

# Message from the Chairman

I am pleased to report to our shareholders and members of the community the significant achievements we made in 2006. In 2006, Bank of China recorded an after-tax profit attributable to equity holders of RMB42.83 billion, an increase of 65.23% from the previous year, and an earnings per share (EPS) of RMB0.18. This result is well above our projected net profit attributable to equity holders of at least RMB33 billion and EPS of RMB0.14 at the time of our public listing. Operating income and operating profit before impairment losses on loans and advances rose, respectively, to RMB148.378 billion and RMB79.647 billion, an increase of 18.6% and 22.3% from their respective figures last year. Return on average total assets (ROA) and return on average equity (ROE) have reached 0.96% and 14.06%, respectively. While ensuring a steady increase in profitability, the Bank reduced both the overall balance and ratio of our impaired loans. As of the end of 2006, our impaired loan balance stood at RMB103.232 billion, a decrease of RMB6.298 billion from last year's end balance, and our impaired loan ratio decreased to 4.24% from 4.90%.

At the Annual Shareholders' Meeting on 14 June 2007, the Board of Directors will propose a cash dividend of RMB0.04 per share for the second half of 2006. The total amount of the cash dividend accounts for approximately 43.48% of distributable profit during the period, and is at the high end of the dividend payout ratio of 35%–45% that we announced when we went public.

2006 marked the first year of China's 11th Five-Year Plan, and China's economy continued to maintain steady and rapid growth, albeit some imbalances in the economic development have been noticed. The transformation process has started for the development mode of the Chinese economy to go towards quality, efficiency, cleanliness, safety, and the realization of growth in a fully harmonious and sustainable manner. China's financial market has been steady and buoyant, with ample liquidity in the money market and continued success in its banking reform.

Against these various opportunities and challenges, we continue to enhance our position as the premier bank in China and pursue our objective of becoming a leading international bank. In 2006, Bank of China became the first bank in China to be dual-listed in both the international and domestic capital markets, further increasing our capital strength and capital adequacy ratio. We have embraced the regulations of the banking industry and the capital markets and have delivered to our investors our first semi-annual and quarterly reports after IPO, with disclosure in a true, accurate, complete and

timely manner and in compliance with international regulatory standards. Cooperation with our strategic investors is bearing fruit. We have made substantial progress in business areas such as credit card, syndicated lending, and in the money and capital market operations, as well as in infrastructure areas such as risk management, internal control, financial management, human resources management, treasury, training, business organization structure, and information technology.

At the end of 2006, we acquired Singapore Aircraft Leasing Enterprise, a step forward in implementing our strategic plan of broadening our financial services platform. Internally, we have actively promoted strategic development of various business lines, advancing and further developing our risk management and internal control processes. We continued to deepen our reform effort of human resources management, established market-oriented remuneration system in domestic operations, and improved our incentive and accountability mechanisms. We strived to accelerate our IT blueprint implementation, achieving initial milestone in the development of the core banking system. We also had a bank-wide discussion on our core values to cultivate a common set of principles and code of conduct to meet the challenges arising from the public listing.

In the past year, we have continued to improve our corporate governance at all levels, which include the Board of Directors, Board of Supervisors, Senior Management, and Shareholders' Meeting. We appointed Mr. Patrick de Saint-Aignan and Mr. Alberto Togni as independent non-executive directors of the Bank, and Sir Frederick Anderson Goodwin and Mr. Seah Lim Huat Peter as non-executive directors. Following these appointments, the number of overseas directors increased to six – including four independent non-executive directors – substantially enhancing the operating standards of the Board of Directors towards the international standards.

Looking at the upcoming year, as China's market economy continues to develop, we are aware that we will be facing increasing competitive pressures from local and global foreign banks, as well as strict regulatory supervision from both financial regulators and capital market regulators. Accordingly, we are improving our corporate governance as a mean to maximize shareholder value, as well as focusing on internal reform, aiming at proactively adjusting our strategies, adapting to the new business environment, and enhancing our capabilities in innovation and competitiveness.

We will continue to focus on all business risks to ensure healthy and balanced development, and manage foreign currency exposure to mitigate the business impact of RMB appreciation. We will also expedite the re-engineering of our business process and the IT blueprint implementation towards a robust customer-centric platform enabling centralized business operation and multi-dimensional management of major business lines. Last but not at all least, we will diligently foster a corporate culture that nurtures honesty, efficiency, responsibility, innovation, and harmony, so as to promote the overall harmonious development of the Bank.

I would like to express my gratitude to our domestic and overseas clients, our shareholders, our peers and our friends who have supported the Bank during the year, and I hope to count on your continuing confidence and support. My thanks also extend to the Board of Directors, the Board of Supervisors and Senior Management, and to all the staff for their effort and dedication in a year that was filled with many challenges.



**Xiao Gang**  
*Chairman*

22 March 2007

