

# Message from the President

The year 2006 was a landmark in the development history of Bank of China. Having been listed successfully in both the domestic and overseas markets, as well as achieving initial success in our joint-stock reform, the Bank has entered into a new epoch in its development.

The Management has diligently implemented the development strategies adopted by the Board of Directors. Taking a proactive and balanced approach, the Management has adopted principle of scientific development to maximize the Bank's value and has met major business targets and goals set by the Board. As of the end of 2006, the Bank's total assets stood at RMB5,327.653 billion, total liabilities were RMB4,914.697 billion, and total shareholders' equity (including minority interests) was RMB412.956 billion, up 12.40%, 9.59% and 61.61% respectively over the end of 2005. The Bank generated after-tax profit of RMB48.264 billion (a year-on-year rise of 52.94%) in which the after-tax profit attributable to equity holders amounted to RMB42.83 billion, up 65.23% from the previous year. Earnings per share was RMB0.18, a rise of 28.57% over 2005. ROA was 0.96% and ROE was 14.06%, up 26 and 192 basis points over 2005, respectively.

The significant increase in profits in 2006 was mainly attributable to the rapid growth of net interest income and non-interest income, strict control of credit cost, effective management of market risks, further improvement of operating efficiency, decrease in the cost/income ratio, and a reduction of the effective tax rate.

Due to the fast growth of interest-earning assets and the significant role of active liability management to reduce funding costs, the Bank's net interest spread and net interest margin continued to widen, reaching 2.28% and 2.45% respectively, up 7 and 12 basis points over the previous year. The Bank's deposits in local and foreign currencies, loans, securities investments, and net interest income increased by 10.59%, 8.80%, 12.43% and 20.16% respectively.

Excluding the impact of the estimated losses on the net exposure of foreign currencies, the Bank's non-interest income accounted for 23.28% of its operating income, up 1.07 percentage points, with net fee and commission income growing by 54.89%. Additionally, the Bank's multi-faceted operation

platform was further expanded, with pre-tax profit from investment banking and insurance business rising by 188.62%, contributing 2.76% to the total profit, as opposed to 1.21% in the previous year.

In 2006, the Bank's asset quality continued to improve. Credit cost was controlled at 0.53%, with the ratio of impaired loans at 4.24%, down 0.66 percentage point from the end of the previous year. Special-mention loans decreased from 12.71% to 8.15% while the coverage ratio of impaired loans provision to impaired loans increased 15.42 percentage points to 91.34%. By way of exchange settlement, the Bank reduced net foreign currency exposure by USD10.1 billion, effectively lowering the exchange rate risk.

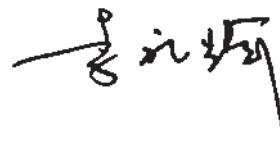
Operating costs also continued to be controlled effectively, with cost-income ratio decreased from 43.41% to 41.97%. Our effective tax rate in 2006 also declined from 41.35% in 2005 to 28.96%.

The Bank has promoted business cooperation with strategic investors and helped create powerful synergies. Cooperation between the Bank and RBS Group has made remarkable achievements in credit cards, syndicated loans, aircraft lease and financing, supply chain financing, private banking, risk management, personnel training and public relations. We have also achieved progress in cooperation with AFH, UBS, ADB, and NCSSF in the fields of small enterprise finance, investment banking, corporate governance and internal control.

In 2007, reform of the financial system will accelerate and China's banking sector will enter a new stage as the market becomes fully open to foreign banks and competition increases. In the face of such new opportunities and challenges, we will continue our efforts in

developing Bank of China into a leading international bank, and continue to refine our operating mechanisms and growth patterns. We will expedite our business process re-engineering and effectively implement the IT Blueprint. We will improve risk management and internal control. We will continue to enlarge our service platform with innovative products and services. We will increasingly focus on our strategic development, leadership enhancement, team building, and corporate culture practices. We will foster the business value one needs to be a market leader, to ensure a healthy, rapid and sustainable business growth.

On behalf of the Management, I would like to take this opportunity to express our sincere gratitude to the Board of Directors and the Board of Supervisors for the guidance and support; to the community at large for the trust and support; and to all our colleagues at home and abroad for the invaluable contributions. I firmly believe that with our concerted efforts, relentless drive, and continued pursuit of excellence, Bank of China can look forward to a bright future.



**Li Lihui**  
*President*  
22 March 2007

