reach the goal. The Monetary Authority ensures that the regulatory framework will not obstruct this process and will encourage them to reflect on how to grow the business through mutual cooperation, and make the right strategic deployment to face an environment with increasing challenges. I believe that directed by the market power, Hong Kong banks will fare well in this respect. The restructuring of BOC Hong Kong is a good example.

Joseph C K Yam

Chief Executive
Hong Kong Monetary Authority

Investment Banking

Our wholly-owned investment banking arm, BOC International (BOCI), is the first overseas investment bank owned and controlled by a Chinese bank. Over the last 20 years, BOCI has grown substantially. The quality of its professional team, strength of its international distribution network and the size of assets under management are unparalleled by any other overseas investment bank owned and controlled by a Chinese concern. In the next 3-5 years, BOCI will capitalise on the opportunities presented by the increasing globalisation of the Hong Kong market and the rapid development in China's economy and develop into a leading investment bank in the Greater China region.

In 2001, the downturn in global economy and the "9.11" incident further eroded investors' confidence in Hong Kong. As a result, stock market sentiment remained gloomy. This affected the market turnover and capital market activities adversely. Operating results of investment banks were generally hit hard by this economic environment.

In response to the gloomy international capital market, BOCI strengthened its internal management system and actively explored new investment banking business opportunities. This enabled BOCI to outperform the market amidst the difficult operating environment. During the year, BOCI expanded its overseas distribution network by acquiring BOC Securities (S) Pte Limited in Singapore.

Investment banking - our core business

In an adverse operating environment, BOCI strategically and actively expanded its investment banking business. BOCI participated in the IPOs of eight enterprises in 2001. Total capital raised by these enterprises accounted for over 70% of the total amount of capital raised in the Hong Kong stock market in 2001. The size of capital raised by BOCI in the primary markets was ranked number three in Asia (excluding Japan).

BOCI acted as the joint global coordinator, joint book-runner, joint sponsor and joint lead underwriter for the biggest IPO project in Hong Kong in 2001, China National Offshore Oil Corporation (CNOOC). Throughout the project period, the global capital market and oil prices were unstable. However, BOCI worked in close coordination with all parties involved, which led to CNOOC's successful listings in the USA and Hong Kong markets. In addition, stock prices of CNOOC performed well after the listing. This project was awarded the "Equity Deal of the Year" by *Asian Money* and "2001 China Equity Issue" by *International Financial Review* in 2001. BOCI also participated in the underwriting of TravelSky Technology Limited, Digital China Holdings Limited, Aluminum Corporation of China Limited, WorldMetal Holding Limited, Convenience Retail Asia Limited, Kingdee International Software Group Company Limited and Clear Media Limited.

In financial advisory services, BOCI successfully completed various projects for companies such as TCL Holdings Limited, Generali Insurance, China Economic Information Network, CITV and PetroChina Hutchison Information Technology Company.

Equities business

In 2001, stock market turnover in Hong Kong declined. Amidst the adverse market condition, BOCI maintained its market leader position by expanding its institutional client base and sales team, providing value-added services and developing intermediate and derivative business. As a result, BOCI outperformed the market and recorded an increase in market share in 2001.

Fixed income business

BOCI maintained its edge in the fixed income market. In 2001, in response to the market condition, BOCI actively, yet prudently, expanded its quality client base in order to further consolidate its competitive advantage in this business sector.

In loan syndication, BOCI acted as the lead manager in arranging and underwriting 25 syndicated loans for companies such as Hong Kong Air Cargo Terminal, Sun Hung Kai Properties, Hutchison Whampoa, Cheung Kong, Jardine Matheson, Swire Pacific, Wheelock, HongKong Land and Amoy Properties, etc. The total amount of capital raised was HK$134.4 billion, representing a market share of 70%. This placed BOCI, for the third year, firmly in the number one position in loan syndication.

BOCI steadily developed its business in debt securities underwriting. During the year, BOCI participated in the underwriting of seven issues, including two fixed-rate bonds and five floating-rate notes, for companies such as the European Investment Bank, Citic Ka Wah Bank, Bank of Tokyo Mitsubishi and Sumitomo Mitsui Banking Group. BOCI also actively expanded its activities in fixed income securities trading in the secondary market.

Asset management business

BOCI aims to become a leading player in the mandatory provident fund ("MPF") and unit trust markets. It continued to broaden its product range and achieved a stable investment returns for clients during the year. By the end of 2001, the total assets under management by BOCI Prudential Asset Management Limited ("BOCI Prudential") amounted to HK$9.06 billion. BOCI Prudential's investment funds consistently performed above the market average.

2001 was MPF business's first full year operation. BOCI Prudential continued to streamline its operations and management of the MPF business, improve its service quality and operating efficiency. By the end of 2001, BOCI Prudential's MPF business was ranked in the top three tier in terms of both the number of registered members and amount of assets under management.

At the same time, BOCI Prudential actively developed the retail investment fund business. BOCI Prudential, on the basis of in-depth market research, launched the "China Fengsheng Guarantee Fund" in December 2001. It was well received by the market since its launch.

Outlook

We expect the Hong Kong economy to recover gradually in 2002. Hong Kong's stock market is likely to rebound. This would have a positive impact on the capital market environment in general and the related fund raising activities. The large state-owned enterprises from the mainland will continue to drive the Hong Kong IPO market. In addition, overseas listed Chinese enterprises will regain the momentum for secondary placements and financing. With China's entry into the WTO, its capital market will open to foreign institutions gradually and continue to become more standardised, market oriented and internationalised.

Year 2002 will be a crucial year for BOCI's development. In line with BOCI's overall strategy, we will improve its business operations and management and continue to launch new and innovative products. Our objective is to provide a full range of investment banking services to customers and, at the same time, contribute towards the reform and development of the Chinese economy.

Insurance Business

Bank of China Group Insurance Co., Ltd. (BOC Group Insurance) was incorporated in Hong Kong in 1992. Mainly focused on property insurance, it is dedicated to providing customers with professional and comprehensive insurance services. Since its establishment, the company has adhered to the principles of being customer focused and creditworthy and offering a full service range with brisk and flexible operations. Following placing its energy into expansion and improved risk management, the company has enjoyed strong growth and an enhanced reputation in the insurance industry and society at large. For the last six years running, its gross premium income ranked number one in the Hong Kong property insurance sector.

In 1998, BOC Group Insurance established the BOC Group Life Assurance Co., Ltd. with a view to providing customers with more diversified insurance services. On 17 December, 2001, BOC Group Insurance set up a Shenzhen branch, a crucial step in entering the mainland insurance market. BOC Group Insurance now has 7 branches and 1 wholly-owned life insurance company, with a service network covering Hong Kong Island, Kowloon and the New Territories. Given the strength of the agency capabilities of BOC's branch network and offices in Shenzhen, BOC Group Insurance was able to get its business successfully started in the mainland.

In 2001, the premium income for BOC Group Insurance reached HK$1.11 billion, up 7.8% over the previous year. Of this total, premiums from agency business connected to the bank network amounted to HK$560 million, down 19.1% from the previous year; premium from brokerage related agents stood at HK$550 million, up by a huge 63.5%. BOC Group Life Assurance Co., Ltd. earned strong premiums of HK$710 million. In particular, it gained a breakthrough in the long-term policy business, which grew by 7.5 times and reached a total premium income of HK$130 million.

By closely watching the needs of the market and its customers, Bank of China Group Insurance Co., Ltd. will continue to work hard to develop and diversify its product range and make use of multiple sales channels to provide quality insurance services to a wide range of customers.

Bank of China Brings Its Investment Banking and Insurance Expertise to the Mainland Market

To fully meet the extensive demands of clients and to follow the ongoing trend of financial development, BOCI and BOC Group Insurance Company Ltd., whilst continuing to consolidate their present market positions, actively explored opportunities for business development in the mainland and achieved breakthroughs in this regard in 2001.

BOCI united 5 domestic companies and established the "The Bank of China International Securities Ltd.". On 8 November, 2001 the CSRC approved the business plan of Bank of China International Securities Ltd. On 6 December, Bank of China International Securities Ltd. held in Beijing its first shareholder meeting. It is anticipated that it will be formally opened early in 2002.

On 17 December, 2001, Bank of China Group Insurance Co., Ltd. Shenzhen Branch opened for business, which signified the Bank of China Group Insurance Co., Ltd.'s formal entry into the mainland insurance market. Bank of China Group Insurance Co., Ltd. Shenzhen Branch will draw on the experience gained in Hong Kong to develop the mainland market, make full use of its advanced technology, risk and asset management techniques, and efficient and effective claim settlement systems in order to provide timely, comprehensive, reliable and quality property insurance services.

BOCI and BOC Group Insurance Company Ltd.'s move into the mainland is a great step forward in the history of the Bank of China. It is a strategic move for the Bank in demonstrating its ability to innovate in order to follow the market trends, and in building a full-functioning premier international bank. It also signifies that the plans of the Bank in the mainland financial services industry are progressing well. BOC Group Insurance Company Ltd. and BOCI, the time-honored insurance company and investment bank in Hong Kong respectively, have each accumulated a wealth of market expertise and built a strong reputation in Hong Kong, one of the international financial centres. The two companies' move to the mainland will be supported by the vast mainland network of the Bank of China, providing clients with comprehensive services including commercial banking, insurance and investment banking, and will grow with its clients in line with its advanced service culture and innovative financial products.

Information Technology

We are fully aware of the importance of information technology in modern banks in supporting research, development and the promotion of new products, the upgrading of service quality as well as enhancing risk management and decision-making, etc. To this end, we have continued the upgrading of our IT system. In 2001, we progressed with the centralisation of the IT systems, and accelerating the development, integration and spread of application systems. Consequently, we were able to accelerate the improvement of our services with refined customer service support systems.

Centralisation

We started to integrate the previously decentralised information centres in 2000. By the end of 2001, our domestic computer centres were reduced to 33. The North China, East China and South China information centres were put into operation. The North China information centre successfully incorporated the information centres of Tianjin, Hebei and Head Office; the East China information centre integrated those of Xiamen, Shanghai and Ningbo; the preliminary preparations for the Southwest and the Northwest information centres came to an end. By the end of 2002, we will have built five information centres capable of covering the entire mainland. The centralisation will help achieve centralised information processing and information sharing, promote regional cooperation, and lay the foundations for implementing the full integration of all business processes and flat management structure; meanwhile, this also provides a technological support platform for the development of application systems. Supported by the centralisation process, BOC was able to consolidate the application systems relating to some individual business lines, such as the new generation of credit systems, and the letter of guarantee and factoring systems into new nationwide centralised versions. These centralised application systems have provided standard, stable and rapid technology-based support for BOC's business expansion and customer service.

At the same time, the building of three major information centres overseas also commenced. The American information centre began to integrate our subsidiary in Canada, the European information centre started the testing for integrating the Paris Branch, and the Asia-Pacific centre was providing remote support for the preparations for opening the Manila Branch in the Philippines. The building of overseas information centres will facilitate the Bank in optimising the regional deployment and the configuration of its technological resources to achieve economies of scale.

Standardisation of application systems

With regard to application systems, the standardisation of the core business systems has fundamentally been completed. 19 branches launched a new generation of comprehensive support systems, and 15 launched new generation accounting systems. The latest generation of retail banking systems has been put into operation in Xiamen, Ningbo, Guangxi and Beijing, and it will be rolled out nationwide next year. In 2001, we also accomplished the promotion and unification of a combined customer service platform, notably enhancing our intermediary business. The standardisation of application systems made it possible for us to unify information management and knowledge sharing, and greatly built up our capability to provide excellent and comprehensive financial services to our clients.

Furthermore, the new upgrade of our card network was given a successful trail run in Beijing, Shanghai, Shenzhen, Guangzhou and Hangzhou, and our call centre implementation in Shanghai was also a complete success. The centre, with integrated functions including automatic speech sound and manual services, fax and dialing, and deals with inquiries and complaints, offers customers a full range of bank services including retail, corporate and settlement services, etc. As a mature marketing channel, the call centre balances some of the disadvantages of traditional over-the-counter services. Supporting our customer-focused philosophy, the call centre, together with online banking, home banking and ATMs, constructs a virtual banking service system.

Risk Management

Overview

In improving its risk management, BOC aims to establish an integrated global risk management system which helps evaluate risk with reward and maximize income within an acceptable risk level through risk identification, measurement, monitoring and management.

BOC's risk management system reflects the principle of the segregation of duties between risk management and business operational roles. Under the top management, we have set up cross-departmental Risk Management Committee, Asset and Liability Management and Budget Committee, as well as independent departments responsible for managing credit, market and liquidity risks.

In keeping with the relevant principles and requirements proposed in the new Basel Capital Accord, BOC further enhanced its management of credit, market, liquidity, operational and strategy risks during 2001.

Organisational Structure of Risk Management

Member of Top Management in Charge

Risk Management Committee

Main responsibilities:

Review credit risk management policies and regulations, including basic regulations on credit policy, authorization management, asset recovery policy, etc; review medium and long term and annual plans for credit risk management; review lending projects beyond the authorized limits; examine the execution of policies.

Asset-liability Management and Budget Committee

Main responsibilities:

Review asset and liability management policies, including management policies and medium and long term plans concerning liquidity, market risk, internal interest rates and capital etc; review annual and quarterly targets of asset-liability management; review medium and long term plans for budget and financial management, annual financial policy and financial budget targets, etc.

Credit Risk

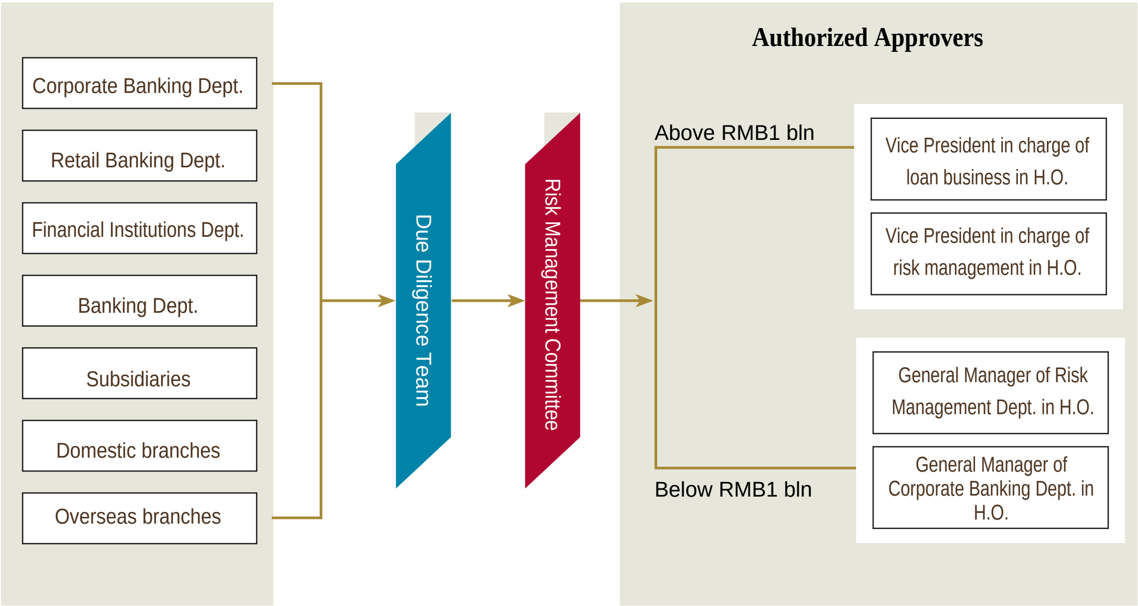
Credit risk refers to the risk caused by the default of debtors or counterparties. Our credit risk management process includes three components: credit policies, credit granting and credit monitoring. Credit policies include the formulation of risk management policy and lending policies, and definition of customer credit ratings and risk limits; credit granting includes authorization management of credit extension, due diligence investigations and risk reviews; credit monitoring includes the monitoring of asset quality, follow-up evaluations and examinations of policy and regulation implementations.

Credit risk management system

In 2001, we made further efforts to improve the centralised credit management system and credit decision-making mechanisms, design a more rigorous credit policy, enhance monitoring over asset quality, and began to develop a quantitative credit risk model.

■ Credit decision-making mechanism

Flow Chart of Credit Decision-making



1. *Credit origination departments mainly conduct marketing to clients and preliminary reviews of specific credit-related business.*
2. *The due diligence team concentrates on examining the authenticity and reliability of the materials submitted by the credit origination departments and conducting the feasibility studies of the preliminary analyses carried out by them. The team then produces its own independent report as a reference for decision-making by management. Independent of other departments, the team directly reports to the Risk Management Committee.*
3. *The Risk Management Committee examines projects above the lower authorized limits, projects involving continuous lending to a single customer within the authorized limits, as well as accounts where there have been material changes in credit conditions. The Risk Management Committee, which is directly accountable to top management, provides input to the final decision.*
4. *Authorized approvers may overrule any credit application approved by the Risk Management Committee, but cannot sanction the projects rejected by the Risk Management Committee.*

In 2001, the Risk Management Committee of Head Office reviewed 543 projects in total, involving RMB503.4 billion. It approved 449 projects, and rejected 94. The rejection ratio was 20.9%.

In 2001, BOC further improved the credit decision-making process by establishing a follow-up evaluation system and a dual-person accountability system for examination and approval. Through the summary and follow-up evaluation of the credit policies, we have made the process more scientific, relevant and effective; through the monitoring and follow-up evaluation of the credit granted, we caused the business departments to focus attention on the follow-up management of credits in order to identify new potential risks and take preventative measures in a timely manner; through the examination and follow-up evaluation of the entire decision-making process composed of the preliminary review by the business departments, due diligence investigation by the Risk Management Department and the review of the Risk Management Committee, we can rapidly sum up the experience in the decision-making process and detect any weaknesses. This causes the relevant departments and institutions to focus on improving their operations and decision-making, and also provides benchmarks for the ongoing upgrading of the personnel and business structure of the due diligence teams and the risk review groups.

The dual-person accountability system for examination and approval is a refinement and development of the credit decision-making process. Under this system, relevant personnel are vested with the power of approval and decision-making, but also share in the responsibility. The establishment of this system further identifies the corresponding responsibilities of the credit review process, and helps increase the efficiency of decision making for credit extension.

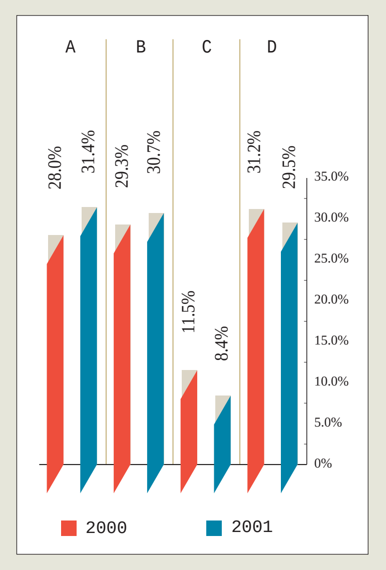
In 2001, we started to implement the due diligence investigation and the decision-making process for credit risk review in the second level branches, and further standardized their credit decision-making processes. The authorized second level branches, in line with Head Office requirements and their own specific nature, established their own due diligence teams and risk management committees. By the end of 2001, the due diligence and credit review systems were in place throughout the Bank.

■ Centralised credit management

The core of our corporate credit risk management is the unified credit system. Under this system we identify, evaluate and manage the overall credit risk under various business products of our corporate clients (including various institutions in the same group), and set up credit limits for them.

In 2001, we developed an effective management system for extending credit to financial institutional customers, and incorporated into this centralised credit management system investments, fund custody and credit-related business that BOCI is involved in. We also implemented a global credit management process for large multinationals. Up until today, we have entered into cooperation

Credit rating structure of loan balance of domestic operations



agreements on a global credit basis with Haier, Hyundai, LG and Samsung. Through their implementation, we can fully expand our business conducted with multinational group customers with the ability of controlling total credit extended to the group and overall credit risk.

A major link in the system is customer credit rating. Based on the customers' repayment ability, profitability, operational and managerial skills, performance records, and growth ability and potential, we divide the customers into 10 rating classes from AAA-D and examine their credit standing on a regular basis. While granting credit to customers, we use such rating results as the important factor in determining the credit form, amount, term and guarantees required.

In 2001, the Bank implemented tight selection criteria of potential customers and gave them differential treatment according to their credit rating. We encouraged the credit requests of class A customers by giving them priority reviews and approval; we strengthened the management of, and asked for more effective collateral from class B customers; we strictly examined and monitored performance of Class C customers and paid special attention to the timely collection of amounts due from them; for Class D customers, we will gradually reduce the existing credit balances and terminate credit extension to them as early as possible. These measures are significant in the upgrading of our asset quality and optimizing our customer structure as regards credit extension.

By the end of 2001, the domestic operations had granted credit to a total of 107,000 customers. Out of these, the customers which were ratable numbered 93,000, accounting for some 87.3% of the total of customers receiving credit; those rated numbered 92,000, for about 98.5% of all ratable customers. The loan balance to customers of Classes A and B made up some 62.1% of that of all rated customers, up 4.8 percent as compared with the end of 2000.

Authorization management is another important part of the credit risk management system. Our authorization management covers loans, bank acceptance bills, trade finance, factoring, letters of guarantee and the granting of other forms of credit. Head Office determines and adjusts the authority delegated to each branch according to its asset quality, operational and managerial skills, risk control capability and competitiveness. In 2001, we improved the authorization management process, linking the authority levels with customer credit risk and collaterals, and making use of total exposure management over our short-term credit business.

In 2001 we further standardized our basic guidelines and operational processes for retail loans, defining risk management targets and standardizing the risk evaluation contents and procedures. Head

Office established a scoring system for retail credit to evaluate an individual's willingness and ability to repay and analyse the credit risk based on the borrowers' household income, expenses, debts and collaterals. The scores produced are the basis for examining and approving loans.

We applied strict risk management standards with respect to the investment in debt securities. In the domestic market, we focused on Treasury bonds and bonds issued by the policy banks; in the international market, we only invested in bonds with an A credit rating or above as rated by Standard & Poor's, Moody's or FITCH, of which government and government agency debt securities made up a large proportion.

■ Preparations for implementing the new Basel Accord

Ever since the exposure draft of the new Basel Capital Accord was published in January 2001, BOC has been closely watching the latest developments of this New Accord to facilitate full preparation for its final implementation. Under the guidance of the Central Bank, we carried out in-depth research on the feasibility of an internal rating-based system in China, and proposed our own approach to the building of an internal rating-based system for BOC. As a member of the cross-bank internal rating research team organized by the Central Bank, BOC in September 2001 successfully co-organized the Seminar on the new Basel Capital Accord attended by internationally renowned rating agencies and consulting companies.

We set up special groups within the Bank to be responsible for the implementing of the new Capital Accord. We accumulated historical data concerning loan classification according to the requirements of the new Capital Accord. While proposing a definition of default in compliance with the new Accord, we worked out a research plan to analyse the special ratios of loss given default. And in cooperation with the Chinese Academy of Sciences, we developed a VAR method for our assets, established a risk management model framework, and entered the material data verification stage.

Asset quality

The asset quality of the Bank of China Group by the end of 2001 was shown in the following table:

Asset Quality of the Bank of China Group

in millions of RMB

	31 December,2001		31 December,2000		31 December,1999	
	Balance	Proportion(%)	Balance	Proportion(%)	Balance	Proportion(%)
Performing	893,546	56.36	821,511	54.56	748,709	46.27
Special-mention	255,755	16.13	274,692	18.24	263,887	16.31
Non-performing	436,020	27.51	409,604	27.20	605,459	37.42
Including: substandard	108,901	6.87	142,278	9.45	212,919	13.16
doubtful	234,415	14.79	206,260	13.70	301,088	18.61
loss	92,704	5.85	61,066	4.05	91,452	5.65
Total	1,585,321	100	1,505,807	100	1,618,054	100

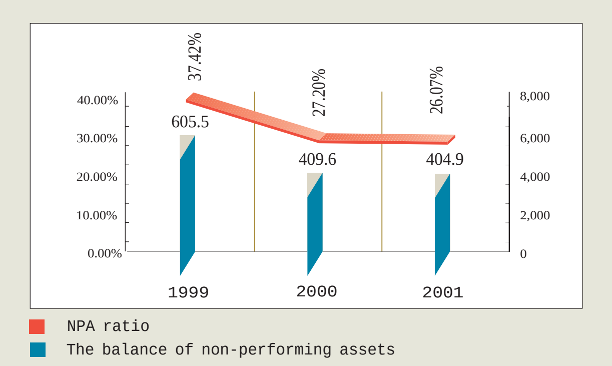
Note: The figures of non-performing assets at the end of 2001 included on-balance-sheet trade finance receivables, whilst those at the end of 2000 and 1999 did not include on-balance-sheet trade finance receivables.

As required by the Central Bank, on-balance-sheet trade finance receivables were included in the non-performing assets at the end of 2001. In line with the requirements of the Central Bank, the balance of non-performing assets including on-balance-sheet trade finance receivables of the Bank of China Group was RMB436.0 billion and the NPA ratio was 27.51% at the end of 2001. Without on-balance-sheet trade finance receivables, the balance of non-performing assets of the Group was RMB404.90 billion and the NPA ratio was 26.07%, down 1.13 percentage points from the end of 2000.

In 2001, domestic operations took more effective measures to collect non-performing loans, manage new loans, and collect interest in arrears, with a view to collecting maximum interest from outstanding loans. By the end of 2001, the loan interest collection ratio for the domestic op-

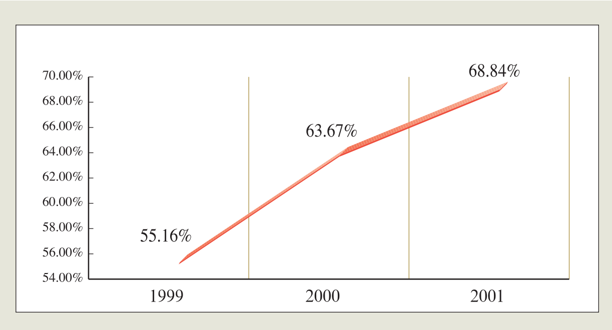
The balance of non-performing assets and NPA ratio of the Group

In billions of RMB



Note: Figures in the graph did not include on-balance-sheet trade finance receivables.

Loan interest collection ratio for domestic operations



Note: Loan interest collection ratio = (interest income of the current year − overdue interest− overdue interest for payments in kind− owing but not accrued interest for payments in kind)/(interest income of the current year + owing but not accrued interest receivable) erations reached 68.84%, 5.17 percentage points higher on a year-on-year basis.

■ Asset recovery

In May 2001, Head Office established the Non-Performing Assets Management Department in charge of recovering non-performing assets; the domestic branches also set up departments with similar functions. By the end of 2001, the number of staff dedicated to asset recovery nationwide reached 4,279.

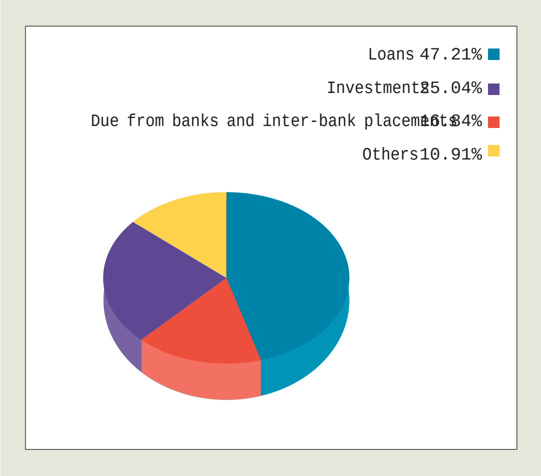
In 2001 we enhanced monitoring, analysis and management of general asset quality, further strengthened the collection processes for non-performing loans, and listed the result of such collections as an important aspect in our performance evaluation. We collected and resolved non-performing assets mainly through cash collection, restructuring, payments in kind, and bad debt write-offs. In 2001 the non-performing loans recovered by the domestic operations in the form of cash amounted to RMB21.595 billion.

Head Office set up the Asset Disposition Committee and the corresponding review system in 2001 in order to better control the collection of the Bank's non-performing credit assets and investments, establish and improve the restraint mechanism in non-performing asset disposition, prevent inappropriate decision making in the disposition process, and ensure that the relevant decisions are made on a standard and scientific basis. Composed of top executives concerned and people from relevant departments, such as Risk Management Department, Non-performing Assets Management Department, Investment Management Department, Accounting Department, Audit Department and Inspection Department, etc., this Committee is the body responsible for discussing matters on the disposition of non-performing credit assets and investment assets and important issues concerning non-performing asset disposition, reviewing the disposition project above the lower authorization limits, and conducting follow-up evaluation of the work of the non-performing asset disposition teams. From September 2001, the Committee started to hold a monthly meeting to review the applications for writing off bad assets. According to statistics, a total of 8,626 bad assets were applied for review during 2001, with the balance of principal amounting to RMB15.95 billion, interest receivable totalling RMB980 million and owing but not accrued interest of RMB9.28 billion. Of those initially applied, 457 bad assets were considered inappropriate in being so identified. The review system of the Asset Disposition Committee played a significant role in accelerating the disposition of non-performing assets and preventing noncompliance in the disposition process.

Management of concentration risk

In keeping with the policy of credit risk diversification, we have been adjusting our asset structure to establish a dynamic balance amongst the major credit risk bearing assets including loans, due from banks and investments. By the end of 2001, loans, due from banks and inter-bank placements and investments accounted for 47.21%, 16.84% and 25.04% respectively of the total assets of the Bank of China Group. In parallel, we took steps to control the concentration of assets in terms of counterparts, geographical distribution and products.

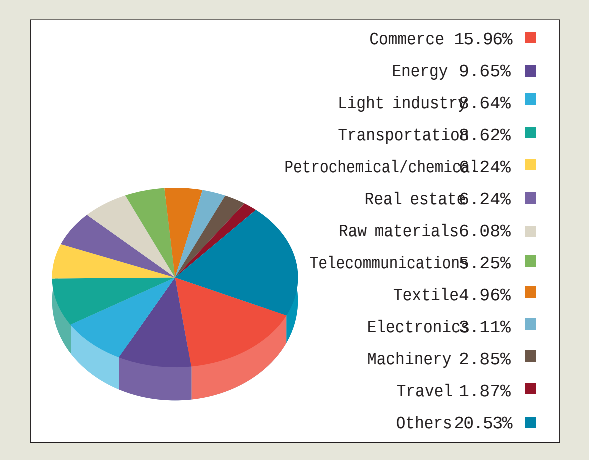
Asset structure of the Group



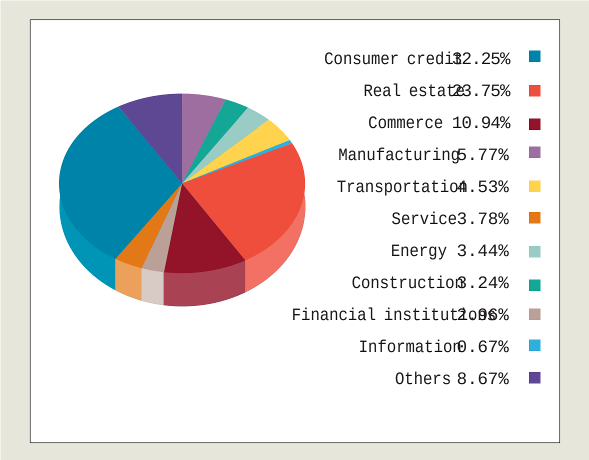
In respect of sector analysis, loans granted by the domestic operations to commerce, energy, transportation and light industry accounted for a large proportion of the balance at year-end. In 2001, while further reducing the proportion of loans made to the commerce and textile sectors, the domestic operations increased those to the more attractive transportation and real estate sectors. This improved the structural breakdown of our loan portfolio as a whole.

Loans extended by overseas operations to the consumer credit, real estate and commercial sectors accounted for a large proportion of the balance at year-end. The proportion of consumer credit grew by 1.95 percentage points over the previous year-end.

Sector structure of domestic loans



Sector structure of overseas loans



Market Risk

Interest rate risk

■ Renminbi interest rate risk

In managing Renminbi interest rate risk, the Bank monitors closely the direction of Renminbi rates, adjusting the asset and liability structure and matching the terms of contracts, so as to minimize our risk exposure.

Although the base rates and methods for the calculation and settlement of interest on Renminbi deposits and loans are fixed by the Central Bank, the Bank is allowed to adjust the rates on loans to customers within a range of 10% of the benchmark and with an interest ceiling of 30% on loans to small and medium-sized enterprises.

■ Foreign currency interest rate risk

In 2001, the US Federal Reserve successively cut federal funds rate, as a consequence, increasing the volatility of interest rates in other major currencies in the international market. Based on the changes in interest rates in the international market, the Bank rapidly adjusted the interest rates on deposits and loans in foreign currencies and the authorization of the interest rates applied to deposits and loans by all branches. At the same time, we worked hard to ensure that the quotation given for foreign currency deposit and loan rates closely kept up with market conditions, so as to reduce interest rate risk. It is estimated that the margin between newly made foreign currency loans and wholesale deposits received in foreign currencies fundamentally remained stable for the whole year. Moreover, we proactively used financial instruments to control and mitigate the foreign currency interest rate risk in the international market.

Our overseas operations, that have large foreign currency loans and deposits, take active measures to manage their risks. They track the changes in market rates and analyse interest rate sensitivity gap. They also adjust the asset-liability structure and use various financial instruments to control and hedge interest rate risk.

In 2002, we will develop a unified internal funds transfer pricing system that reflects market rates, and facilitates the effective transmission of information on interest rate risk between Head Office and the domestic and overseas branches. Under this system, the interest rate risk of the branches at all levels will be pooled into Head Office, who then will use financial instruments to hedge the risk in the international financial market.

Exchange rate risk

Our principle in controlling exchange rate risk is to match the outstanding balances of assets and liabilities in each currency, and keep our exchange rate risk to an acceptable level. We established risk limits in line with our risk appetite and in accordance with the supervisory requirements and specific circumstances. We also adjusted the source and application of funds so as to minimise our risk exposure. In year 2001 we made preparations to measure and supervise the exchange rate risks by introducing advanced market risk management systems.

The Bank exercised strict control over its foreign currency dealings. Limits of authority are set for both dealings on behalf of customers and on our own account, e.g. interbank lending, securities transactions, foreign exchange, precious metals, derivatives and repurchase transactions. This authority covers the type, term, objects, limit and the level of the interest rates. We also tightened the controls over the authorization of treasury transactions for the domestic and overseas operations. The authority for transactions conducted by the branches directly under Head Office is delegated by Head Office and prior approval from Head Office is required. In addition, we set strict authority limits for dealers at different levels in terms of transaction types, limits, currencies, counterparties, gapping levels and stop losses. No one is allowed to conduct a transaction without authorization or beyond the limits of their authority.

In executing debt hedging, foreign exchange transactions and foreign exchange options for customers, we carefully analyse and examine the creditworthiness of the customers in order to avoid a situation in which the Bank is obliged to bear the market risk due to the failure of customers to meet their obligations. For some customers, the Bank will collect cash collateral against outstanding transactions, based on their creditworthiness. In terms of internal management, we have clear segregation between the dealers handling our proprietary trading and those acting for customers. The latter separately record their transactions, and profits and losses for each customer. We also rigorously monitor transactions made on our customers' behalf.

Liquidity Risk

Our aim in liquidity management is to ensure the availability of adequate liquidity at all times, so as to meet the needs for payments on deposits and other liabilities as they fall due as well as the development of asset based services.

Renminbi liquidity

We make great efforts to receive deposits and ensure that core deposits constitute the major source of our long-term funding. We closely track the trends in customer deposits and their term structure. We actively participate in the financial market and use interbank borrowing and bond repurchases as means of supplementing our source of funds. In addition, we set a minimum level for liquid assets, and have proactively expanded our investments in bonds with high liquidity to improve the overall liquidity of our asset portfolio.

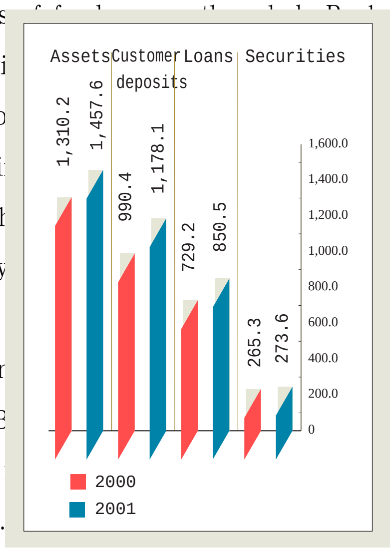
With regard to the liquidity management system, we use a centralized liquidity system, under which, Head Office is able to balance the surpluses and shortfalls
If a branch has surplus liquidity, it can place the spare funds wi
liquidity of a branch falls below the required level, it can borro
needs cash to make payments, Head Office can channel the requi

In 2001, we refined the liquidity monitoring method such
monitoring the trends in cash flows and the changes in liquidity
predict Renminbi liquidity in the coming one to three months.

In addition, we established a standby contingency financin
channels including loans from the Central Bank, the Central B
lending and bond market, our focus of financing further shifted
Bank to the domestic bond market and interbank lending market.
growth, we spread our relevant financing needs across a variety of financing channels.

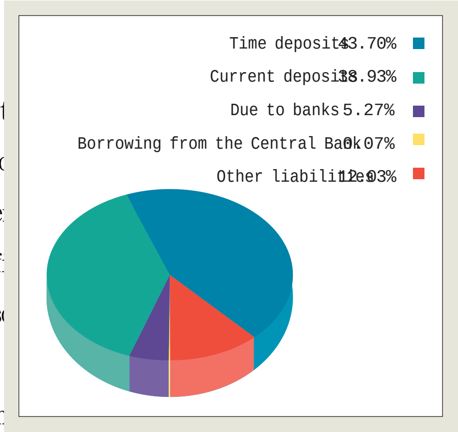
Renminbi assets, customer deposits, loans and securities of domestic operations

In billions of RMB



The year 2001 saw a rapid growth in our Renminbi deposits and liquidity.

Renminbi liability structure of domestic operations



Foreign currency liquidity

Head Office implemented a unified system and the cent
holdings by the domestic branches. Each branch was resp
foreign currency liquidity, in accordance with the requireme
foreign currency assets and liabilities laid down by Head Off
foreign currency positions in each currency on a daily basis, s
manage the overall surplus or shortfall of funds.

We place the following requirements on liquidity manage
the liquidity ratios set by the local regulatory authorities; (2) the terms of fund source and application should be matched; (3) appropriately increase holding of financial products such as bonds which have good liquidity and can be used as financing collateral.

The foreign currency liquidity of the whole Bank is managed by Head Office. To ensure that the Bank can always meet its foreign currency payments, Head Office holds sufficient foreign currency assets that match the volume and currency structure of payments in foreign currencies, and have high credit ratings and strong liquidity. Such assets mainly comprise inter-bank lending and government bonds.

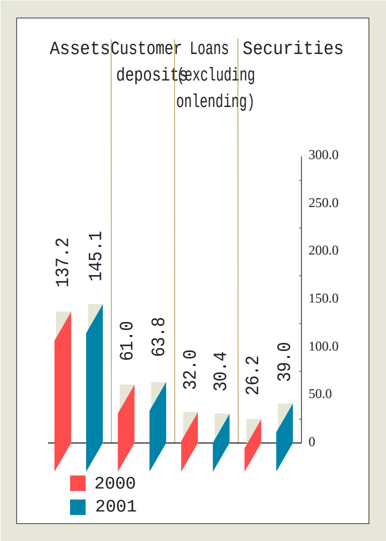
The year 2001 saw a steady growth of foreign currency deposits. However, the demand for foreign currency loans remained weak. As a result, the Bank channeled large amount of foreign currency funds into the international financial market, thus maintaining good liquidity.

Operational risk refers to the risk of direct or indirect losses arising from defects or errors in internal procedures, personnel or systems, or from external events.

To prevent operational risk and ensure that operations act legally and in compliance with regulatory requirements, we improved our internal control systems in line with the operations of modern commercial banks. Following the principles of regulations, giving guidance and using review techniques to ensure the appropriate implementation, we, through the process of upgrading our relevant rules and regulations, improved our operating infrastructure. We also urged responsible departments to provide more detailed guidance for their implementations so that the internal control systems were enhanced at the level of every business process and each operational link.

Foreign currency assets, customer deposits, loans (excluding onlending) and securities of domestic operations

In billions of US$



Liquidity indicators of domestic operations between 1999 and 2001

Items		2001	2000	1999
Loans/deposits(%)	RMB	71.6	73.6	84.4
	Foreign currencies	47.7	52.5	87.5
Liquid assets[1]/total assets(%)	RMB	15.7	20.8	19.4
	Foreign currencies	44.2	47.3	38.8
Liquid liabilities[2]/total liabilities(%)	RMB	45.9	52.7	52.6
	Foreign currencies	36.4	43.2	47.7
Liquid assets/liquid liabilities(%)	RMB	34.6	40.9	38.2
	Foreign currencies	150.5	124.4	92.2

Notes: 1. Liquid assets include cash, due from central banks, due from banks, bill discounted and debt securities.

2. Liquid liabilities include due to central banks, due to banks, current deposits and remittances.

Operational Risk

Meanwhile the Bank took more serious measures against misconduct or violations. It carried out special examinational reviews and rectification actions and punished violators severely, thereby preventing fraud and malpractices effectively and curbing the growing momentum of illegal cases. Historical cases like the embezzlement by several former heads of the Kaiping Sub-branch of Guangdong Branch was brought to light during the internal restructuring of the Bank. These measures helped to promote the building of a good corporate governance framework and enhance risk management and internal controls.

In connection with our decision-making processes, Head Office and the domestic branches have established independent due diligence teams, risk management committees, procurement review committees and asset disposition committees since 2000, making both credit extension, wholesale procurement and asset disposition decisions more scientific and transparent. As a result, we were able to ensure sound operations and compliance with the regulations. In May 2001, we started to study the feasibility of re-engineering our management and business processes. After repeated studies, we formulated an overall plan, laying a foundation for the separation of the front, middle and back offices, a flat management structure, effective risk management and optimal resource allocation. With the benefit of the experience gained from the restructuring of the BOC Group in Hong Kong, we made a preliminary study on establishing an operational risk management system. In parallel, we accelerated the reform of the information technology infrastructure and the construction of regional information centres. Our persistent efforts in integrating and standardizing information systems will provide comprehensive and reliable data and information support for good internal controls.

We actively supported the regulatory authorities in their investigations into, and supervision over, our domestic and overseas operations. We also implemented recommendations and executed remedial actions where necessary in conformity with the latest international regulatory requirements, including those related to anti-money laundering and Bank Secrecy Act. In dealing with the criticized activities of the management of the New York Branch between 1991 and 1999, the Bank, following the requirements of the regulatory authorities of the USA and China, took powerful remedial measures to rectify matters including the reassignment of the management of the Branch and punishment of the people held responsible. The non-performing loans and losses thus arising have been written-off or restructured, with the provisions being set aside in full, according to prudent accounting principles and the relevant regulatory rules. Over the past 18 months, the New York Branch made considerable efforts to carry out the Action Plan and both regulatory authorities confirmed such efforts. Our domestic and overseas operations will learn from the lessons arising from the New York Branch experience and work to eradicate the roots of such problems.

Audit

In 2001, we upgraded the quality and efficiency of our audit function and gave priority to areas such as computer applications and management, and the audit of new business lines and high-risk areas. We undertook 8,522 various inspections and conducted comprehensive audits of 4,160 lower-level branches (excluding deposit-taking offices), accounting for some 49.8% of the total. This figure included 79% of the second level branches, 70% of sub-branch offices, and 41% of business offices (processing offices).

We pushed ahead with the reform of the audit system in 2001 in line with the principles of being a vertical and independent process. Out of the 32 domestic major branches, 21 established audit centres under vertical management of the branches; 11 operated under the model of large audit operations, with an additional establishment of 94 regional audit centres and eight city audit centres under the major branch audit centres, finally in 2001 we appointed a group of chief auditors and other auditors familiar with banking management and operations. Meanwhile, it was clarified that the chief auditors of the major branches reported directly to Head Office which in turn has enhanced the independence of the chief auditors and helped in the evaluation of their day-to-day work. In addition, we completed the groundwork preparations for the establishment of three overseas regional audit centres. At present, the American Audit Centre and European Audit Centre have started operations, and the Asia-Pacific Audit Centre will commence operations in the first quarter of 2002, its operational model being already defined. The overseas audit centres, following the relevant management regulations stipulated by Head Office, have further tightened the supervision and management of the overseas branch offces.

Strategy risk refers to risks caused by the operational decisions made by senior management. To guard against such strategy risk, we organized an international consulting team to provide good advice to our top management for their decision-making procedures. We put forward clear-cut development strategy: "exploit competitive advantages, effectively allocate resources and build good corporate governance as soon as possible." With these principles, prioritizing some areas relative to others, we will bring into full play our overall advantages and team spirit. Taking this approach we believe that our strategy risk is manageable to an acceptable level.

Strategy Risk

In the face of the challenges following China's WTO accession and the intensified competition for talent, the Bank made in 2001 bold steps forward in designing a new approach to developing and managing its human resource.

The major restructuring has been to recognize that good corporate governance requires processes based on merit, with good rewards for those who achieve targets and a disciplinary code for failure to comply with the procedures and expectations of the Bank. In the future, the winners will be those organizations which optimise the performance and development of their human resource. The Bank has implemented four measures in regard to human resource management, with the overall aim to retain, train and make the most of the talent of its staff by giving them opportunities to develop their careers, providing with them appropriate compensation and first-rate training, and creating a caring environment. This will provide a strong talent pool to support the building of BOC into a world class international bank.

Improving performance evaluation

In 2001 the Bank successfully established a performance evaluation system with top-down target setting and enhanced performance evaluation supported by new reward and disciplinary mechanisms. Based on previous experience, Head Office has improved its evaluation methods and unified the standards for performance evaluation across the Bank. During 2001, Head Office completed the biannual evaluation of both the domestic provincial branches and departments directly under Head Office, as well as the review of the overseas operations for the first time.

Based on the results of the evaluation, we have been able to begin differentiating between the performance of employees at all levels and accordingly have rewarded, utilized, compensated, disciplined or trained them appropriately. This contributed to the development of a performance-based

culture, with more focus and motivation towards work tasks, a higher sense of belonging, a deeper sense of responsibility and accountability, and a higher motivation towards self improvement.

Reforming the personnel system

The Bank has researched and learned from the experience and processes applied in major international banks to promote changes in human resource management. We proactively brought in more young professionals with expertise. In the overseas operations this included the introduction of senior management with international backgrounds. Over the prior year we hired eight foreigners as senior managers in our overseas operations. At the same time, the majority of our domestic branches used market competitive methods to recruit middle-level managerial posts. In 2001, 47% of newly appointed middle-level managers in the domestic provincial branches were selected in this way; and the ratio rose to 94% for the appointment of the heads of lower-level local operations. In addition, the Bank accelerated its efforts to train and develop exceptional young talent and to rapidly develop their experience. This is achieved through transparent selection criteria, exchange programmes, job rotation, working abroad, full-time training, academic study, on-the-job training, and through organizing Youth Study Groups.

Accelerating the use of performance based rewards and optimizing our personnel structure

In 2001 the Bank pledged to create a reward system that fully reflected individual performance. The process aimed to increase the proportion of income directly associated with performance, so that an employee's salary was linked with his business unit's operational results, his own skills, responsibilities and performance. Meanwhile, we also made attempts to recognize the different characteristics of different departments and modify the reward system so that it is more aligned to the needs of our business development.

The Bank also strove to optimise its staff structure. Whilst recruiting and retaining high quality personnel, it introduced disciplinary measures to address non-performers with a view to retaining only the best staff and creating an environment of development and growth.

Offering more depth and quality in training

In 2001 the Bank established and strove to continuously improve its vigorous, business-congruent, and standardized training system which covers all employees. The training approach includes the strict selection of appropriate candidates, ongoing supervision during their training, and training appraisal and follow-up examinations. Accordingly, we have set up training records for the staff, provided feedback and more detailed evaluation, in order to better use our training resources. In 2001, Head Office and provincial branches held 1,728 domestic training programs; institutions below the second-level branches held 4,769 training seminars, encompassing a total of 109,925 attendees. Our overseas training programs numbered 43, covering 1,135 attendees. Head Office also invited professors from famous American universities, experts from international accounting firms, and leading international banks to teach relevant courses.

Cooperation between the Bank and famous universities in China and abroad has continued. The graduate programme for business administration initiated jointly with one of China's most prestigious universities, Tsinghua University was formally inaugurated with 52 students joining the programme; and the Bank has signed an agreement to develop Executive MBA programmes together with Shanghai University of Finance and Economics as well as City University, London.

The Bank applied four measures in order to reinforce its targeted staff retention policy.

Firstly, We would like to make the employees be confident of the future of BOC, and feel unbounded in their chances for career development. They will be proud of working for the Bank and develop a sense of responsibility and ownership with the Bank's vision and operations. The Bank is now pushing forward with corporate governance based initiatives, which will provide a broad basis for the development and growth of our talented people. The Bank has set up people development programmes like "Talent Pool", Youth Study Groups and a Young Banker's Association, to facilitate the devotion of more resources to training the excep-

tionally talented young staff and helping them develop their extraordinary talent and work in building a future together.

Secondly, we have worked hard to create an exciting working environment and to develop an

Focusing on Retaining and Developing Quality People

ethical and cohesive corporate culture. The aim is that employees have stronger loyalty to BOC and a greater sense of belonging, in particular, where managers care about the growth and development of subordinates. Management frequently communicate with staff members and listen to ideas and suggestions from their subordinates; they try hard to address the staff's particular situation, so that they can focus clearly on their work. As a result, staff morale has been enhanced by a feeling of warmth towards the BOC family, which has fuelled their passion for work and encouraged them to strive for better performance.

Thirdly, we intend to retain employees through fair compensation, which has required the reform of the reward system. We rewarded those units and employees with outstanding performance and punished those with poor performance or improper behaviour. Meanwhile, to further increase the effectiveness of our measures, the rewards for those with special expertise, in areas such as treasury, information technology, international settlements and customer relationship management, will be adjusted to prevailing market levels. We are planning to reform our pension schemes and medical insurance programs to further improve staff welfare. To assist new employees in funding housing, we will introduce a new policy of mortgage subsidies.

Fourthly, we made full use of training resources, both internal and external, to extend training in specialized areas to all staff, to help them improve their professional skills and to realize their own value through developing the enterprise as a whole. To help develop employees, we have arranged full-time study courses for them, arranged for them to work overseas, and sent them to study for MBA and other degrees in both domestic and foreign universities. We have also encouraged their part time study with financial support and other supportive policies. We have launched online training, offering courses to learn English, computer related topics, management and banking practices. At the same time, we have made special training plans for exceptional individuals in order to prepare a pool of outstanding financial professionals to support our future development.

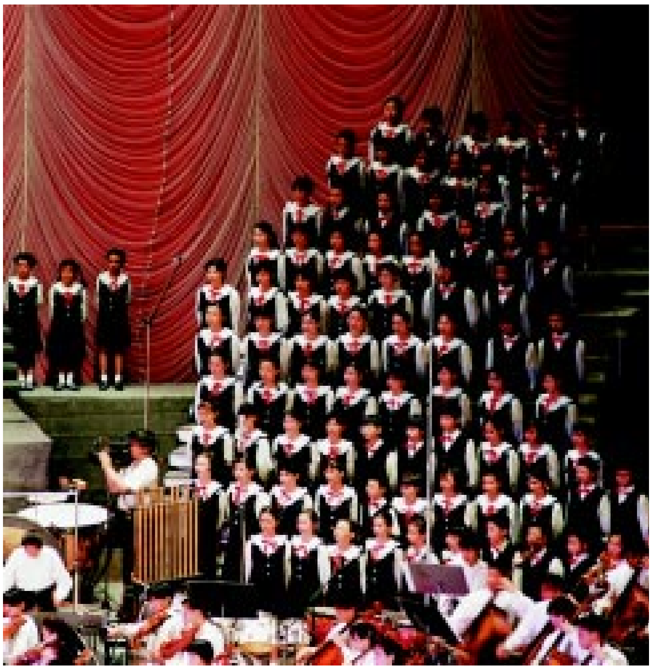
In 2001, as part of a policy of embracing good corporate governance, BOC focused on public welfare as a key responsibility. Over the year, the branches and staff both at home and abroad actively participated in public welfare through a variety of means including sponsorship, donations and aid to the poor, and made their contribution in the fields of poverty alleviation, disaster relief, environmental protection, culture and education as well as improving the living conditions of the disabled.

Over the seven years from 1994 until now, BOC has donated money totaling RMB7.65 million and an additional RMB0.25 million in kind to support education in Longyan, Fujian Province. Our donations were mainly used to set up schools of Project Hope, bringing benefit to almost 10,000 students and with a far-reaching impact on the education of this poverty-stricken area. In 2001, the

BOC and the Community

Bank initiated other charity programs like "Aid Student in Golden Autumn" and "Action of Spring Flower Bud", with a view to improving education facilities in schools of Project Hope and assisting the poor in gaining education through donations. BOC's donation for education received extensive social recognition.

In 2001, we contributed relief funds for areas struck by grave disasters like Fujian, Xinjiang, and our poverty alleviation programs drew favorable comments from society. We also donated money to relocation projects for migrants from the Three Gorges and also the Reservoir Area of the Dalian Yingna River, who warmly received our assistance.



In recent years, BOC has been sponsoring the National Ballet of China and the China Children and Young Women Chorus, contributing to the continuing development of Chinese art.

BOC's overseas branches actively involved themselves in local public welfare and charity activities. BOCHK's 2001 public welfare programmes mainly focused on environmental protection, tree planting in Hong Kong, and contributing to the improvement of society. BOCHK sponsored the Hong Kong Planting Day, becoming the diamond corporate member of the World Wildlife Fund Hong Kong. It also sponsored BOC Maipo Environmental Protection Tour for the second consecutive year and promoted an Award scheme for the Hong Kong Green School, among local primary and middle schools, in order to develop good habits in the area of environmental protection amongst children. BOCHK continued to provide subsidies and scholarships at six Hong Kong universities including the Chinese University of Hong Kong, and granted financial aid to four schools of Project Hope in the mainland.

In addition, BOCHK spared no efforts to support Hong Kong's sports development. It continued to sponsor Hong Kong's badminton development plan for the third straight year. From 1999, the participants who benefited from the plan amounted to 97,000, showing the public's tremendous enthusiasm for the plan. BOCHK also actively assisted in social schemes for charities and the public good, for example, participating in Casual Wear Day, Charity Marathon, and Concerted Efforts for

Public Welfare. Furthermore, BOCHK assisted in a pop song concert of Friends of Health Express to provide free treatment to cataract sufferers in the mainland.

Financial Statements

Auditors' Report

SPSSZ [2002] 100

TO: BANK OF CHINA

We have accepted the entrustment of the Bank of China and audited the accompanying balance sheets of the Bank and its subsidiaries (the Group) as of 31 December 2001 and the related profit and loss accounts for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an audit opinion on these financial statements. Our audit was conducted in accordance with Independent Auditing Standards of Certified Public Accountants of China and included such auditing procedures as sampling and others we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December, 2001 and the results of their operations for the year then ended in accordance with Accounting Standards for Business Enterprises and other related financial and accounting regulations stipulated by the Ministry of Finance and the People's Bank of China (refer to Notes II and III). The adoption of accounting policies conforms to the convention of consistency.

Shenzhen Pengcheng
Certified Public Accountants
Shenzhen, China
5 March, 2002

Rao Yong CPA (China)

Liang Feng CPA (China)

Balance Sheet

At 31 December	Note IV	Bank of China Group 2001	Bank of China Group 2000	Bank of China 2001	Bank of China 2000
Assets					
Cash	1	21,615	21,674	17,962	17,987
Due from central banks	2	133,662	147,828	129,456	143,328
Government certificates of indebtedness for notes issued	3	28,071	24,651	1,005	925
Due from banks and inter-bank placements	4	566,223	840,602	330,718	647,050
Investments	5	841,645	717,184	730,405	580,584
Accounts receivable	6	74,172	84,457	62,445	67,692
Bills discounted and trade finance related receivables	7	44,832	41,217	28,628	20,082
Loans and overdrafts	8	1,586,937	1,505,045	1,246,187	1,150,149
Less: provisions	9	73,237	48,227	50,940	24,257
Fixed assets	10	72,075	55,851	51,152	46,434
Construction in progress		7,526	9,624	7,467	9,530
Other assets	11	58,098	41,405	42,157	25,609
Total assets		**3,361,619**	**3,441,311**	**2,596,642**	**2,685,113**

(The accompanying notes are an integral part of the financial statements.)

in millions of RMB

At 31 December	Note IV	Bank of China Group 2001	Bank of China Group 2000	Bank of China 2001	Bank of China 2000
Liabilities					
Due to central banks	12	98,630	142,223	98,630	142,224
Bank notes in circulation	13	28,124	24,710	1,057	985
Due to banks and inter-bank placements	14	401,738	534,475	376,815	589,559
Customer deposits	15	2,477,143	2,390,440	1,798,864	1,685,479
Remittances	16	29,198	28,748	28,216	27,805
Accounts payable	17	78,723	84,577	60,230	65,415
Bonds issued		6,164	7,268	6,164	7,268
Other liabilities	18	20,808	20,340	8,114	5,593
Total liabilities		3,140,528	3,232,781	2,378,090	2,524,328
Minority interests		2,671	6,288	–	–
Owner's equity					
Paid-in capital	19	142,100	104,500	142,100	104,500
Reserves		68,412	90,019	73,806	54,409
Undistributed profit for the current year		7,908	7,723	2,646	1,876
Total owner's equity		218,420	202,242	218,552	160,785
Total liabilities and owner's equity		3,361,619	3,441,311	2,596,642	2,685,113

Profit and Loss Account

in millions of RMB

		Bank of China Group		Bank of China	
Year ended 31 December	Note IV	2001	2000	2001	2000
Interest income	20	133,195	168,316	95,519	107,852
Less: interest expense	20	82,265	115,050	61,307	73,609
Net interest income	**20**	**50,930**	**53,266**	**34,212**	**34,243**
Plus: other operating income	21	14,709	13,935	9,912	8,184
Less: turnover tax and surtax		4,643	5,289	3,916	5,226
operating expense	22	27,651	25,944	20,828	19,770
Operating profit before provisions		**33,345**	**35,968**	**19,380**	**17,431**
Less: provisions		23,194	24,791	16,963	15,088
Operating profit		**10,151**	**11,177**	**2,417**	**2,343**
Plus: non-operating income	23	763	700	691	458
Pre-tax profit		**10,914**	**11,877**	**3,108**	**2,801**
Less: corporate tax		2,761	3,919	462	925
minority interests		245	235	–	–
After-tax profit		**7,908**	**7,723**	**2,646**	**1,876**

(The accompanying notes are an integral part of the financial statements.)

Notes to the Financial Statements

(Unless otherwise indicated, RMB1 million is the currency unit)

I. Corporate profile

The Bank of China (the Bank) is a wholly state-owned commercial bank founded on 5 February, 1912. The Bank assumed the roles of a central bank, then transformed to a foreign exchange bank and later a specialized bank in trade finance in the early years before 1949. Following the founding of the People's Republic of China in 1949, the Bank was designated to be a specialized foreign exchange bank. The Bank was separated from the People's Bank of China on 13 March, 1979.

By 31 December, 2001, the Bank had 12,529 domestic branches and offices and 560 overseas institutions including the ones in Hong Kong and Macau.

The Bank has been granted a financial institution business license (B10311000001) by the People's Bank of China and an enterprise business license (1000001000134 (2-1)) by the State Administration of Industry and Commerce of the People's Republic of China.

Business scope:

Take in Renminbi deposits; grant short, medium and long-term loans; handle settlements; discount bills; issue financial bonds; issue and redeem on an agency basis and underwrite government bonds; trade in government bonds; execute inter-bank transactions; provide letters of credit related services and guarantees; collect payments and handle insurance business on an agency basis; and provide safe deposit box services.

Handle businesses in foreign currency: foreign currency deposits and loans; remittances in foreign currency; foreign exchange conversion; international settlements, inter-bank foreign currency loans; accepting and discounting of foreign currency instruments; foreign currency lending; foreign currency guarantees; foreign exchange purchases and sales; issuance and trading on a proprietary or agency basis of foreign currency securities other than equity ones; trading foreign exchange on a proprietary or agency basis; issuing of foreign currency credit cards and acting as agents in issuing and settling of payments relating to foreign credit cards; credit standing investigation, consulting and surety services.

Organize or participate in syndicated loans; trade international precious metals; conduct all such banking services as approved by the local laws in the overseas operation; and issue, or act as agents to issue, local currencies according to the local regulations and laws for the branches in Hong Kong and Macau.

Other business as approved by the People's Bank of China.

II. Basis of preparation

The financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises" of the People's Republic of China and the "Interim Approach to Financial Statement Consolidation for Wholly State-owned Commercial Banks" and other relevant accounting laws and regulations issued by the Ministry of Finance (the MOF) and the Peoples' Bank of China (the PBOC). The items are listed after re-categorizing in line with the Bank's requirements for internal accounting consolidation.

1. Method of consolidation of the financial statements

Basis of consolidation of the financial statements

The consolidated financial statements include those entities where the Bank has control. Control exists when an entity owns, directly or indirectly, over 50% of the voting rights of another entity; or has the effective power, directly or indirectly, to govern the financial and operating policies of another entity.

The method for the preparation of the consolidated financial statements

The consolidated financial statements comprise of those of the Bank and its relevant subsidiaries. The consolidation is performed after eliminating all inter-company transactions including important investments and transactions between the Bank and its subsidiaries, and after considering the equity and due earnings of any minority shareholders. The financial statements of the overseas subsidiaries are prepared in accordance with the accounting practices and policies of Head Office and the relevant local regulatory bodies, and are not further adjusted for within the consolidation.

The overseas operations described within the consolidated financial statements refer to the branches and subsidiaries existing outside the Chinese mainland.

2. Information about the consolidated subsidiaries:

Name of the companies	Date of registration/ establishment	Equity held	Contributed capital(in millions)	Major business activities
Bank of China (Luxembourg) S. A.	07.05.1991	99.99%	LUF250	Comprehensive commercial banking
Bank of China (Kazakhstan)	28.04.1993	100.00%	KZT1,051	Comprehensive commercial banking
Bank of China (Eluosi)	01.11.1993	100.00%	RUR109	Comprehensive commercial banking
Bank of China (Canada)	18.05.1993	100.00%	CAD58	Comprehensive commercial banking
Bank of China (Zambia) Limited	22.07.1997	99.99%	ZMK3,820	Comprehensive commercial banking
Bank of China (Malaysia) Berhad	16.12.2000	100.00%	MYR304	Comprehensive commercial banking
BOC Hong Kong (Group) Limited	12.09.2001	100.00%	HKD45,966	Holding company business
BOC International Holdings Ltd.	10.07.1998	100.00%	HKD3,539	Investment banking
BOC Group Investment Company	05.1993	100.00%	HKD200	Industrial investments and others
Tai Fung Bank Limited	1941	50.31%	MOP1,000	Comprehensive commercial banking
Hua Chiao Commercial Bank Ltd.	15.09.1961	93.65%	HKD400	Comprehensive commercial banking
Kwangtung Provincial Bank	1924	100.00%	RMB1,500	Comprehensive commercial banking

Except for the above subsidiaries, the Bank has other domestic non-financial institution subsidiaries. They are in the process of liquidation, and hence are not included within these consolidated financial statements.

3. The scope of the consolidated financial statements

Owing to the restructuring of the former Bank of China Group in Hong Kong in 2001, the Bank's consolidated accounts included Po Sang Bank Ltd., Chiyu Banking Corp. Ltd., Nanyang Commercial Bank Ltd., Hua Chiao Commercial Bank Ltd., Kwangtung Provincial Bank, BOC Group Investment Company and Tai Fung Bank Limited. Accordingly, certain amounts have been reclassified from the previous year's consolidated financial statements to be consistent with the 2001 basis of presentation.

After the restructuring, the assets and liabilities originally held by the Bank of China Hong Kong Branch have been assumed by the Bank of China (Hong Kong) Ltd. Therefore, the financial statements of the Bank on a standalone basis are also adjusted correspondingly.

III. The accounting policies and basis of estimation

1. Accounting principles

The financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises" of the People's Republic of China and other relevant accounting laws and regulations issued by the MOF and the PBOC.

2. Accounting year

The accounting year is from 1 January to 31 December of each calendar year.

3. Reporting currency and accounting principles for foreign currency denominated business

The Bank's reporting currency is RMB. Foreign currency business is recorded respectively, and the daily operations are booked in the original currency involved. For consolidation purposes, they are translated into RMB at the relevant exchange rates of the date of settlement.

4. Accounting basis

Unless otherwise stated, the accounts are prepared on an accrual basis and at historical cost.

5. Discounted instruments

The discounted instruments are recorded in the balance sheet at the discounted amount paid for the bills. The interest income of discounted instruments is calculated based on the discounted amount paid and the effective interest rate at the end of the month. Bills which have been subsequently rediscounted with the central bank or other financial institutions are appropriately derecognised.

6. Provisions for asset impairment

A provisioning method is used to calculate the losses arising from bad assets.

The general approach to provisioning for bad assets is in accordance with the requirements of the notice issued on the Management of Provisions Drawn for and Written-off of Bad Loans of the Financial Enterprises issued by the MOF (Caijin [2001] 127) during the year. Assets provided for include all loans and advances, discounted instruments, inward and outward documentary bills, overdrafts arising from bank cards, equity investments and debt securities (except for those accounted for based on the lower of cost and market value, and those investments in principal and interest on the treasury bonds purchased), interest receivable (excluding the interest receivable from loans) and inter-bank lending.

The Bank will no longer separately set aside provisions for bad accounts and the provisions for investments from this year forward.

The provisions for asset impairment (provisions for bad assets) are set at 1% of outstanding balance of assets mentioned above at the end of the year. Provisions written off in the year are replenished during that year and the additional provisions for bad assets arising during the year are recorded in the profit and loss account during that year.

The provisions for bad assets relating to the overseas operations include both general provisions and specific provisions. The general provisions of the overseas operations are calculated based on a provisioning percentage of 1.5% of all loans and the specific provisions are calculated dependent on the specific characteristics of such loans following analysis of the relevant risks for each loan. The provisioning rates used for the overseas operations are determined in accordance with the local requirements as indicated by the local regulatory bodies under whose supervision the relevant overseas operations conduct their business.

7. Investments

Equity investments

The equity investments of the domestic operations are stated at cost. For the overseas operations, the equity investments may be accounted for by reference to a cost based method and/or the equity method, in accordance with the relevant requirements of the local regulatory bodies.

For those investments held at cost, returns are recognised when the invested entities announce the issuance of a cash dividend.

The equity method recognises any post-acquisition net profit or loss arising. The returns are recognised through the due share of the profit or loss of the invested entities and the carrying value of the long-term equity investment is adjusted accordingly to reflect the changes in the net equity and any dividends to be paid at the end of accounting period. Upon disposal of any equity investments, the gain or loss arising is recorded in the profit and loss account for that year.

Debt investments

Debt investments only include debt securities and are calculated according to the actual cost paid.

Debt securities are classified according to the basis of the investment objectives. Bonds held to maturity are classified as investment bonds. Bonds purchased for trading purposes that can be sold at any time are classified as bonds for trading.

The interest income arising from debt securities is calculated regularly and is determined with reference to the face value and the coupon rate. Any premium or discount arising on the purchase of investment bonds is amortised to the profit and loss account on a straight-line basis. In disposing of debt securities, any gain or loss arising is accounted for in the profit and loss account for the year.

8. Fixed assets

Fixed assets refer to assets with unit value exceeding RMB2,000 that are used for more than one year. These include houses, buildings, machinery, vehicles and other equipment, appliances and tools related to the business operations. Major non-operational equipment with unit value exceeding RMB2,000 and with terms of service greater than two years are also treated as fixed assets.

The fixed assets are recorded on a historical cost basis. The depreciation rate is calculated using the straight-line method, dependent on the category of the fixed asset, estimated useful economic life and net salvage rate (3%).

Category	Term of service	Annual depreciation rate
Houses	30-35 years	2.77%-3.32%
Buildings	15 years	6.47%
Equipment	5-11 years	8.82%-19.40%
Computers	3 years	32.33%

9. Construction in progress

The construction in progress includes civil engineering and installation works that are planned, in the process of construction, or completed but not yet put into operation. The construction in progress is recorded at cost, which includes the amounts directly incurred in the construction process or purchase of the relevant assets, any interest costs relating to the funding of the project and difference of foreign exchange conversion occurred during construction, installation and testing, and deducts income generated before the delivery of the projects. The construction in progress is reclassified as fixed assets once used within the business.

10. Other assets

Other assets mainly include assets in the form of payments in kind, intangible assets, pre-operating expenses, leasehold improvement expenses, refurbishment expenses and rent paid in advance.

Intangible assets are recorded at cost. The intangible assets with a finite life are amortised on an average basis according to the legal term of service or benefits arising. The intangible assets without a finite life or term of benefit arising are amortised over not less than 10 years.

The pre-operating expenses are amortised on an average basis over not less than 5 years from the month of commencing operations. Leasehold improvement expenses are amortised on an average basis over the lease term from the month of benefits arising. Prepayments of rent are amortised on an average basis over the lease term as specified in the lease contract. Other long-term expenses of a similar nature are amortised on an average basis over the useful life.

11. Income recognition

The income is recognised on an accrual basis to the extent that the amount can be reliably calculated and relevant economic benefits are likely to be received.

The interest income from loans is recognised and calculated in accordance with notice of the Ministry of Finance on the calculation method of interest receivable for financial enterprises (Caizhengbu Caijin [2001] 25). The interest receivable from loans that is overdue for 180 days or less is recognised in the profit and loss account. The interest receivable from loans that are overdue for more than 180 days is not recognised in the profit and loss account for the period and is included in memorandum accounts off balance sheet irrespective as to whether the principal of the loans is overdue. The interest to be recorded in the memorandum accounts is recognised in the profit and loss account for the recovery period, as and when it is actually received.

From 2001, the interest receivable that is recognised in the profit and loss account prior to 31 December 2000, is written off gradually within 5 years in accordance with [2001] 25 document of the MOF.

Commission income is recognised when received or upon invoicing when the service has been appropriately provided.

12. Expense recognition

Unless otherwise indicated, the interest expense and other expenses are recorded on an accrual basis.

13. Tax

Category	Calculation basis	Tax rate
Turnover tax	Income from the financial business	7%
City maintenance and construction tax	Amount taxable based on 5% of the turnover tax taxable	1%, 7%
Additional education expenses	Amount taxable based on 5% of the turnover tax taxable	3%, 7%
Corporate tax	Income taxable	33%

The category of taxes taxable, taxation basis and tax rates of the overseas institutions are subject to the relevant local regulations.

Ⅳ. Notes to the financial statements

1. Cash

Items	31 December, 2001	31 December, 2000
Domestic operations:		
RMB	9,936	10,440
Foreign currencies	7,696	7,213
Overseas operations:		
Foreign currencies	3,983	4,021
Total	**21,615**	**21,674**

2. Due from central banks

Items	31 December, 2001	31 December, 2000
Domestic operations:		
Deposit reserves	115,966	133,890
Fiscal deposit with the Central Bank	72	77
Foreign currency deposit with the Central Bank	10,126	9,361
Overseas operations:		
Due from overseas central banks	7,498	4,500
Total	**133,662**	**147,828**

3. Government certificates of indebtedness for notes issued

Bank of China (Hong Kong) Ltd. and Bank of China Macau Branch are the note issuing banks of BOC Hong Kong Dollar notes and Macau Pataca notes respectively. They submit bank note issuing reserves with the Governments of SARs according to their requirement. This is reflected in the Balance Sheet as Government certificates of indebtedness for notes issued.

4. Due from banks and inter-bank placements

Items	31 December, 2001	31 December, 2000
Due from banks	86,324	32,971
Inter-bank placements	479,899	807,631
Total	**566,223**	**840,602**

5. Investments

Items	31 December, 2001	31 December, 2000
Equity investments	23,033	20,282
Debt securities		
Domestic operations:		
Investment securities	589,898	482,342
Trading securities	6,418	52
Overseas operations:		
Debt securities	222,296	214,508
Sub-total	818,612	696,902
Total	841,645	717,184

6. Accounts receivable

Items	31 December, 2001	31 December, 2000
Interest receivable	40,880	53,865
Other receivables	33,292	30,592
Total	74,172	84,457

7. Bills discounted and trade finance related receivables

Items	31 December, 2001	31 December, 2000
Bills discounted	15,947	6,151
Bills purchased	207	237
Inward and outward documentary bills	27,091	33,957
Others	1,587	872
Total	44,832	41,217

8. Loans and overdrafts

(1) Currency structure of the loans

Currencies	31 December, 2001	31 December, 2000
RMB	835,629	722,861
HKD	323,330	315,920
USD	326,004	366,049
JPY	25,802	32,400
Other currencies	76,172	67,815
Total	1,586,937	1,505,045

(2) Maturity of the loans

Maturity	31 December, 2001	31 December, 2000
Within 1 year	938,765	719,644
1-5 years(excl.)	237,731	303,289
5 years or more	410,441	482,112
Total	1,586,937	1,505,045

(3) Sector structure of the loans

Sectors	31 December, 2001	31 December, 2000
Manufacturing	336,965	313,541
Commerce	129,062	118,856
Real estate	167,140	198,810
Others	953,770	873,838
Total	1,586,937	1,505,045

9. Provisions

Items	31 December, 2001	31 December, 2000
General provisions	30,702	27,097
Other provisions	42,535	21,130
Total	73,237	48,227

10. Fixed assets and accumulated depreciation

Items	31 December, 2001	31 December, 2000
Buildings	68,662	54,252
Furniture and equipment	24,340	22,156
Others	512	484
Original value of fixed assets	93,514	76,892
Less: accumulated depreciation	21,439	21,041
Net value of fixed assets	72,075	55,851

11. Other assets

Items	31 December, 2001	31 December, 2000
Intangible assets	2,475	2,431
Deferred assets	2,883	2,796
Precious metals	2,286	2,286
Disposals of assets	2,955	1,451
Debt payments in kind	12,030	7,192
Subsidiaries' assets*	15,452	14,937
Others	20,017	10,312
Total	**58,098**	**41,405**

** Subsidiaries' assets refer to the assets of the non-financial institution subsidiaries, which were included in the consolidated account, of the overseas operations of the Bank.*

12. Due to central banks

Items	31 December, 2001	31 December, 2000
Borrowings from central banks	7,341	22,297
Special foreign exchange deposits of the government bodies	91,289	119,926
Total	**98,630**	**142,223**

13. Bank notes in circulation

Bank notes in circulation refer to the liabilities in the BOC Hong Kong Dollar notes and Macau

Pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Ltd. and BOC Macau Branch.

14. Due to banks and inter-bank placements

Items	31 December, 2001	31 December, 2000
Due to banks	91,256	33,549
Inter-bank placements	310,482	500,926
Total	**401,738**	**534,475**

15. Customer deposits

Items	31 December, 2001	31 December, 2000
Domestic operations:		
Corporate demand deposits	397,755	362,687
Corporate time deposits	223,007	179,024
Savings demand deposits	201,745	155,228
Savings time deposits	824,698	738,222
Other deposits	67,982	166,834
Sub-total	1,715,187	1,601,995
Overseas operations:		
Savings deposits	229,423	168,061
Time deposits	488,820	549,763
Demand deposits	25,655	23,498
Other deposits	18,058	47,123
Sub-total	761,956	788,445
Total	**2,477,143**	**2,390,440**

16. Remittances

Items	31 December, 2001	31 December, 2000
Outward remittances	25,187	25,339
Inward remittances	1,711	2,079
Promissory notes issued	2,300	1,330
Total	**29,198**	**28,748**

17. Accounts payable

Items	31 December, 2001	31 December, 2000
Interest payable	34,343	49,178
Other accounts payable	44,380	35,399
Total	**78,723**	**84,577**

18. Other liabilities

Items	31 December, 2001	31 December, 2000
Turnover funds on staff housing	175	134
Subsidiaries' liabilities*	11,707	12,284
Others	8,926	7,922
Total	**20,808**	**20,340**

* *Subsidiaries' liabilities refer to the liabilities of the non-financial institution subsidiaries, which were included in the consolidated account, of the overseas operations of the Bank.*

19. Paid-in capital

With the approval (Caijin [2001]48) of the Ministry of Finance, the Bank added reserves of RMB37.6 billion to its capital base so that its paid-in capital increased to RMB142.1 billion in 2001.

20. Interest income, interest expense and net interest income

Items	2001	2000
Interest income		
Interest income from loans	75,013	94,039
Interest income from inter-bank placements	27,429	47,658
Interest income from securities	30,753	26,619
Total	133,195	168,316
Interest expense		
Interest expense on customer deposits	65,839	83,313
Interest expense on inter-bank placements	16,051	31,221
Interest expense on the bonds issued	375	516
Total	82,265	115,050
Net interest income	50,930	53,266

21. Other operating income

Items	2001	2000
Fee & commission income	8,495	11,489
Less: fee & commission expense	1,755	2,270
Net fee & commission income	6,740	9,219
Income from treasury business	5,210	3,284
Investment income	2,607	807
Others	152	625
Total	14,709	13,935

22. Operating expense

Items	2001	2000
Personnel expense	11,981	10,179
Business expense	11,033	10,918
Depreciation	4,637	4,847
Total	27,651	25,944

23. Non-operating income

Items	2001	2000
Non-operating income		
Income from disposal of fixed assets	389	971
Penalty related income	29	20
Other income	1,321	853
Total	**1,739**	**1,844**
Non-operating expenditure		
Loss items	317	90
Losses relating to the disposal of fixed assets	32	35
Penalties and fines	21	52
Charitable contributions	4	14
Other expenditure	602	953
Total	**976**	**1,144**
Net non-operating income	**763**	**700**

Ⅴ. Commitments and contingent liabilities

Items	31 December, 2001	31 December, 2000
Confirmed letters of credit	1,201	794
Acceptances	72,696	65,127
Letters of credit issued	62,034	61,509
Letters of guarantee issued	150,550	163,578
Total	**286,481**	**291,008**

(If there is any difference and/or dispute between Chinese version and English version of the annual report, the Chinese version will apply.)

Branches and Sub-branches Authorized to Handle International Business

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SWIFT: BKCH CN BJ 530
TLX: 46053 ZHBOC CN
TEL: (86) 0371-5728288
FAX: (86) 0371-5724678
POST CODE: 450008

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, 82830990
FAX: (86) 027-82838479, 82836383
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
127 FURONG MIDDLE ROAD,
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 YIXI STREET, DONG SHENG
DISTRICT ERDOS CITY 017000,
INNER MONGOLIA*, CHINA
SWIFT: BKCH CN BJ 89C
TLX: 850136 BOCDS CN
TEL: (86) 0477-8363266
FAX: (86) 0477-8324641
POST CODE: 017000

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

MANZHOULI BRANCH
28 ERDAO JIE, MANZHOULI 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) 025-4207888-30906
FAX: (86) 025-4208843
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) 0519-8108902
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: 36903 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) 0512-5113558-5266
FAX: (86) 0512-5118897
5228125
POST CODE: 215002

WUXI BRANCH
258 ZHONG SHAN ROAD,
WUXI 214002,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95C
TLX: 362090 WXBOC CN
TEL: (86) 0510-2705888
FAX: (86) 0510-2790673
POST CODE: 214002

YANGZHOU BRANCH
279 WEN CHANG MIDDLE ROAD,
YANGZHOU 225002,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95H
TLX: 364034 YZBOC CN
TEL: (86) 0514-7361060
FAX: (86) 0514-7361057
POST CODE: 225002

ZHENJIANG BRANCH
235 ZHONG SHAN ROAD,
ZHENJIANG 212001,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95D
TLX: 360029 BOCZJ CN
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FAX: (86) 0511-5023501
POST CODE: 212001

ZHANGJIAGANG SUB-BRANCH
45 REN MIN ROAD,
ZHANGJIAGANG 215600,
JIANGSU PROV., CHINA
SWIFT: BKCH CN BJ 95L
TEL: (86) 0520-8685888-2201, 2226
FAX: (86) 0520-8685888-2226
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) 0791-6471513
FAX: (86) 0791-6471515
POST CODE: 330002

JINGDEZHEN BRANCH
CI DU AVENUE,
JINGDEZHEN 333000,
JIANGXI PROV., CHINA
SWIFT: BKCH CN BJ 56A
TLX: 95207 BOCJD CN
TEL: (86) 0798-8525646
FAX: (86) 0798-8525646
POST CODE: 333000

JILIN PROVINCE

JILIN BRANCH
14 XINMIN DA JIE,
CHANG CHUN 130021,
JILIN PROV., CHINA
SWIFT: BKCH CN BJ 840
TLX: 83006 CCBOC CN
TEL: (86) 0431-5668847
FAX: (86) 0431-5645576
POST CODE: 130021

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) 0411-2803300
FAX: (86) 0411-2638648
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) 0411-2637504
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) 024-22857622
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) 0412-2225818
FAX: (86) 0412-2232217
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 BOCDK 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) 0415-2137721
FAX: (86) 0415-2122197
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) 0417-2834261
FAX: (86) 0417-2805147
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 DONGGUAN 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, XI'AN 710001,
SHAANXI PROV., CHINA
SWIFT: BKCH CN BJ 620
TLX: 70128 BOCXA CN
TEL: (86) 029-7264646, 7263020
FAX: (86) 029-7218223
POST CODE: 710001

SHANDONG PROVINCE

SHANDONG BRANCH
6 XIANGGANG ZHONG LU,
QINGDAO 266071,
SHANDONG PROV., CHINA
SWIFT: BKCH CN BJ 500
TLX: 32235 BOCQD CN
TEL: (86) 0532-5919201, 3861552
FAX: (86) 0532-5919201
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
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

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 200120, CHINA
SWIFT: BKCH CN BJ 300
TLX: 33062 BOCSH CN
TEL: (86) 021-38824588
FAX: (86) 021-64729384
POST CODE: 200120

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 038500,
SHANXI PROV., CHINA
SWIFT: BKCH CN BJ 69A
TLX: 291004 BOCPS CN
TEL: (86) 0349-2024719
FAX: (86) 0349-2020861
POST CODE: 038500

SICHUAN PROVINCE

SICHUAN BRANCH
35 MIDDLE RENMIN ROAD
(2 DUAN), CHENGDU 610015,
SICHUAN PROV., CHINA
SWIFT: BKCH CN BJ 570
TLX: 60143 BOCCD CN
TEL: (86) 028-6403252
6741950
FAX: (86) 028-6403365
POST CODE: 610015

CHENGDU SHUDUDADAO SUB-BRANCH
18 NORTH SHUMO THREE STREET,
CHENGDU 610016,
SICHUAN PROV., CHINA
SWIFT: BKCH CN BJ 58A
TEL: (86) 028-6717652, 6668221
FAX: (86) 028-6679727, 6676787
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) 0755-2288288
FAX: (86) 0755-2239383
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) 0755-6811848, 6815208
FAX: (86) 0755-6811849
POST CODE: 518067

TIANJIN CITY

TIANJIN BRANCH
80 JIEFANG NORTH ROAD,
TIANJIN 300040, CHINA
SWIFT: BKCH CN BJ 200
TLX: 23233 TJBOC CN
TEL: (86) 022-27102301, 27102329
FAX: (86) 022-23312809, 27102315
POST CODE: 300040

TANGGU BRANCH
29 DONG TING LU, ECNOMIC
AND TECHNOLOGICAL
DEVELOPMENT AREA,
TIANJIN 300457, CHINA
SWIFT: BKCH CN BJ 21A
TLX: 23185 BOCTG CN
TEL: (86) 022-25321445
FAX: (86) 022-25321445
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 UIGUR*

XINJIANG BRANCH
2 DONGFENG ROAD
URUMQI 830002,
XINJIANG UIGUR, CHINA
SWIFT: BKCH CN BJ 760
TLX: 79170 BOCXJ CN
TEL: (86) 0991-2336007
FAX: (86) 0991-2828619
POST CODE: 830002

KASHI BRANCH
53 RENMIN DONG ROAD
KASHI 844000,
XINJIANG UIGUR, CHINA
SWIFT: BKCH CN BJ 77A
TEL: (86) 0998-2825746, 2823867
FAX: (86) 0998-2825255
POST CODE: 844000

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) 0577-88262185
POST CODE: 325000

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#01-01MAXWELL HOUSE,
SINGAPORE 069113
TEL: (65) 2233466
FAX: (65) 2236601

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133 MIDDLE ROAD BOC PLAZA
SINGAPORE 188974
TEL: (65) 8328108
FAX: (65) 3382165

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188-192 EAST COAST ROAD
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TEL: (65) 4402440
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TLX: MA30733 BKCHMY
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FAX: (603) 21615150

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TEL: (612) 82355888
FAX: (612) 92621794
E-MAIL: bocsyd@bigpond.com

HAYMARKET BRANCH
681 GEORGE STREET SYDNEY N. S. W.
2000 AUSTRALIA
TLX: 177033 BOCSYD AA
TEL: (612) 92123877
FAX: (612) 92123962

MELBOURNE BRANCH
270 QUEEN STREET MELBOURNE VIC
3000 AUSTRALIA
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FAX: (613) 96023383

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WESTFIELD SHOPPING TOWN
PARRAMATTA N. S. W.
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