



中國銀行
BANK OF CHINA

北京2008年奥运会银行合作伙伴
OFFICIAL BANKING PARTNER OF THE BEIJING 2008 OLYMPIC GAMES



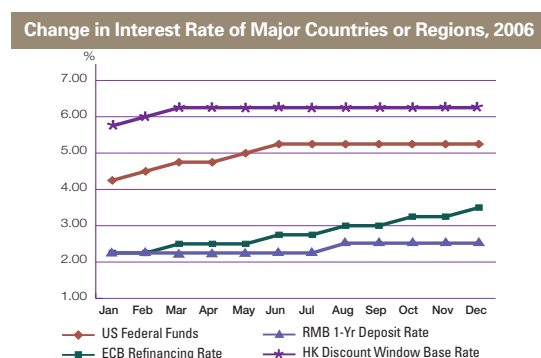
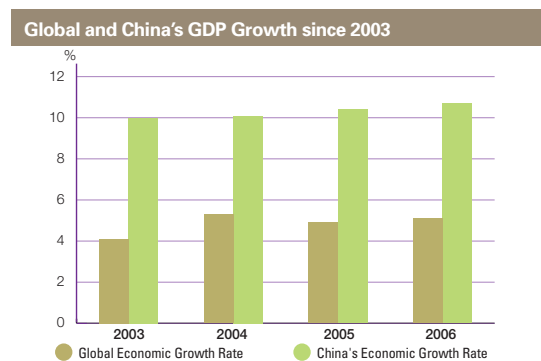
Management Discussion and Analysis

— Brief Review and Forecast on the Economic and Financial Environment

In 2006, the global economy achieved robust growth. According to the IMF, the global economy grew 5.1%, the second highest growth rate in 30 years. The Chinese economy continued to maintain its trend of steady expansion, with its GDP growing at 10.7%, the highest growth in 11 years. Foreign trade continued to grow rapidly. In 2006, China's foreign trade volume reached USD1,760.7 billion, up 23.8% year-on-year, with trade surplus hitting another record high of USD177.5 billion.

The international financial market developed soundly in 2006. The year witnessed the hikes and fluctuations of the prices for commodities such as oil and gold, the interest rate increases of major countries in succession, booming capital markets, while great developments were achieved in the international banking industry.

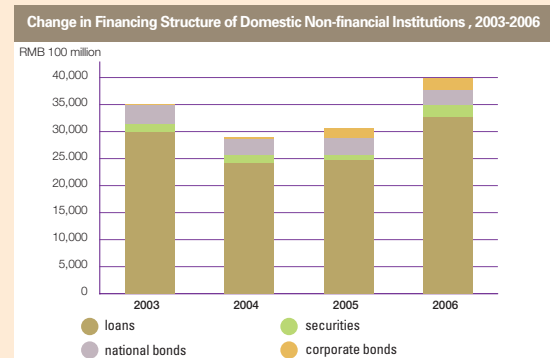
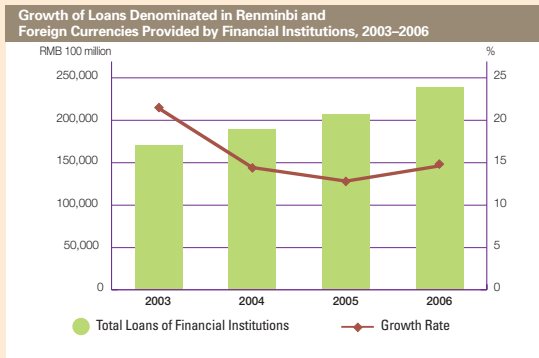
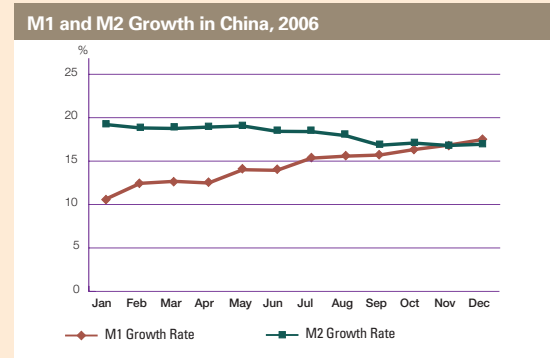
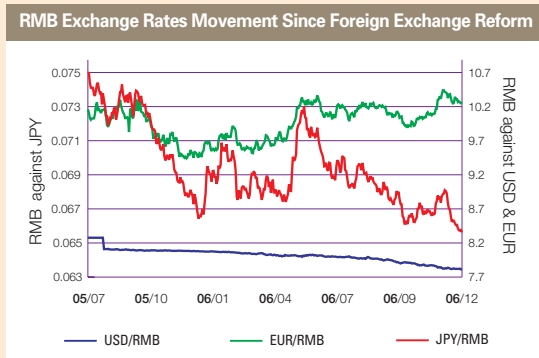
In 2006, China's financial market continued to run smoothly and actively as a whole. The exchange rate of RMB against USD became more elastic with a cumulative appreciation of about 3.35% in 2006. To prevent investment from overheating and strengthen liquidity management, the central bank adjusted the



deposit and loan rate twice, raised the deposit reserve ratio three times and issued targeted notes four times. In 2006, M2, RMB loans and RMB deposits by financial institutions increased by 16.9%, 15.1% and 16.8% respectively. The scale of the stock market expanded markedly with a total capital raised reaching RMB220.4

billion and the ratio of its market capitalization to GDP raised to 43.3% by the year-end. Bond issuance and trading volume of the bond market

were strong, with total raised capital amounting to RMB5,676.6 billion and its market value to GDP ratio going up to 44.8% at year-end.



The reform and opening-up of China’s banking sector made steady progress. Bank of China and Industrial and Commercial Bank of China were successfully listed in Hong Kong and Shanghai in 2006, setting new Global IPO records successively. China fulfilled its WTO commitment by fully opening up to foreign banks on 11 December 2006, embracing a brand new environment, in which Chinese and foreign banks are to compete fairly and develop jointly. By the end of the year, 29 foreign institutional investors had invested in 21 Chinese banking institutions. The number of foreign banks’ branches continued to increase and inter-bank competition tended to intensify continuously.

of global imbalance, the unabated global surplus liquidity, a possible slow-down of the US economy and shocks in capital markets after reaching new highs.

According to estimates of the IMF, global economy is expected to maintain a high growth rate in 2007, and will be able to reach 4.9%. However, risk is also increasing at the same time, mainly owing to the persistent broadening

China’s economy is expected to maintain a fast growth rate of around 8%, with the RMB exchange rate appreciating slowly and steadily, the capital market will grow deeper and broader, while competition between the banks will grow fiercer. Meanwhile, the government is expected to continue its stable and sound fiscal and financial policies, strengthen macro-economic control, put emphasis on limiting the scale of credit as well as fixed asset investment, promote gross economic balance by improving economic structures, and provide guidance and bring discipline to economic behavior by adopting more economic measures and legal methods.

Management Discussion and Analysis

— Financial Review

Summary of Financial Position and Results of Operations of the Group for 2006

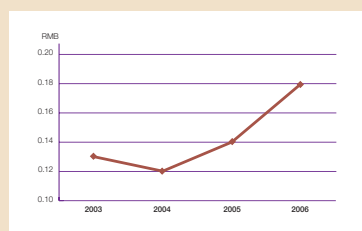
Profit after tax

For 2006, the Group earned a profit after tax of RMB48.264 billion, an increase of RMB16.706 billion (52.94%) compared to the prior year. Profit attributable to the equity holders of the Bank amounted to RMB42.83 billion, an increase of RMB16.909 billion (65.23%). These results exceeded the objectives in the budget approved by the Bank's shareholders and the profit forecast developed in connection with the Bank's IPO of its ordinary shares. The substantial improvement in profit after tax for the year was attributable to robust growth in operating income, improved operating efficiency, effective management of credit costs, and a decrease in the effective tax rate.



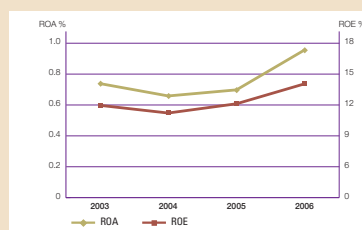
Earnings per share

For 2006, basic and diluted earnings per share was RMB0.18, an increase of RMB0.04 compared to the prior year. The capital raised in connection with the Bank's IPO in 2006, and the related listing of its ordinary shares on both the Hong Kong and Shanghai markets, further increased the Bank's capital base and ordinary shares in issue. Benefiting from the Group's strong profits, both the basic and diluted earnings per share increased compared to the prior year.



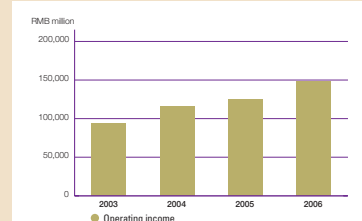
ROA & ROE

For 2006, return on average total assets was 0.96%, the highest level in the past four years, and return on average shareholders' equity was 14.06%. These amounts reflected robust increases of 0.26 percentage point and 1.92 percentage points, respectively, compared to the prior year.



Revenue growth

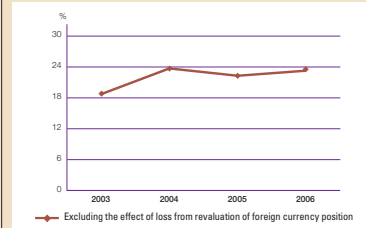
The Group achieved operating income of RMB148.378 billion, an increase of RMB23.272 billion (18.60%) compared to the prior year. This increase was primarily due to the continued increase in the average balances of loans and investment securities, as well as an increase in average yields. At the same time, the Group intensified its focus on developing fee-based businesses, and there was a continued improvement in net fee and commission income. Please refer to the "Net interest income" and "Non-interest income" sections for more detailed information.





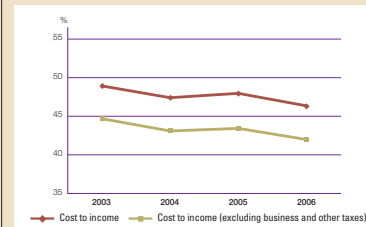
Non-interest income to operating income ratio

The Group recognized non-interest income of RMB27.007 billion in 2006, an increase of RMB2.909 billion (12.07%) compared to the prior year. The ratio of non-interest income to operating income was 18.20%, a decrease of 1.06 percentage points compared to the prior year. Excluding the effect of losses from the revaluation of foreign currency positions, this ratio was 23.28%, an increase of 1.07 percentage points.



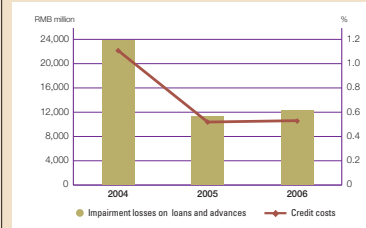
Cost to income ratio

The ratio of operating expenses to operating income was 46.32%, a decrease of 1.63 percentage points compared to the prior year. Excluding business and other taxes, the ratio was 41.97%, a decrease of 1.44 percentage points compared to the prior year. This decrease was mainly due to the effective control of operating costs, as well as robust growth in operating income. Please refer to the "Operating expenses and others" section for more detailed information.



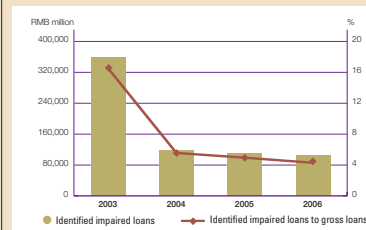
Credit cost

For 2006, credit cost was 0.53% of average loans and advances, an increase of 0.01 percentage point compared to the prior year. While the Group has increased the size of its loan portfolio in recent years, credit cost has been maintained at a relatively low level. Improvement in asset quality, resulting from continuous improvements in the Group's credit risk management processes, and diligent efforts directed at disposing of non-performing assets contributed significantly to the Group's ability to control credit costs. Please refer to the "Impairment losses on loans and advances" and "Risk management" sections for more detailed information.



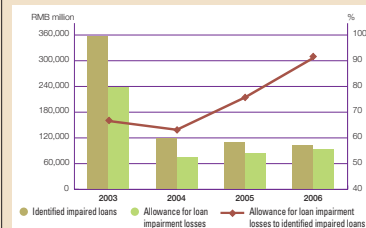
Identified impaired loans

At the end of 2006, identified impaired loans totalled RMB103.232 billion, a decrease of RMB6.298 billion compared to the prior year-end. The ratio of identified impaired loans to total loans and advances was 4.24%, a decrease of 0.66 percentage points compared to the prior year-end. The Group achieved its "dual decrease" objective of reducing both identified impaired loans and the ratio of identified impaired loans to total loans and advances. Please refer to the "Risk management" section for more detailed information.



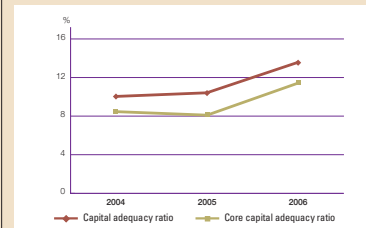
Allowance for loan impairment losses

At the end of 2006, allowance for loan impairment losses was RMB94.293 billion, an increase of RMB11.14 billion compared to the end of 2005. The ratio of the allowance for loan impairment losses to identified impaired loans was 91.34%, an increase of 15.42 percentage points compared to the prior year-end. Please refer to the "Risk management" section for more detailed information.



Capital adequacy ratio

At the end of 2006, the Group's capital adequacy ratio was 13.59% and its core capital adequacy ratio was 11.44%, representing increases of 3.17 percentage points and 3.36 percentage points, respectively, compared to those at the prior year-end. These ratios were the highest levels in recent years. This increase is primarily due to the significant core capital raised through the IPO and the decrease in the Group's net foreign currency exposure, which reduces the related market risk capital requirement. Please refer to the "Capital management" section for more detailed information.



Income Statement Analysis

Major items in the income statement are as follows:

Unit: RMB million

Group	2006	2005	2004	2003
Net interest income	121,371	101,008	88,435	76,597
Non-interest income	27,007	24,098	27,378	24,999
Including: net fee and commission income	14,323	9,247	8,557	7,353
Operating expenses and others	(68,731)	(59,984)	(54,879)	(46,080)
Impairment losses on loans and advances	(12,342)	(11,486)	(23,812)	(18,100)
Profit before income tax	67,937	53,811	37,263	37,347
Income tax expense	(19,673)	(22,253)	(10,198)	(3,162)
Profit for the year	48,264	31,558	27,065	34,185
Attributable to:				
Equity holders of the Bank	42,830	25,921	22,301	31,015
Minority interest	5,434	5,637	4,764	3,170

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

Net Interest Income

In 2006, the Group's net interest income was RMB121.371 billion, an increase of RMB20.363 billion (20.16%) compared to the prior year.

Net interest income is affected by the average balances and average interest rates of interest-earning assets and interest-bearing liabilities. Domestically, interest rates related to interest-earning assets and interest-bearing liabilities are largely influenced by the benchmark interest rates and interest rate policy established by the PBOC. Significantly, the PBOC establishes floor

benchmark interest rates for loans and ceiling benchmark interest rates for deposits denominated in RMB offered by domestic banks. Within the context of the framework established by the PBOC, the average interest rates of interest-earning assets and interest-bearing liabilities of the domestic operations are also influenced by other factors such as Chinese macro-economic changes, domestic competition and currency market liquidity. Overseas rates are largely a function of foreign currency interest rate, local economic environment, financial market conditions and related monetary policies.

The average balances¹ and average interest rates of interest-earning assets and interest-bearing liabilities related to the Group and its domestic RMB and foreign currency activities are shown in the following tables:

Unit: RMB million, except percentages

Items	2006		2005	
	Average balance	Average interest rate (%)	Average balance	Average interest rate (%)
Group				
Interest-earning assets				
Loans and advances to customers	2,353,694	5.48%	2,194,078	5.03%
Investment securities	1,895,643	3.54%	1,485,640	3.02%
Due from banks and other financial institutions ²	710,323	2.70%	655,359	1.94%
Total	4,959,660	4.34%	4,335,077	3.87%
Interest-bearing liabilities				
Deposits from customers	4,070,308	1.96%	3,560,014	1.57%
Due to banks and other financial institutions ³	373,811	2.51%	355,856	1.83%
Other borrowed funds	109,910	4.21%	115,843	3.90%
Total	4,554,029	2.06%	4,031,713	1.66%
Net interest spread		2.28%		2.21%
Domestic RMB activities				
Interest-earning assets				
Loans and advances to customers	1,604,617	5.43%	1,443,809	5.42%
Investment securities	906,823	2.35%	657,018	2.41%
Due from banks and other financial institutions ²	350,694	1.81%	313,591	1.66%
Total	2,862,134	4.01%	2,414,418	4.11%
Interest-bearing liabilities				
Deposits from customers	2,792,952	1.57%	2,332,869	1.52%
Due to banks and other financial institutions ³	176,661	2.14%	152,810	2.47%
Other borrowed funds	60,001	4.62%	53,959	4.71%
Total	3,029,614	1.67%	2,539,638	1.65%
Net interest spread		2.34%		2.46%
Domestic foreign currency activities				
Unit: USD million, except percentages				
Interest-earning assets				
Loans and advances to customers	40,692	5.20%	41,984	4.00%
Investment securities	77,096	4.74%	60,384	3.52%
Due from banks and other financial institutions ²	27,691	2.87%	26,348	1.74%
Total	145,479	4.51%	128,716	3.31%
Interest-bearing liabilities				
Deposits from customers	59,288	1.98%	58,903	1.16%
Due to banks and other financial institutions ³	19,465	2.50%	20,467	1.03%
Other borrowed funds	6,391	3.65%	7,361	3.27%
Total	85,144	2.22%	86,731	1.31%
Net interest spread		2.29%		2.00%

Notes:

- 1 Average balances of interest-earning assets and interest-bearing liabilities are the average daily balances derived from the Group's management accounts which have not been audited.
- 2 Due from banks and other financial institutions includes balances with central banks and placements with banks and other financial institutions.
- 3 Due to banks and other financial institutions includes due to central banks and placements from banks and other financial institutions.



The impact of volume and interest rate¹ changes on consolidated net interest income, that of domestic RMB activities and that of domestic foreign currency activities are summarized in the following table:

Unit: RMB million

Items	2006	2005	Change	Analysis of net interest income variances	
				Volume	Interest rate
Group					
Interest-earning assets					
Loans and advances to customers	128,934	110,313	18,621	8,029	10,592
Investment securities	67,195	44,938	22,257	12,382	9,875
Due from banks and other financial institutions ²	19,205	12,697	6,508	1,066	5,442
Total	215,334	167,948	47,386	21,477	25,909
Interest-bearing liabilities					
Due to customers	79,939	55,914	24,025	8,012	16,013
Due to banks and other financial institutions ³	9,393	6,512	2,881	329	2,552
Other borrowed funds	4,631	4,514	117	(231)	348
Total	93,963	66,940	27,023	8,110	18,913
Net interest income	121,371	101,008	20,363	13,367	6,996
Domestic RMB activities					
Interest-earning assets					
Loans and advances to customers	87,128	78,271	8,857	8,716	141
Investment securities	21,274	15,852	5,422	6,020	(598)
Due from banks and other financial institutions ²	6,346	5,197	1,149	616	533
Total	114,748	99,320	15,428	15,352	76
Interest-bearing liabilities					
Due to customers	43,967	35,495	8,472	6,993	1,479
Due to banks and other financial institutions ³	3,773	3,782	(9)	589	(598)
Other borrowed funds	2,774	2,543	231	285	(54)
Total	50,514	41,820	8,694	7,867	(827)
Net interest income	64,234	57,500	6,734	7,485	(751)
Domestic foreign currency activities					
Unit: USD million					
Interest-earning assets					
Loans and advances to customers	2,116	1,678	438	(52)	490
Investment securities	3,658	2,123	1,535	588	947
Due from banks and other financial institutions ²	794	459	335	23	312
Total	6,568	4,260	2,308	559	1,749
Interest-bearing liabilities					
Due to customers	1,173	682	491	4	487
Due to banks and other financial institutions ³	486	211	275	(10)	285
Other borrowed funds	233	241	(8)	(32)	24
Total	1,892	1,134	758	(38)	796
Net interest income	4,676	3,126	1,550	597	953

Notes:

- Impact of volume changes on interest income and expenses is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. Impact of interest rate changes on interest income and expenses is computed based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. Changes caused by changes in both volume and rate have been allocated to rate.
- Due from banks and other financial institutions includes balances with central banks and placements with banks and other financial institutions.
- Due to banks and other financial institutions includes amounts due to central banks and placements from banks and other financial institutions.

Interest income

The Group’s interest income was RMB215.334 billion, an increase of RMB47.386 billion (28.21%) compared to the prior year. This increase was primarily attributable to growth in the average balance as well as the average yield of interest-earning assets. In this regard, the average balance of interest-earning assets increased by 14.41% and reached RMB4,959.66 billion. The yield on interest-earning assets increased 47 basis points during 2006 to 4.34%.

Loans and advances to customers

The Group’s interest income earned on loans and advances to customers was RMB128.934 billion, an increase of RMB18.621 billion (16.88%) compared to the prior year. This increase reflects the judicious increase in loan balances during the year. After cautiously taking risk and reward into consideration, the Group’s average balance of loans and advances to customers reached RMB2,353.694 billion, representing an increase of 7.27% compared to the prior year. Continued increases in foreign currency yields (in particular the USD) and the PBOC’s increases in the RMB loan benchmark rate in April and August of 2006 pushed the average yield on the Group’s loans and advances to customers to 5.48%, an increase of 45 basis points.

Investment securities

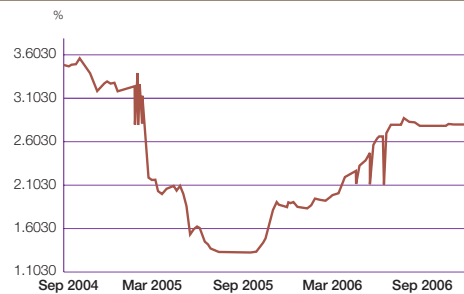
The Group’s interest income earned on investment securities was RMB67.195 billion, an increase of RMB22.257 billion (49.53%) compared to the prior year. The growth was largely attributable to an intense focus on

optimizing the mix of the Group’s investment portfolio by investing surplus liquidity, including the IPO proceeds, which had not been utilized in its loan businesses in securities with higher yields relative to other alternatives. This deployment of surplus liquidity resulted in an increase of 27.6% in the average balance of investment securities during the year to RMB1,895.643 billion. The Group has also continued to proactively manage the composition of its investment securities portfolio, taking into consideration continuing increases in the yields on securities denominated in foreign currencies, in particular the USD. The average yield of investment securities increased 52 basis points to 3.54% during the year.

The average yield of investment securities denominated in RMB was 2.35%, a decline of 6 basis points compared to the prior year. The decline was primarily attributable to surplus liquidity in the RMB financial markets, pushing down the yields on RMB securities. As illustrated in the chart below, the yield of one year PBOC bills decreased steadily from 2004, although the decline stabilized and began to rise from the third quarter of 2005. Such impact was fully reflected in the Bank’s earnings in 2006.



The Yield of PBOC Bills (One Year)



Due from banks and other financial institutions

The Group's interest income derived from amounts due from banks and other financial institutions rose RMB6.508 billion (51.26%) to RMB19.205 billion. The increase was primarily due to the increase in mandatory reserve funds placed with the PBOC, which was in turn attributable to the growth in customer deposits and a series of increases by the PBOC in deposit reserve requirements during the year from 7.5% to 9.0%. Continued increases in the interest rates of major currencies, including the USD, were also the contributing factors. The average yield on the Group's due from banks and other institutions increased by 76 basis points during 2006 to 2.70%.

Despite the increase in average yield, the Group continued its efforts to minimize the relative balance of this lower yielding asset class. At the end of 2006, the ratio of the average balance of amounts due from banks and other financial institutions to that of total interest-earning assets declined from 15% to 14%, or approximately 1 percentage point compared to the prior year.

Interest expense

The Group's interest expense was RMB93.963 billion, an increase of RMB27.023 billion (40.37%) compared to the prior year. This increase was principally attributable to a 12.96% growth in the average balance of interest-bearing liabilities to RMB4,554.029 billion, as well as a 40 basis points increase in the average cost to 2.06%.

Due to customers

In 2006, the Group's interest expense for customer deposits was RMB79.939 billion, representing an increase of RMB24.025 billion (42.97%) compared to the prior year. The increase was primarily due to the Group's

concerted efforts to expand its customer deposit base, with the average balance of customer deposits increasing to RMB4,070.308 billion, an increase of 14.33% during the year and a rise of 39 basis points in the average cost on customer deposits to 1.96%. This increase in average cost was mainly attributable to: the continued rise in interest rates of major foreign currencies, in particular the USD; the effect of the PBOC's five upward adjustments of the benchmark interest rate for smaller balance foreign currency deposits during 2005, which was fully reflected during 2006; the PBOC's increase of the benchmark interest rate for RMB deposits in August 2006; and a rise in the proportion of fixed deposits to total deposits in overseas operations.

Due to banks and other financial institutions

The Group's interest expense for amounts due to banks and other financial institutions was RMB9.393 billion, an increase of RMB2.881 billion (44.24%) compared to the prior year. The increase was primarily due to interest rate increases related to major foreign currencies, particularly the USD, which resulted in a rise of 68 basis points on the average cost to 2.51%.

The average interest rate of amounts due to banks and other financial institutions denominated in RMB was 2.14%, a decrease of 33 basis points. During the year, the Group intensified its efforts at proactive liability management to minimize the balance of relatively high costing class of interest-bearing liabilities.

Other borrowed funds

Other borrowed funds include special purpose borrowings and bonds issued. Special purpose borrowings are long-term borrowings in multiple currencies from foreign governments and/or banks in the form of export credit loans, foreign government loans and other subsidized

loans. These special purpose loans are normally used to finance projects with special commercial purposes in PRC. The Group's interest expense for other borrowed funds was RMB4.631 billion, an increase of RMB0.117 billion (2.59%) compared to the prior year. The increase was mainly due to the rise in interest rates of major foreign currencies, in particular the USD. The average interest rate of other borrowed funds rose 31 basis points during the year to 4.21%.

Net interest margin

During 2006, the Group continued to improve the effectiveness of its asset and liability management, reducing the proportions of relatively low yielding assets to total assets and relatively high cost liabilities to total liabilities. Due to continued increases in the interest rates of the major foreign currencies, in particular the USD, and the continued use of RMB/USD swap transactions, the Group's net interest margin rose by 12 basis points to 2.45%. RMB and foreign currency net interest margins of domestic operations, however, have experienced opposite trends.



Foreign currency net interest margin The Group's foreign currency net interest margin rose 78 basis points to 3.21%, mainly impacted by continued interest hikes of major foreign currencies, in particular the USD, and the RMB/USD currency swap transactions. Given the surplus liquidity in the market and the lack of RMB investment alternatives, the Group has taken a proactive approach to its asset and liability management, fully capitalized its competitive advantages and business strengths in foreign exchange activities, and entered into RMB/USD currency swap transactions. These swap transactions resulted in additional USD interest income. The related swap costs were recognized under "Net trading (losses)/gain".

RMB net interest margin Although the PBOC's adjustments to the benchmark rates in RMB loans and deposits in 2006 had a positive impact on RMB net interest income, the RMB net interest margin narrowed compared to the prior year. The decline was primarily attributable to changes in the domestic macro-economic environment and intensified competition in PRC capital markets leading to a decline in the average yield of RMB investment securities and discounted bills compared to the prior year. At the same time, the proportion of the average balance of such items to interest-earning assets denominated in RMB increased, which led to the average interest rate of interest-earning assets

denominated in RMB declining from last year's 4.11% to this year's 4.01%. As aforesaid, the Bank entered into RMB/USD swap transactions

to increase income, but these swap transactions resulted in a decline in RMB interest income.

Non-interest Income

Unit: RMB million

Group	2006	2005	2004	2003
Net fee and commission income	14,323	9,247	8,557	7,353
Net trading (losses)/gains	(1,544)	4,283	8,882	4,303
Net gains/(losses) on investment securities	1,132	(582)	337	1,094
Other operating income	13,096	11,150	9,602	12,249
Total	27,007	24,098	27,378	24,999

Note: Net gains of RMB7.4 billion on the disposal of BOCHK Holdings' shares were included in Other operating income in year 2003.

The Group reported non-interest income of RMB27.007 billion, an increase of RMB2.909 billion (12.07%) compared to the prior year. Non-interest income accounted for 18.20% of total operating income, down 1.06 percentage points. Excluding the losses from revaluation of foreign currency positions, this ratio was 23.28%, an increase of 1.07 percentage points.

Net fee and commission income

Through its global network, the Group provides its customers with a variety of fee-based products, including agency services, settlement and clearing, credit commitment, bank cards, custodian and other services. The Group improved its product mix, not only to generate consistent revenue growth, but also to deepen and strengthen its client relationships by providing more diversified financial services to address a more diverse set of customer needs.

The Group earned net fee and commission income of RMB14.323 billion in 2006, an increase of RMB5.076 billion (54.89%) compared

to the prior year. The principal elements are set out in the table below:

Unit: RMB million

Group	2006	2005	2004	2003
Agency commissions	4,621	2,735	2,690	2,137
Settlement and clearing fees	3,848	2,941	2,626	2,237
Credit commitment fees	3,064	2,693	2,367	2,075
Bank card fees	2,937	2,340	1,840	1,340
Custodian and other service fees	2,669	1,989	1,865	1,779
Fee and commission income	17,139	12,698	11,388	9,568
Fee and commission expense	(2,816)	(3,451)	(2,831)	(2,215)
Net fee and commission income	14,323	9,247	8,557	7,353

Net fee and commission income from domestic operations accounted for a significant portion of consolidated net fee and commission income at RMB8.629 million, an increase of RMB3.422

billion (65.72%) compared to the prior year. The principal components of net fee and commission income from domestic operations are shown in the following table:

Unit: RMB million

Domestic	2006	2005	2004	2003
Agency commissions	1,406	823	647	425
Settlement and clearing fees	2,402	1,745	1,681	1,395
Credit commitment fees	2,164	1,784	1,407	1,191
Bank card fees	2,080	1,540	1,095	776
Custodian and other service fees	1,541	1,112	654	532
Fee and commission income	9,593	7,004	5,484	4,319
Fee and commission expense	(964)	(1,797)	(1,432)	(1,128)
Net fee and commission income	8,629	5,207	4,052	3,191

During 2006, the Group launched a three-year plan to further develop and enhance its fee based services, in order to leverage its competitive advantage and reinforce its leading position in the domestic market. The key elements of this plan include: enhancement of the management and organization structure and deployment of adequate resources to more

effectively support the delivery of fee-based products and services, principally through objective-based performance evaluation and remuneration; a reinvigorated focus on new product development, with particular emphasis on the areas of international settlement and trade finance, wealth management products, services for Qualified Domestic Institutional



Investors, and bank cards; improvement of communications among various business and functional departments, including product management departments and the front line departments, domestic and overseas operations, commercial banking, investment banking and insurance operations, to promote efficient service and cross-selling; and further strengthening of service pricing management and improving pricing strategy including revision and broadening of fee-charging channels.

Agency commissions

The Group recorded agency commissions of RMB4.621 billion in 2006, an increase of RMB1.886 billion (68.96%) compared to the prior year. The rapid growth of the domestic Chinese economy, including robust increase in disposable household income levels, and the rapidly growing securities markets, both domestically and in Hong Kong SAR, contributed to the increase in the demand for agency services related to mutual funds distribution, placement of insurance products and securities brokerage, which significantly contributed to the increase in agency commissions during 2006.

Settlement and clearing fees

The Group recorded settlement and clearing fees of RMB3.848 billion, an increase of RMB0.907 billion (30.84%) compared to the prior year. The increase was primarily attributable to strong demand for trade related clearing and settlement services. Furthermore, the Bank successfully launched the first phase of its new core payments system, which provides an efficient platform for customers to initiate remittance transactions, contributing to a robust increase in transaction volume and fee income domestically.

Credit commitment fees

Credit commitment fees primarily consist of fees from guarantee services, fees in connection with on-lending loans and syndicated loans. Total credit commitment fees were RMB3.064 billion in 2006, an increase of RMB0.371 billion (13.78%) compared to the prior year. The increase was primarily attributable to continued growth of the domestic and international trade, which led to the increase of fees from letters of guarantee and syndicated loans business.

Bank card fees

Bank card fees primarily consist of annual fees, cash advance fees, transaction fees and merchant services fees. In 2006, bank card fees for the Group were RMB2.937 billion, an increase of RMB0.597 billion (25.51%) compared to the prior year. During 2006, the Group launched a number of new bank card programs domestically, including the BoC City Card, the Great Wall Commercial Card and a series of Co-Brand Cards, which permit installment payments. The steady increase in bank card fees reflected increases in both the number and usage volume of bank cards. In addition to these increases, the levy of a fee on all domestic debit cards resulted in an increase of RMB0.214 billion domestically during 2006.

Custodian and other service fees

Custodian and other service fees primarily consist of fees from custody, corporate finance advisory and other fee-based services. These fees totalled RMB2.669 billion, an increase of RMB0.680 billion (34.19%) compared to the prior year. This increase was primarily attributable to charges on smaller balance personal accounts, which contributed RMB0.224 billion to the increase and the exploring and developing new fee sources such as corporate finance advisory services.