Fee and commission expense

In 2006, total fee and commission expense was RMB2.816 billion, a decrease of RMB0.635 billion (18.40%) compared to the prior year. The decrease related to a number of factors including a decrease of RMB0.3 billion due to a reduction in transaction fees charged by the China Foreign Exchange Trading Centre for certain foreign exchange transactions and the expenses of RMB0.13 billion in connection with the issue of subordinated bonds and asset disposal fees of RMB0.16 billion to China Orient in 2005 which did not recur in 2006.

Net trading (losses)/gains

Unit: RMB million

Group	2006	2005	2004	2003
Net (losses)/gains from foreign exchange and foreign exchange products	**(2,290)**	2,226	5,294	9,488
Net gains/(losses) from interest rate instruments	**492**	1,753	2,294	(5,333)
Net gains/(losses) from trading equity securities	**324**	130	(178)	3
Net (losses)/gains from precious metal transactions	**(68)**	150	1,271	(40)
Others	**(2)**	24	201	185
Total	**(1,544)**	4,283	8,882	4,303

The Group incurred a net trading loss of RMB1.544 billion in 2006. This loss arose principally from foreign exchange and foreign exchange products as a result of the continued appreciation of RMB.

Net (losses)/gains from foreign exchange and foreign exchange products

The Group recognized net losses of RMB2.290 billion from foreign exchange and foreign exchange products during 2006. This loss reflected the net result of gains from foreign exchange transactions and losses from the revaluation of foreign currency positions.

Gains from foreign exchange transactions

The volume of the Group's foreign exchange transactions grew steadily during the year, resulting in a gain of RMB7.530 billion. Domestically, the spread income derived from RMB/foreign exchange operations amounted to RMB5.938 billion, an increase of RMB1.077 billion (22.16%) compared to the prior year. The increase was primarily attributable to the increase of the spread earned on RMB/foreign currency operations compared to 2005.

Losses from the revaluation of foreign currency positions

The Group reported a net loss of RMB9.820 billion which was attributable to the revaluation of its net foreign currency position in 2006. The composition of the Group's foreign currency position as at 31 December 2006 and the related revaluation gains and losses for the year are set out in the following table:

	Net foreign currency position[1] as at 31 December 2006 Unit: USD million			Net gains/(losses) arising from the net foreign currency position[1] in 2006 Unit: RMB million		
	On Balance Sheet	Off Balance Sheet	Total	On Balance Sheet	Off Balance Sheet	Total
1. Net foreign currency position relating to Huijin option						
(1) Foreign exchange option with Huijin	—	(18,000)		—	1,949	
(2) Foreign currency capital injected economically hedged by the Huijin option	18,000	—	**—**	(4,707)	—	**(2,758)**
2. Net foreign currency position relating to swap agreements						
(1) Spot transactions under foreign currency swap agreements	41,528	—		(6,730)	—	
(2) Forward transactions under foreign currency swap agreements	—	(41,528)	**—**	—	2,222	**(4,508)**
3. Foreign currency denominated net investments in foreign operations[2]	14,571	—	**14,571**	—	—	**—**
4. Other net foreign currency position	11,588	4,109	**15,697**	(2,773)	219	**(2,554)**
Sub-total	85,687	(55,419)	**30,268**	(14,210)	4,390	**(9,820)**
Less: Foreign currency denominated net investments in foreign operations[2]			**(14,571)**			
Net foreign currency position			**15,697**			

Notes:

① Long and short positions of foreign currency are represented by positive and negative figures, respectively.

Gain and loss of revaluation and retranslation are represented by positive and negative figures, respectively.

② Retranslation losses related to the foreign currency denominated net investments in foreign operations are recognized as "Currency translation differences", a separate component of equity, which does not affect the consolidated profit and loss of the Group.

The following explains the key components presented in the above table:

1. Net foreign currency position relating to Huijin option

On 5 January 2005, the Bank entered into an option agreement with Huijin ("Huijin option"), to economically hedge a portion of its net foreign currency position arising from the foreign currency capital injection by Huijin. According to the terms of the agreement, the Bank acquired options to sell to Huijin USD, totaling USD18 billion, in tranches of no more than USD1.5 billion each at the beginning of each calendar month from 1 January to 31 December 2007 at a fixed exchange rate of USD1 to RMB8.2769. The related option premium of RMB4.469 billion is payable by the Bank to Huijin in 12 equal monthly installments beginning from 1 January 2007. The gain from the change in the fair value of the Huijin option for 2006 amounted to RMB1.949 billion, which partially offset the RMB4.707 billion foreign exchange revaluation loss of the related on-balance sheet foreign currency position.

2. Net foreign currency position relating to swap agreements

In light of the surplus liquidity in the RMB capital markets, the lack of investment alternatives and the favorable interest yields of foreign currency denominated financial assets, the Bank entered into a series of USD/RMB swap transactions to increase its income. Under these agreements, the Bank bought USD in spot transactions and invested the funds in financial assets denominated in foreign currency to benefit from the favorable interest rate differentials, and bought back RMB in the future at agreed exchange rates to effectively contain the Group's foreign currency risks. The swap transactions had no impact on the Group's net foreign currency position. At the end of 2006, the outstanding notional amount of these transactions amounted to USD41.5 billion.

In 2006, the foreign exchange revaluation loss related to the USD positions through these spot transactions was RMB6.730 billion, partially offset by the revaluation gain of RMB2.222 billion on the forward sales of USD. This net loss of RMB4.508 billion was reported as a component of "Net trading (losses)/gains", contributing to the significant decrease in 2006. The beneficial effect of the favorable interest rate differential on USD financial assets, however, was reported as a component of "Interest income". Please refer to the "Cost/ benefits discussion" below for more detailed information.

3. Other net foreign currency position

At the end of 2006, other net foreign currency position of the Group amounted to USD15.7 billion which included a USD11.6 billion on-balance sheet position and a USD4.1 billion off-balance sheet position. The on-balance sheet position comprised primarily the unhedged portion of foreign currency capital contributions, foreign currency profits, foreign currency position retained for daily operation purposes, and other long or short positions resulting from cross foreign currency transactions.

During 2006, the foreign currency proceeds from the IPO and the foreign currency profits increased the Group's foreign currency position. However, the Bank sold approximately USD26.3 billion following approval from the relevant authorities. As a result, the Group reduced its net foreign currency position from USD25.8 billion as at 31 December 2005 to USD15.7 billion as at 31 December 2006. Please see Note III.5 to the Financial Statements for detailed information on the movements of the Group's foreign currency position. In 2006, the net loss arising from this other net foreign currency position recognized was RMB2.554 billion, which was lower than that in 2005.

In 2007, the Group has continued to implement measures to further reduce its net foreign currency exposure and it is anticipated that such exposure will continue to decrease.

Cost/benefits discussion

The Bank recorded a foreign currency revaluation loss of RMB9.820 billion from its foreign currency position during 2006. However, it has benefited from the favorable interest differentials between foreign currencies and RMB financial assets as discussed above. By way of example, in 2006, the average yield of our domestic foreign currency denominated investment securities was 4.74%, which was higher than the average yield of 2.35% for RMB denominated investment securities, leading to a difference in yield of 2.39%. Management believes that the benefits from favorable interest differentials were greater than the foreign currency revaluation loss as discussed above.

Net gains/(losses) from interest rate instruments

Net gains/(losses) from interest rate instruments primarily comprised of realized and unrealized gains/losses related to the trading of debt securities and interest rate derivatives. In 2006, the Group reported a net gain of RMB0.492 billion from trading in interest rate instruments, a decrease of RMB1.261 billion (71.93%) compared to the prior year.

Net gains/losses on investment securities

Unit: RMB million

Group	2006	2005	2004	2003
De-recognition of available-for-sale securities	**1,178**	(606)	529	1,217
(Provision)/write back for impairment losses	**(46)**	24	(192)	(123)
Total	**1,132**	(582)	337	1,094

The Group reported a net gain of RMB1.132 billion on investment securities in 2006, an increase of RMB1.714 billion. This was mainly attributable to the gain of RMB1.3 billion on disposal of certain equity investments originally acquired through domestic debt-for-equity swap arrangements with borrowers.

Other operating income

Unit: RMB million

Group	2006	2005	2004	2003
Insurance premiums	**7,708**	5,237	4,057	3,225
Gains on disposal of shares in subsidiaries and associates	**789**	320	760	7,530
Gains on disposal of property and equipment and other assets	**717**	870	420	157
Changes in fair value of investment properties	**595**	1,697	1,280	(412)
Dividend income	**186**	194	264	122
Others	**3,101**	2,832	2,821	1,627
Total	**13,096**	11,150	9,602	12,249

Note: Net gains of RMB7.4 billion on the disposal of BOCHK Holdings' shares were included in Gains on disposal of shares in subsidiaries and associates in year 2003.

The Group's other operating income was RMB13.096 billion, an increase of RMB1.946 billion (17.45%) compared to the prior year. The increase was mainly attributable to the rapid development in the insurance business. In 2006, insurance premiums amounted to RMB7.708 billion, representing an increase of RMB2.471 billion (47.18%) compared to the prior year.

Impairment Losses on Loans and Advances

In 2006, the Group's identified impaired loans and ratio of identified impaired loans to gross loans both decreased, reflecting the improved credit quality of loans and advances. The Group continued to adopt a prudent loan provisioning policy. Impairment losses on loans and advances amounted to RMB12.342 billion in 2006, representing an increase of RMB0.856 billion compared to the prior year. In 2006, the credit cost was 0.53% of average loans and advances, the similar level as the prior year. For further information on loan quality and the allowance for impairment losses, please refer to the "Risk Management — Credit Risk" section.

Operating Expenses and Others

Unit: RMB million

Group	2006	2005	2004	2003
Staff costs	**30,896**	27,106	20,545	16,824
General operating and administrative expenses	**14,603**	13,251	11,777	9,105
Depreciation and amortization	**6,026**	6,314	6,664	6,614
Business and other taxes	**6,462**	5,680	4,981	3,972
Special levy to the Ministry of Finance	**—**	—	2,805	3,060
Insurance benefits and claims	**7,484**	4,153	3,256	2,362
Operating lease rentals	**1,775**	1,550	1,759	1,725
Impairment/(write back) losses on other assets	**(171)**	433	699	233
Losses on disposal of property and equipment	**148**	205	346	408
Provision for litigation losses	**897**	712	1,257	545
Others	**611**	580	790	1,232
Total	**68,731**	59,984	54,879	46,080

In 2006, the Group incurred operating expenses amounting to RMB68.731 billion, an increase of RMB8.747 billion (14.58%) compared to the prior year.

Staff costs amounted to RMB30.896 billion, an increase of RMB3.790 billion (13.98%) compared to the prior year. The increase in staff costs was mainly attributable to an increase in domestic salary levels through the implementation of the new domestic Salary System in 2006, which assigned salary levels based on a consistent assessment of roles, responsibilities and market compensation levels. In addition, related government mandated contributions to various employee welfare programs, labor union, and training initiatives which were levied at the rate of 14%, 2% and 1.5%, respectively of the staff salary costs also increased. Increases in retirement costs related to contributions to the Group's defined contribution plan for domestic employees also contributed to the rise in staff costs. The impacts of these increases were partially offset by the substantial decrease in early retirement benefit expenses incurred in 2006. Such expenses incurred for 2005 amounted to RMB3.064 billion as a result of certain human resources restructuring measures implemented in 2005. For additional details related to staff costs, see Note V.8 to the Financial Statements.

General operating and administrative expenses mainly comprised postal fees, marketing fees, utility fees, printing expenses, maintenance fees, offices, regulatory expenses and other professional fees. In 2006, the general operating and administrative expenses were RMB14.603 billion, an increase of RMB1.352 billion (10.20%) compared to the prior year, consistent with the growth in the Group's business activities. These expenses also included regulatory fees of RMB0.992 billion paid to the CBRC, which increased RMB0.066 billion compared to the prior year.

Insurance benefits and claims amounted to RMB7.484 billion, an increase of RMB3.331 billion (80.21%) compared to the prior year. As the life insurance business grew rapidly in 2006, the provision for life insurance claims increased accordingly.

During 2006, the Group intensified its focus on cost control and budget management and the growth in operating income outpaced that of operating expenses. In 2006, the cost (excluding business and other taxes) to income ratio was 41.97%, a decrease of 1.44 percentage points compared to the prior year, indicating an improvement in operating efficiency.

Income Tax Expense

In 2006, the Group's income tax expense was RMB19.673 billion, representing a decrease of RMB2.580 billion (11.59%) compared to the prior year. The effective tax rate was 28.96%, a decrease of 12.39 percentage points compared to the prior year. The decrease in the effective tax rate was mainly due to the fact that pursuant to Cai Shui [2007] No. 40 "Notice to Bank of China Limited on the Deductible Criterion relating to Salary Expenses" issued by the Ministry of Finance and the State Administration of Taxation, the Group has obtained approval for the deduction of RMB15.669 billion of its domestic salary expenses when determining the Group's 2006 taxable income, resulting in a decrease in income tax expense of RMB4.6 billion for 2006.

The reconciliation of the statutory income tax rate to the effective income tax rate is set forth in the Note V.10 to the Financial Statements.

Balance Sheet Analysis

At the end of 2006, the Group's total assets were RMB5,327.653 billion, an increase of RMB587.605 billion (12.40%) compared to the prior year-end, and total liabilities were RMB4,914.697 billion, an increase of RMB430.168 billion (9.59%) compared to the prior year-end.

An analysis of significant balance sheet items is set out in the following table:

Unit: RMB million

	As at 31 December			
Group	**2006**	2005	2004	2003
Assets				
Loans and advances to customers, net	**2,337,726**	2,152,112	2,072,919	1,921,861
Investment securities[1]	**1,892,482**	1,683,313	1,321,646	1,104,105
Placements with banks and other financial institutions, and balances with central banks	**778,769**	649,040	624,540	696,074
Other assets	**318,676**	255,583	246,116	251,240
Total assets	**5,327,653**	4,740,048	4,265,221	3,973,280
Liabilities				
Due to customers	**4,091,118**	3,699,464	3,338,448	3,033,364
Due to and placements from banks and other financial institutions, and due to central banks[2]	**368,059**	376,898	319,613	329,239
Bonds issued and other borrowings	**123,571**	112,343	95,802	81,052
Other liabilities	**331,949**	295,824	283,451	307,779
Total liabilities	**4,914,697**	4,484,529	4,037,314	3,751,434

Notes:

1 Including trading assets and other financial instruments at fair value through profit or loss, available-for-sale securities, held-to-maturity securities and securities classified as loans and receivables.

2 Including amounts due to central banks, due to banks and other financial institutions, certificates of deposit and placements from banks and other financial institutions.

Loans

Loan[1] portfolio is a key component of the Group's assets. At the end of 2006, the Group had a total loan portfolio of RMB2,432.019 billion, an increase of RMB196.754 billion (8.80%) compared to the prior year-end.

The quality of the Group's loan portfolio continued to improve during the year, with loans classified as special-mention decreasing significantly, resulting in an increase in the percentage of higher quality loans. The Group also continued to rebalance the mix of the loan portfolio to achieve higher yields by reducing the proportion of lower yielding trade bills in the portfolio.

Corporate loans and Personal loans

Unit: RMB million, except percentages

	As at 31 December							
	2006		2005		2004		2003	
Group	**Amount**	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total
Corporate loans	**1,849,275**	**76.04%**	1,712,262	76.60%	1,653,647	77.00%	1,777,507	82.26%
Personal loans	**582,744**	**23.96%**	523,003	23.40%	494,041	23.00%	383,393	17.74%
Total	**2,432,019**	**100.00%**	2,235,265	100.00%	2,147,688	100.00%	2,160,900	100.00%

For additional information on loan classification and credit quality, refer to the "Risk Management — Credit Risk" section.

Investment Securities

The Group held investment securities totaling RMB1,892.482 billion at the end of 2006, an increase of RMB209.169 billion (12.43%) compared to the prior year-end. There was no significant impairment in investment securities. The classification of the Group's investment securities portfolio at the end of 2006 is as follows:

Unit: RMB million, except percentages

	As at 31 December							
	2006		2005		2004		2003	
Group	**Amount**	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total
Trading assets and other financial instruments at fair value through profit or loss	**115,828**	**6.12%**	111,782	6.64%	92,124	6.97%	115,144	10.43%
Available-for-sale securities	**815,178**	**43.07%**	602,221	35.77%	357,587	27.06%	421,471	38.17%
Held-to-maturity securities, net	**461,140**	**24.37%**	607,459	36.09%	457,994	34.65%	215,175	19.49%
Securities classified as loans and receivables, net	**500,336**	**26.44%**	361,851	21.50%	413,941	31.32%	352,315	31.91%
Total	**1,892,482**	**100.00%**	1,683,313	100.00%	1,321,646	100.00%	1,104,105	100.00%

Note:

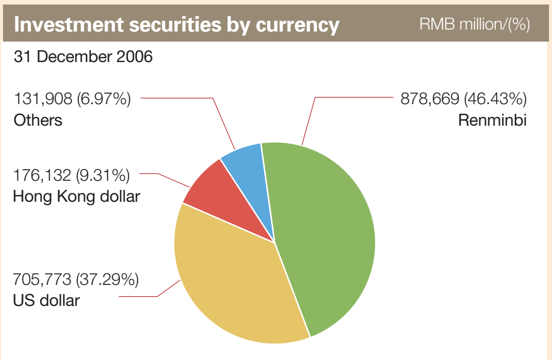
1 Representing loans and advances to customers.

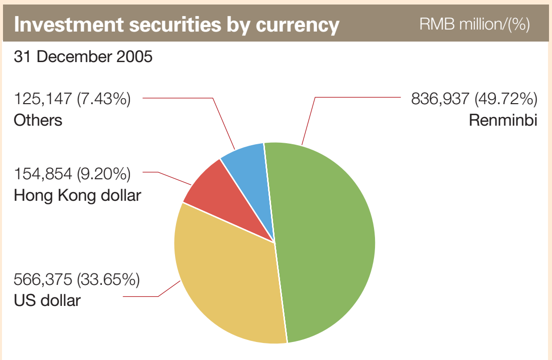
The percentage of securities classified as available-for-sale and as loans and receivables both increased during the year, while the percentage of held-to-maturity securities declined significantly. The percentage of trading assets and other financial instruments at fair value through profit or loss maintained similar levels to the prior year. The change in the classification mix of the investment securities portfolio principally related to the re-investment of funds received on the maturity of securities classified as held-to-maturity, into those classified as available-for-sale. Similarly, the Group increased its investment in securities with a shorter tenor, such as PBOC bills and commercial papers denominated in foreign currency. With these changes, the Group achieved more flexibility in managing its portfolio to achieve higher yields while ensuring associated risks were appropriately managed. As a result, the percentage of securities classified as loans and receivables increased.

Investment securities-Issuer Type

Unit: RMB million, except percentages

	As at 31 December							
	2006		2005		2004		2003	
Group	**Amount**	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total
Government and government guaranteed	**817,643**	**43.20%**	794,413	47.19%	590,932	44.71%	430,903	39.01%
Financial institution	**610,738**	**32.27%**	475,878	28.27%	359,503	27.20%	318,744	28.85%
Public sector and quasi-government	**263,333**	**13.91%**	263,007	15.62%	274,983	20.80%	275,178	24.91%
Corporate	**187,856**	**9.93%**	136,449	8.10%	84,253	6.37%	67,944	6.15%
Equity securities	**13,064**	**0.69%**	13,722	0.82%	12,167	0.92%	11,918	1.08%
Sub-total	**1,892,634**	**100.00%**	1,683,469	100.00%	1,321,838	100.00%	1,104,687	100.00%
Allowance for impairment losses	**(152)**		(156)		(192)		(582)	
Total	**1,892,482**		1,683,313		1,321,646		1,104,105	





Due to Customers

The Group's deposits from customers totalled RMB4,091.118 billion at the end of 2006, an increase of RMB391.654 billion (10.59%) compared to the prior year-end. Of this increase, corporate and personal deposits increased by RMB180.025 billion and RMB194.171 billion, respectively.

Customer Deposits by Customer Type

The following table sets forth the principal components of the Group's deposits from customers by customer type:

Unit: RMB million, except percentages

	As at 31 December							
	2006		2005		2004		2003	
Group	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Corporate deposits								
Demand deposits	**979,653**	**23.95%**	836,763	22.62%	776,648	23.26%	679,524	22.40%
Time deposits	**549,118**	**13.42%**	511,983	13.84%	406,019	12.16%	332,606	10.96%
Sub-total	**1,528,771**	**37.37%**	1,348,746	36.46%	1,182,667	35.42%	1,012,130	33.36%
Personal deposits								
Demand deposits	**770,583**	**18.83%**	667,957	18.06%	697,028	20.88%	607,904	20.04%
Time deposits	**1,645,914**	**40.23%**	1,554,369	42.02%	1,351,692	40.49%	1,324,511	43.66%
Sub-total	**2,416,497**	**59.06%**	2,222,326	60.07%	2,048,720	61.37%	1,932,415	63.71%
Security and margin deposits	**145,850**	**3.57%**	128,392	3.47%	107,061	3.21%	88,819	2.93%
Total	**4,091,118**	**100.00%**	3,699,464	100.00%	3,338,448	100.00%	3,033,364	100.00%

During 2006, the Group continued to proactively manage its liability mix, while maintaining stable growth of deposits. In this regard, the proportion of generally low-interest bearing demand deposits, both corporate and personal, increased by 2.04 percentage points and 1.83 percentage points during the year.

The following table sets forth the principal components of the Group's domestic deposits from customers by customer type:

Unit: RMB million, except percentages

	As at 31 December							
	2006		2005		2004		2003	
Domestic	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Corporate deposits								
Demand deposits	**871,331**	**26.65%**	734,140	25.08%	657,481	25.80%	574,030	25.09%
Time deposits	**420,017**	**12.85%**	393,394	13.44%	283,435	11.12%	240,824	10.52%
Sub-total	**1,291,348**	**39.50%**	1,127,534	38.52%	940,916	36.92%	814,854	35.61%
Personal deposits								
Demand deposits	**544,974**	**16.67%**	470,508	16.07%	416,516	16.34%	351,875	15.38%
Time deposits	**1,295,672**	**39.62%**	1,208,176	41.27%	1,091,760	42.84%	1,040,315	45.46%
Sub-total	**1,840,646**	**56.29%**	1,678,684	57.34%	1,508,276	59.18%	1,392,190	60.84%
Security and margin deposits	**137,815**	**4.21%**	121,344	4.14%	99,417	3.90%	81,310	3.55%
Total	**3,269,809**	**100.00%**	2,927,562	100.00%	2,548,609	100.00%	2,288,354	100.00%

Customer Deposits by Geography

The following table sets forth the principal components of the Group's deposits from customers by geography:

Unit: RMB million, except percentages

	As at 31 December							
	2006		2005		2004		2003	
Group	**Amount**	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total
Chinese Mainland	**3,269,809**	**79.92%**	2,927,562	79.13%	2,548,609	76.34%	2,288,354	75.44%
Hong Kong & Macau and other overseas regions	**821,309**	**20.08%**	771,902	20.87%	789,839	23.66%	745,010	24.56%
Total	**4,091,118**	**100.00%**	3,699,464	100.00%	3,338,448	100.00%	3,033,364	100.00%

Domestic deposits from customers accounted for a majority of the Group's total deposits from customers. The geographic composition of domestic deposits from customers is summarized in the following table.

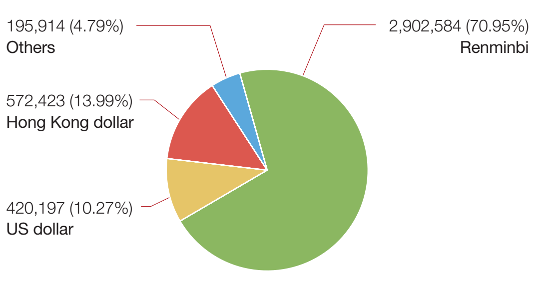
Unit: RMB million, except percentages

	As at 31 December							
	2006		2005		2004		2003	
Domestic	**Amount**	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total
Northeastern China	**250,412**	**7.66%**	226,695	7.74%	203,727	7.99%	183,440	8.02%
Northern China	**686,480**	**20.99%**	640,856	21.89%	534,382	20.97%	489,667	21.40%
Eastern China	**1,096,859**	**33.55%**	955,325	32.63%	824,746	32.36%	735,308	32.13%
Central and Southern China	**874,594**	**26.75%**	791,382	27.03%	714,551	28.04%	644,504	28.16%
Western China	**361,464**	**11.05%**	313,304	10.70%	271,203	10.64%	235,435	10.29%
Total	**3,269,809**	**100.00%**	2,927,562	100.00%	2,548,609	100.00%	2,288,354	100.00%

The most significant concentration of domestic deposits continues to be in the Northern China, Eastern China, Central and Southern China. The aggregate balance of these deposits from customers in these three regions at the end of 2006 was RMB2,657.933 billion, representing 81.29% of total domestic deposits from customers and 64.97% of the Group's total deposits from customers. As the areas of most significant economic activity in China, these three regions are also the focus of intense business development activities for the Bank.

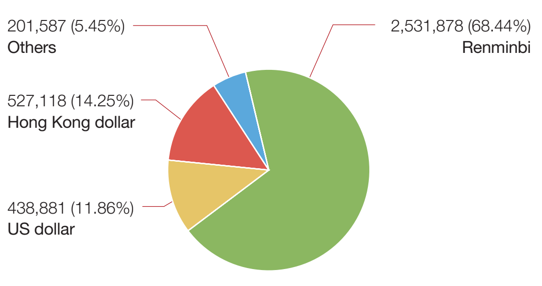
Customer deposits by currency RMB million/(%)

31 December 2006



Customer deposits by currency RMB million/(%)

31 December 2005



Deposits from customers denominated in RMB remained the Group's most significant funding source. At the end of 2006, the Group's deposits from customers denominated in RMB totalled RMB2,902.584 billion, representing 70.95% of the Group's total deposits from customers, an increase of 2.51 percentage points compared to the prior year. During 2006, deposits from customers denominated in RMB increased RMB370.706 billion, representing 94.65% of the increase in the Group's total deposits from customers. Deposits from customers denominated in USD and HKD, accounted for 10.27% and 13.99%, respectively, of the Group's total deposits from customers at the end of 2006.

Equity

The Bank substantially increased its capital base in recent years through, among other things, the capital contribution from Huijin at the end of 2003, the sale of equity to strategic investors during 2005, and the IPO in 2006. At the end of 2006, the Group's total equity was RMB412.956 billion, representing an increase of RMB157.437 billion (61.61%) compared to the prior year-end. This increase was comprised of the following significant elements:

(1) On 13 March 2006, the Bank issued approximately 8.514 billion ordinary shares of par value of RMB1.00 each to the National Council for Social Security Fund at a premium. The share premium (net of share issuance costs) of RMB1.481 billion was recognized in the capital reserve;

(2) On 1 June 2006 and 9 June 2006, the Bank issued approximately 29.404 billion H-shares of par value of RMB1.00 each through a global offering to Hong Kong and overseas investors at a premium. The share premium (net of share issuance costs) of RMB58.128 billion was recognized in the capital reserve;

(3) On 29 June 2006, the Bank issued approximately 6.494 billion A-shares of par value of RMB1.00 each through an initial public offering to domestic investors at a premium. The share premium (net of share issuance costs) of RMB12.958 billion was recognized in the capital reserve;

(4) In 2006, the Group's profit after income tax amounted to RMB48.264 billion and profit attributable to equity holders of the Bank was RMB42.83 billion.

Please refer to the Consolidated Statement of Changes in Equity in the Financial Statements for additional details.

Off-balance Sheet Items

Off-balance sheet items include derivative financial instruments, contingent liabilities and commitments.

Derivative Financial Instruments

The Group entered into various foreign currency, interest rate, equity and precious metals derivative transactions principally for trading, asset and liability management and on behalf of customers.

Please refer to Note V.16 to the Financial Statements for the contractual/notional amounts and fair values of derivative instruments held by the Group at the end of 2006.

Contingent Liabilities and Commitments

Contingent liabilities and commitments include legal proceedings, assets pledged, capital commitments, operating leases, certificate treasury bond redemption commitments and credit commitments. Credit commitments were the single largest component, totaling RMB1,087.822 billion at the end of 2006.

Please refer to Note V.38 to the Financial Statements for more details related to contingent liabilities and commitments.

Segment Reporting by Geography

The Group conducts its business activities in the Chinese mainland, Hong Kong and Macau and other overseas locations. The geographical analysis of profit attributable to our business activities, along with information on the related assets and liabilities, in these three geographic areas are set forth in the following table:

Unit: RMB million

	Chinese mainland		Hong Kong & Macau		Other overseas regions		Eliminations		Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Total assets	**4,220,395**	3,736,930	**1,084,078**	969,872	**214,766**	186,995	**(191,586)**	(153,749)	**5,327,653**	4,740,048
Total liabilities	**3,921,219**	3,586,428	**980,389**	872,995	**204,675**	178,855	**(191,586)**	(153,749)	**4,914,697**	4,484,529
Net interest income	**101,449**	83,083	**18,105**	16,234	**1,813**	1,691	**4**	—	**121,371**	101,008
Non-interest income	**7,061**	8,313	**19,564**	14,356	**931**	1,429	**(549)**	—	**27,007**	24,098
Including: net fee and commission income	**8,629**	5,207	**5,369**	3,226	**829**	814	**(504)**	—	**14,323**	9,247
Operating expenses and others	**(50,357)**	(46,375)	**(16,951)**	(11,831)	**(1,483)**	(1,778)	**60**	—	**(68,731)**	(59,984)
Impairment (losses)/write back on loans and advances	**(15,546)**	(15,345)	**2,983**	3,276	**221**	583	**—**	—	**(12,342)**	(11,486)
Profit before income tax	**42,607**	29,695	**24,388**	22,191	**1,482**	1,925	**(540)**	—	**67,937**	53,811
Income tax expense	**(16,138)**	(18,911)	**(3,435)**	(3,022)	**(290)**	(320)	**190**	—	**(19,673)**	(22,253)
Profit for the year	**26,469**	10,784	**20,953**	19,169	**1,192**	1,605	**(350)**	—	**48,264**	31,558

The Chinese mainland continues to be the Group's most important geographic business segment. At the end of 2006, the total assets of this segment (before inter-company eliminations) were RMB4,220.395 billion, an increase of RMB483.465 billion (12.94%) compared to the prior year-end, accounting for 76.47% of the Group's total assets (before inter-company eliminations), an increase of 0.11 percentage point compared to the prior year-end. In 2006, this segment had a profit after income tax (before inter-company eliminations) of RMB26.469 billion, an increase of RMB15.685 billion (145.45%) compared to the prior year, accounting for 54.45% of the Group's profit after income tax (before inter-company eliminations). This segment has become increasingly important to the Group as a source of revenue and profit growth. The Group has an extensive domestic branch network, providing traditional retail and corporate banking services. The Group also provides both RMB and foreign currency banking services. With respect to the latter, the Group continues to maintain a distinct advantage over its competitors by virtue of its unique position in the foreign currency business.

The Hong Kong and Macau segment is also an important one for the Group. At the end of 2006, total assets of this segment (before inter-company eliminations) were RMB1,084.078 billion, an increase of RMB114.206 billion (11.78%) compared to the prior year-end, accounting for 19.64% of the Group's total assets (before inter-company eliminations), a decrease of 0.18 percentage point compared to the prior year-end. In 2006, this segment had a profit after income tax (before inter-company eliminations) of RMB20.953 billion, an increase of RMB1.784 billion (9.31%) compared to the prior year, accounting for 43.10% of the Group's profit after income tax (before inter-company eliminations). Apart from traditional commercial banking activities, the Group also has subsidiaries operating insurance, investment banking and investment businesses in this geographic area. These include BOCI, BOCG Insurance and BOCG Investment. The continued development of these businesses is essential to the successful implementation of the Group's plan to develop a universal banking platform.

The Group has also established a substantial overseas network, with operations in Europe, North America, South America, Africa, and other Asia-Pacific regions. At the end of 2006, the total assets of these regions (before inter-company eliminations) were RMB214.766 billion, an increase of RMB27.771 billion (14.85%) compared to the prior year-end, accounting for 3.89% of the Group's total assets (before inter-company eliminations). These overseas operations had a profit after income tax (before inter-company eliminations) of RMB1.192 billion, accounting for 2.45% of the Group's profit after income tax (before inter-company eliminations).

Please refer to the "Business Review" for additional information on business segments.

Critical Accounting Estimates and Assumptions

The application of the Group's accounting policies in the preparation of its consolidated financial statements requires a number of critical accounting estimates and assumptions. These estimates and assumptions were made based on past experience and reasonable expectations of future events. Further, the basis for making these estimates and judgments is subject to a process of re-evaluation. Management believes that the accounting estimates and assumptions made properly reflected the economic conditions in which the Group was operating and the relevant conditions specific to individual estimates and judgments. The areas involving significant

estimates and assumptions include the allowance for loan impairment losses and bad debt write-offs, classification of investment securities, measurement of the fair value of financial assets and financial liabilities, measurement of the fair value of investment properties, measurement of retirement benefit obligations, and the recognition of income tax expense.

Please refer to Note II and IV to the Financial Statements for more detailed information related to the Group's accounting policies and accounting estimates.

Other Financial Information

The reconciliation of net assets and net profit of the Group prepared in accordance with PRC GAAP to that prepared in accordance with IFRS is set forth in "Supplementary Information — Financial Statements Prepared in Accordance with PRC GAAP".

Management Discussion and Analysis — Business Review

With an international network in 27 countries and regions, the Bank's scope of business encompasses three main areas: commercial banking, investment banking and insurance. It has established correspondent relationships with 1,500 agency banks with 47,000 branch offices worldwide. Through its global network, service quality and the depth of its strength, the Bank continues to maintain a special competitive advantage in the domestic banking market.

The following table sets forth the operating profit attributable to each of the principal lines of business for the periods indicated:

Unit: RMB million, except percentages

	2006		2005		2004		2003	
	Amount	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total
Commercial banking	**63,392**	**94.19%**	49,735	92.73%	34,902	94.02%	31,022	82.92%
Investment banking	**1,055**	**1.57%**	274	0.51%	338	0.91%	337	0.90%
Insurance	**581**	**0.86%**	334	0.62%	266	0.72%	196	0.52%
Others	**2,769**	**4.11%**	3,293	6.14%	1,616	4.35%	5,861	15.66%
Elimination	**(492)**	**(0.73%)**	—	—	—	—	—	—
Total	**67,305**	**100.00%**	53,636	100.00%	37,122	100.00%	37,416	100.00%

Commercial Banking

Commercial banking business is the traditional main business of the Bank. It includes corporate banking business, personal banking business and financial market business (mainly consists of treasury operations).

The following table sets forth the operating profit of the main commercial banking business lines for the periods indicated:

Unit: RMB million, except percentages

	2006		2005		2004		2003	
	Amount	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total
Corporate banking business	**32,278**	**50.92%**	27,033	54.36%	17,215	49.32%	17,103	55.13%
Personal banking business	**17,396**	**27.44%**	14,117	28.38%	6,990	20.03%	4,050	13.06%
Treasury operations	**13,718**	**21.64%**	8,585	17.26%	10,697	30.65%	9,869	31.81%
Total	**63,392**	**100.00%**	49,735	100.00%	34,902	100.00%	31,022	100.00%

Corporate Banking Business

Business scope and strategic positioning

The Bank provides its corporate customers (including state-owned enterprises, private enterprises, foreign-investment enterprises, financial institutions and government agencies) with various financial products including loans, bill discounting, trade finance, deposit-taking, settlement, clearing, cash management services as well as integrated financial solutions tailor-made to meet customers' needs. It is the Bank's strategy to target large and high quality corporate customers and to cultivate a long-term cooperative relationship with them. By the end of 2006, the Bank has maintained credit business relationships with more than 41,000 corporate customers and has more than 1,500 financial institution group customers. Meanwhile, the Bank selectively explores business opportunities with small and medium-sized enterprises ("SME") and has launched new financial services for SME customers in 11 cities located in the "Yangtse River Delta" area.

Opportunities and challenges

In 2006, the effect of the macro-economic control policy of the State gradually became apparent as expansion in the production capacity of some industries began to be restrained. Competition between banks on products, services and price became more intensive. The Bank actively adjusted its customer structure in accordance with the macro-economic control policy of the State. The Bank expanded its key customers group and implemented differential relationship management and service policies. Significant achievements have been made in the marketing and advancing of loans. Based on a global credit line, the Bank improved its ability to serve its customers at a global level by enhancing its coordination with branches and subsidiaries overseas. The Bank successfully operated a number of projects together with BOCI, BOCG Investment, BOCG Insurance, etc, realising group synergies by tapping into their respective resources. It enhanced the Bank's abilities to provide integrated services to its core customers based on its universal banking platform. The Bank advocated product innovation and continuous improvement of its product mix, so as to meet customers' sophisticated demands for financial products and to sharpen its competitive edge. The Bank set up training plans for employees engaged in the corporate banking business and established working teams of professional customer managers and product managers. Credit monitoring of loans has been strengthened and customer management system has been put into application. The quality of the underlying assets of corporate loans has continued to improve.

Business operation

In 2006, the pre-tax profit (before inter-company eliminations) of the corporate banking business was RMB32.3 billion, representing an increase of 19.4% from the previous year. The pre-tax ROA reached 1.87%.

Unit: RMB million

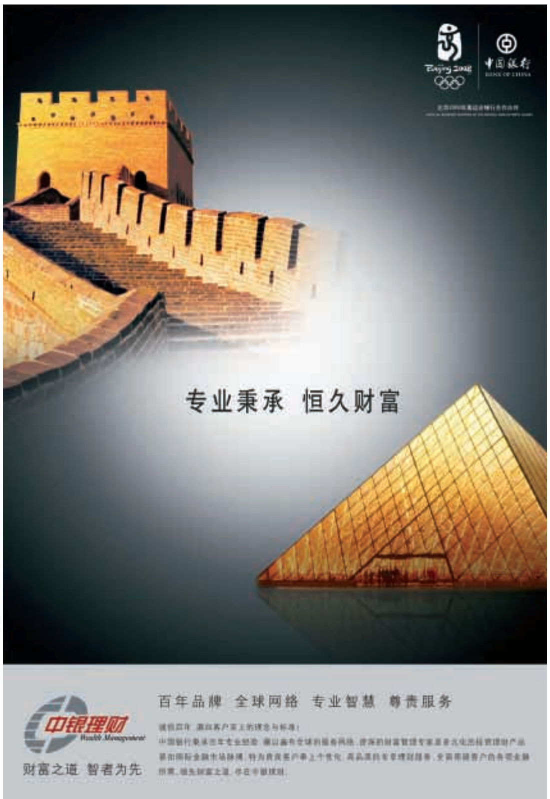
	2006	2005	2004	2003
Net interest income	**55,809**	51,304	44,287	34,628
Non-interest income	**10,915**	9,564	7,188	5,973
Operating expenses and others	**(22,904)**	(21,127)	(18,071)	(14,142)
Impairment losses	**(11,542)**	(12,708)	(16,189)	(9,356)
Operating profit	**32,278**	27,033	17,215	17,103
Profit before income tax	**32,278**	27,033	17,215	17,103
Segment assets	**1,795,152**	1,655,351	1,608,781	1,578,313

Deposit business

With the rapid growth of the Chinese economy, the Bank proactively adjusted its deposit currency structure and has taken in more corporate deposits denominated in Renminbi. At the end of 2006, the balance of domestic Renminbi-denominated corporate deposits was RMB1,160.8 billion, representing an increase of RMB165.4 billion or 16.6% compared to the prior year-end. The Bank's foreign currency deposits kept growing as a result of its continuous efforts to maintain its competitive advantage in the foreign currency business. At the end of 2006, the balance of domestic foreign currency corporate deposits was USD16.72 billion, representing an increase of USD344 million or 2.10% as compared to the prior year-end, in which the Bank continued to maintain its leading position in the market. At the end of 2006, the balance of foreign currency corporate deposits of overseas operations totalled RMB237.4 billion, representing an increase of RMB16.2 billion or 7.3% compared to the prior year-end.

Loan business

The Bank strengthened its marketing efforts to key customers by optimizing the loan review process and approval procedures and implementing a flexible pricing authorization system. The structure of the Bank's loan by customers, industries and loan tenure as well as the asset quality have all continued to improve. At the end of 2006, the outstanding balance of domestic Renminbi-denominated corporate loans was RMB1,245.1 billion, representing an increase of RMB149 billion or 13.59% compared to the prior year-end. This represented a market share of 6.3% among the financial institutions in China. The foreign exchange loan business is principally affected by increases in foreign exchange rates and on-lending loan repayment. At the end of 2006, the outstanding balance of domestic corporate loans denominated in foreign currencies was USD38.374 billion, representing a decrease of USD1.784 billion compared to the prior year-end. The Bank maintained the leading position in foreign currency-denominated corporate loans with a market share of 29.12% among PRC financial institutions. At the end of 2006, the outstanding balance of foreign currency-denominated corporate loans of overseas operations was RMB304.5 billion, representing an increase of RMB12.4 billion or 4.2% compared to the prior year-end.



Financial institutional banking business

The Bank's financial institutional banking business includes local and foreign currency deposit taking, local and foreign currency clearing, custody, fund distribution, asset management services, insurance agency business, securities and futures clearing, bond distribution, clearing agency and foreign currency note services for financial institutions and correspondent banking services. The Bank focused on expanding the scope of its cooperation with other financial institutions through customer referral, resource sharing and joint development of new products.

The Bank also optimized the structure of its deposit taking business by actively reducing the amount of Renminbi-denominated negotiated deposits which have a higher cost. By the end of 2006, the domestic branches of the Bank received from financial institutions RMB demand and time deposits of 134.1 billion, representing a decrease of RMB7.3 billion compared to the previous year. The balance of foreign currency-denominated deposits from financial institutions (including demand and time deposits) was USD10 billion, representing an increase of USD1.4 billion from the previous year-end.

The Bank also conducts US Dollar, Euro and Japanese Yen clearing services through its New York, Frankfurt and Tokyo branches. These branches, together with the Singapore branch, are all tier one clearing banks in the local markets. The Bank is committed to enhancing the quality of its clearing services by improving coordination between its domestic and overseas operations. As a result, the clearing services for US Dollar, Euro and Japanese Yen reached historic record high. The New York branch ranked 11th in terms of USD clearing volume through CHIPS, Clearing House Interbank Payment System, and the Tokyo branch was ranked 10th in the Japanese Yen clearing system.

International settlement and trade finance

International settlement and trade finance business is one of the Bank's traditional strengths. It comprises trade settlement, non-trade settlement, trade finance, guarantee, factoring, etc. The Bank benefited from the growth of the domestic economy and international trade, and enjoyed rapid development of its international settlement services. The 2006 annual income of the domestic branches and outlets from international trade-related services was RMB6.883 billion.

By the end of 2006, transaction volume for the international settlement business (including international trade settlement and non-trade settlement) of the domestic branches and outlets was USD588.045 billion, representing an annual growth of 12.04%. For international trade settlement business, the transaction volume was USD492.848 billion, representing an annual increase of 19.22%. According to data from the

State Administration of Foreign Exchange (or SAFE), at the end of 2006, the Bank maintained its leading position in international trade-related services with a market share of 31.13%.

International settlement services of the Group

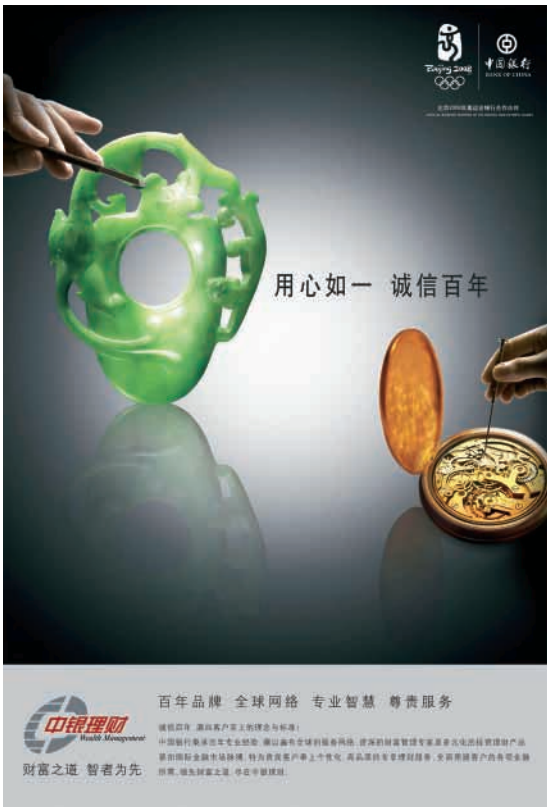
Unit: USD million

		2006	2005
Domestic branches and outlets	Trade settlement	**492,847.57**	413,383.26
	Non-trade settlement	**95,197.77**	111,474.64
	Sub-total	**588,045.34**	524,857.90
Overseas operations	Trade settlement and Non-trade settlement	**343,358.05**	283,233.31
Group	**Total**	**931,403.39**	808,091.21

In 2006, despite the negative impact of increasing foreign currency interest rates, the Bank achieved steady growth in foreign-currency denominated trade finance. For the year 2006, the foreign currency-denominated trade finance conducted by the domestic branches of the Bank and outlets in the PRC was USD27.089 billion, representing a 2.90% increase compared to 2005. By taking advantage of the rapidly growing domestic trade business, the Bank saw a dramatic growth in its Renminbi-denominated trade finance business, with the total amount reaching RMB44.552 billion, representing an increase of 166.65% compared to 2005.

In relation to guarantee services, the Bank has consolidated its leading position in this area by actively pursuing business opportunities both domestically and internationally. In 2006, the transaction volume for foreign currency-denominated guarantee business of the domestic branches and outlets of the Bank in the PRC reached USD12.700 billion with an annual growth of 80.59%, and the transaction volume for Renminbi-denominated guarantee businesses in the PRC amounted to RMB73.234 billion with an annual growth of 90.97%.

The transaction volume for international factoring from domestic branches and outlets of the Bank in the PRC increased by 19.75% from the previous year to USD5.645 billion in 2006. The transaction volume for domestic factoring



business reached RMB34.314 billion, representing an increase of 163.62% from the previous year. The Bank was elected a member of the Executive Committee of the Factors Chain International ("FCI") which is the first time a Chinese factor representative has been elected to the FCI board. This further enhances the Bank's reputation in the international factoring community.

The international settlement and trade finance business of the Bank's overseas operations continued to maintain rapid growth. In 2006, the transaction volume for overseas operations' international settlement business was USD343.358 billion, representing an increase of 21.23% from the previous year. The transaction volume for trade finance business was USD43.219 billion, representing a year-on-year increase of 26.57%.

Other fee-based businesses for corporate customers

The Bank provides an extensive range of fee-based products and services for corporate customers. Apart from international settlement services, the Bank also provides domestic settlement, financial institutions services, lending-related services and online banking services.

Domestic settlement activities primarily include bank drafts, promissory notes, checks, foreign currency exchange, remittance and banker's acceptance. In 2006, the domestic branches and outlets generated a total domestic settlement income of RMB0.85 billion, representing an increase of 31.0% from the previous year.

Lending-related services include on-lending arrangements, syndicated loan arrangement, entrusted loans, lending agent for policy banks and corporate finance advisory work. In 2006, the Bank participated in a number of syndicated loans either as lead arranger or participant. In 2006, the fee income of the domestic branches and outlets in the PRC generated from their lending-related services was RMB0.426 billion, increasing by 43.92% over the previous year.

Based on its corporate internet banking platform, the Bank provides its corporate customers with a wide range of cash management services, including account services, Renminbi payment and collection services, settlement and clearing services, centralized receivable management and liquidity management, etc. The Bank also provides group companies with foreign exchange fund sweeping and management services. In 2006, the total transaction volume for corporate internet banking exceeded RMB10 trillion, and the scope of the service was extended to nine overseas branches. This further improved the Bank's ability to provide worldwide financial support to Chinese enterprises with a global business coverage.

Business innovation

In 2006, the Bank formulated the "Guidelines on Corporate Banking Product Innovation and Management", which developed an information-sharing platform for the Bank's products. The Bank also compiled the "Handbook of Corporate Banking Products", which helped to standardize its corporate banking products. The key innovative products developed by the Bank include revolving loans, inventory-linked acceptance for dealer financing, purchase of account receivables, asset-backed loans, equity trust and foreign currency-denominated entrusted loans. The corporate finance advisory business became a new focus of growth and domestic and outlets branches in the PRC have begun providing such services to corporate customers. The Bank cooperated with strategic investors in a number of structured financing projects, thereby improving its ability to serve the needs of corporate clients with high-end financial services and products. In 2006, the Bank started to provide third party cash custody service to securities companies, which consolidated the Bank's status as a major bank services provider in the securities settlement market.

The Bank established and strengthened its trade financing brand in the market by promoting the "Da" (Chinese character which means "Access") series products, including "Export Quanyida", "Import Huilida", "Import Baofuda", "Rongfuda" etc. The Bank was proactive in developing supply chain finance products. It was the first bank in the PRC to offer domestic supply chain finance solutions to customers. It was also the first bank in the world to introduce the "Back-Flow International Factoring" product that solves the technical problem caused by agents in international factoring. The product has been widely acclaimed within the factoring community.

The Bank has successfully acquired SALE in 2006, which further expanded its corporate banking business platform.

Outlook

The financial industry is striding into a new competitive era in which the participants will become more diversified with competition coming from all directions. In 2007, the Bank will continue to improve its service to customers. Some major measures include: improving the service model for key customers; optimizing business procedures in the corporate banking business; strengthening coordination and cross-selling among the head office and the branches in both domestic and overseas markets and across different business lines; encouraging product innovation and improving the service model for small business. These efforts will help the Bank lay down a solid foundation for a sustainable growth in the future.

Personal Banking Business

Annual international and domestic awards received in the personal banking business:

- Hexun.com:
  2006 Best Personal Residential Mortgage Loan Service ("Ideal Home");
  2006 Best Marketing Practice ("The Great Wall ChinaRen Card");
  2006 Maximum Investment Value, RMB Wealth Management Products

- VISA:
  2006 Best Olympic Partner;
  2006 Best Acquiring Bank;

- MasterCard:
  2006 Best Contribution of the Year (PRC);
  2006 Best Acquiring Bank of the Year;
  2006 Best International Card of the Year (Great Wall International MasterCard in GBP);
  2006 Best Branch Sales of the Year (Bank of China Jiangsu Branch);

- China Union Pay:
  2006 Advance Award for Best Execution of CUP Business Regulations;
  2006 Excellent Achievements in CUP Standard Credit Card Issuance;
  2006 Extraordinary Contribution Award for CUP Cards Acquiring;

Business scope and strategic positioning

The Bank provides a broad range of personal banking products and services, including savings deposit, personal loans, payment and settlement, bank cards and wealth management services.

Personal banking business is one of the Bank strategic priorities. It strives to accelerate the development of its personal banking business in order to improve the business and income structure and to increase revenues while reducing risk. The Bank provides customers with standardized quality products and services as well as customized products and services to affluent clients.

At the end of 2006, the Bank had approximately 0.14 billion retail customers, 0.183 billion Renminbi-denominated deposit accounts and 35 million foreign currency-denominated deposit accounts.

Opportunities and challenges

In 2006, a series of macro-economic adjustment measures implemented by the central government had a great impact on the personal residential loans market. Deposits of residents were partially diverted away due to the buoyant and fast-growing capital market. The deposits were subject to greater fluctuation. The continuous appreciation of the Renminbi reduced the desire of residents to keep foreign currencies and settlement of foreign exchange transactions by individuals increased. Interest rate hikes by the PBOC contributed to the increase in Renminbi-denominated deposits. However, consumer loan borrowers were forced to pay higher interest as a consequence and therefore the amount of early loan repayments also increased.

The Bank proactively makes adjustment in response to changes in the market environment. The Bank built up specialized marketing teams for personal loans and implemented a “Direct Sale Model” system. The Bank also continued to improve its centralized personal loan approval mechanism by upgrading the system and optimizing the approval process in order to improve efficiency in reviewing and approving facilities. With these innovations, the Bank greatly improved the competitiveness of its personal lending business. The Bank also re-adjusted the renovation of its operating network, so as to implement the separation of various functions, speed up the business process, relocate services and establish a new KPI system, which aims at increasing cross-selling and customer wallet share. The Bank

strengthened product and service innovation, provided a series of customized services to affluent customers, and developed and consolidated the mid-level customer base to effectively maintain sustainable growth for all related business.

Business operation

In 2006, the pre-tax profit (before inter-company eliminations) of the personal banking business was RMB17.4 billion, representing an increase of 23.2% over the prior year with a pre-tax ROA of 2.7%.

Unit: RMB million

	2006	2005	2004	2003
Net interest income	**36,414**	32,302	30,148	26,469
Non-interest income	**8,897**	6,176	5,088	4,507
Operating expenses and others	**(27,121)**	(25,508)	(20,592)	(17,874)
Impaired loans (losses)/write-back	**(794)**	1,147	(7,654)	(9,052)
Operating profit	**17,396**	14,117	6,990	4,050
Profit before income tax	**17,396**	14,117	6,990	4,050
Segment assets	**687,553**	599,263	556,066	453,665

Savings deposits

At the end of 2006, the balance of domestic savings deposits denominated in Renminbi was 1,602.755 billion, representing an increase of RMB186.429 billion compared to the prior year-end. The Bank's market share among all financial institutions was 9.92%. The balance of domestic foreign exchange deposits was USD30.465 billion, representing a decrease of USD2.044 billion from the previous year-end. The balance of overseas foreign currency deposits was RMB575.851 billion, representing an increase of RMB32.209 billion compared to the previous year-end.

Personal loans

At the end of 2006, the balance of domestic Renminbi-denominated personal loans was RMB443.6 billion, representing an increase of RMB63.6 billion from the previous year, amongst which the outstanding balance of residential loans was RMB337.8 billion, representing an increase of RMB51 billion from the previous year. The balance of overseas personal loans was RMB139.1 billion, representing a decrease of RMB3.9 billion from the previous year.

Personal fee-based business

Wealth management

In 2006, the Bank strived to develop its personal wealth management business by eliciting synergies between its domestic and overseas branches, which further enhanced customer awareness of the "BOC Wealth Management" brand.

The Bank continued to build specialized service facilities in 2006. It established 97 new wealth management centers, all built according to a uniform standard within the year, bringing the total number of wealth management centers to 297. The Bank continued to improve its services provided to its wealth management customers and the ability to expand such wealth management customer base. It increased the number of wealth management customers to over 700,000, representing an increase of 200,000 from the previous year.

The Bank strived to improve the specialized wealth management services. It provided "Reservation Service" in its domestic wealth management centers for wealth management customers, marketed "Overseas Wealth Management" and "Investment Advisory Management" service in cooperation with BOCHK and BOCI and launched the "Dedicated Service Center" brand.

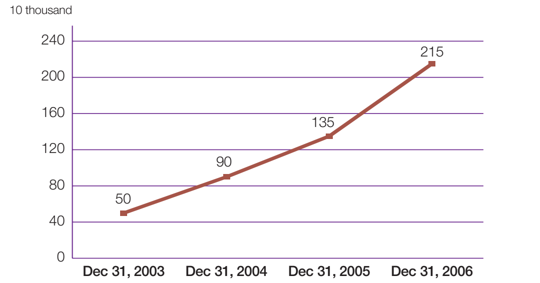
The Bank endeavored to build a professional wealth management team. The BOC wealth management specialist group was staffed with over 20 specialists from its related departments and BOCHK, BOCI, BOC Securities, BOCG Insurance etc, supporting the promotion of the "BOC Wealth Management" for overseas wealth management and customer cultivation. The number of full-time specialized client managers in the wealth management team reached 2,226 by the end of 2006, among which 1,007 have obtained an AFP certification and 197 have obtained a CFP certification.

Bank card business

The Bank provides various types of bank card products and services in response to different customer needs, including single credit cards denominated in dual-currencies, quasi-credit cards, debit cards and agent services for cards issued by other issuers. In 1985, the Bank issued China's first bank card.

Credit card The Bank provides a broad range of credit card products, including credit cards denominated in single and dual-currencies which can be settled in Renminbi, US Dollar, HK Dollar, Euro and Japanese Yen. By the end of 2006, the Bank has issued about 2.15 million credit cards in Chinese Mainland.

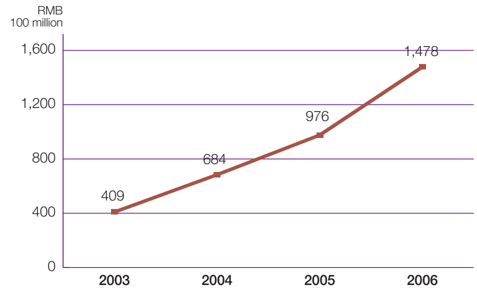
Credit Card Volume (Domestic)



Quasi-credit card The Bank was the first bank in China to issue quasi-credit cards. This product uses the "Great wall" brand and provides saving, settlement and payment functions. At the end of 2006, the Bank had issued 7.21 million quasi-credit cards in China. The Bank is the largest quasi-credit card issuer in China in terms of issued card volume and has a market share of over 37%.

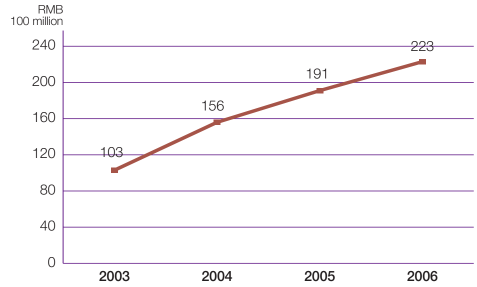
Debit card The Bank provides debit card products which link directly to client bank accounts. Cardholders may engage in trading in foreign exchange, bullion, fund, treasury bonds and other securities, and may also access the Bank's telephone banking and internet banking services through their debit cards. By the end of 2006, the Bank had issued 98.6 million debit cards in Chinese Mainland.

BOC RMB Card Sale Volume (Domestic)



Merchant Acquiring Services The Bank provides settlement services to merchants by processing credit card, quasi-credit card and debit card transactions. The Bank has one of the largest merchant acquiring networks in China. By the end of 2006, the Bank had 190,000 merchants, realizing foreign card acquiring transactions of RMB22.3 billion.

Foreign Card Transaction Volume Acquired by BOC (Domestic)



Business innovation

The Bank focused on the credit requirements of its customers in the areas of consumer payment and investment. It launched some competitive direct customer service products, including "Easy Mortgage" for first-hand residential mortgage loan, "Safe Mortgage" for second-hand residential mortgage loan, fixed interest rate mortgage, "Fast Auto Loan" under the umbrella of the "Ideal Home" brand, etc. Personal revolving loans were launched in some developed regions. This product has grown rapidly and brought in new revenue.

The Bank pays great attention to bank card innovation. In 2006, it promoted various credit card and co-brand products, such as the BOC City Card, the Great Wall Commercial Card, the BOC Jiaotong University Affinity Card, the BOC Peking University Co-Brand Card, the BOC Golden Eagle Co-Brand Card, the BOC (Shanghai) SOGO JCB Co-Brand Card and the BOC PKU Affinity Card. In addition, the Bank promoted a lot of quasi-credit card products, including the Great Wall Ruziniu Co-Brand Card, the Great Wall PICC Co-Brand Card, the Great Wall Jianye Co-Brand Card, the Great Wall Jiashi Co-Brand Card, the Great Wall Zhonghai Co-Brand Card, the Great Wall Zhongsheng Co-Brand Card etc. The Bank emphasized the importance of building relationships with customers of great development potential. It has strategically launched "Great Wall ChinaRen Alumni Card", "Great Wall Blooming Season Card" etc.

The Bank emphatically developed new personalized investment and wealth management products. It has made available investment products which are linked to overseas stock markets, Renminbi-denominated derivatives, Renminbi-denominated products —

"Market Game" and a QDII product "BOC USD Enhanced Cash Management", and jointly launched derivative products denominated in foreign currencies linked to stock markets in cooperation with its strategic investors.

As the banking partner of the 2008 Beijing Olympic Games, the Bank launched the Olympic Growth Deposit Passbook and Olympic Courtesy Deposit Certificate, aligned with the Olympic brand.

The Bank actively developed its overseas retail market in 2006. Five of its overseas branches including Singapore and Seoul, piloted the Renminbi-denominated cash exchange and deposit business. The Bank increased the choice of foreign currencies for Renminbi-denominated remittance, and issued debit cards at its branches in Paris and London. BOCHK marketed options, off-shore deposits and acted as the agent for precious metal trading services through its domestic branches and outlets. The London branch launched banking services for Chinese students studying in the UK in cooperation with RBS Group. The New York branch cooperated with Citizens Bank, a subsidiary of RBS Group in the US, on the provision of international remittance services to the PRC. It also launched "Family Remittance" with BTS in the US. It also started the selling of Korean Won to the Chinese citizens in the PRC.

Outlook

In 2007, the Bank will focus its personal banking business on a client-oriented tenet and strive to improve business operations, perfect its service model, optimize business processes, develop and cultivate affluent customers, strengthen cross-selling and internal coordination, promote product innovation, strengthen marketing and increase the core competitiveness of the services delivered by the outlets. The Bank will accelerate innovation in personal banking for quick development and expansion of its private banking business and wealth management through extending its cooperation with overseas strategic investors on products, services, human resources etc. The human resources strategic plan for the personal banking business will be drawn up to accelerate the forming of specialized teams and to lay down a solid foundation in support of sustainable development.

Financial Market Business

Business scope and strategic positioning

The financial market business of the Bank includes foreign exchange and precious metal transactions, bond transactions, short-term financing notes and bills, local and foreign-currency bond investments, financial derivatives and commodity futures, local and foreign currency wealth management and asset management, distribution and custody of funds etc. The Bank conducts its treasury operations primarily through five trading centers located in Beijing, Shanghai, Hong Kong, London and New York. These trading centers manage positions and quotations in relays, which enables the Bank to conduct its treasury operations on a 24-hour basis.

The Bank's development strategies for its financial market business are: giving equal emphasis on local and foreign currency-denominated business, carrying out treasury transactions on self-owned accounts and agency accounts and providing excellent marketing and customer service, so as to strengthen its leading position in the domestic financial market; maintaining sustainable product innovation and risk management, cultivating professional human resources; achieving a continual critical competitiveness; realizing the integration of global trading and investment; achieving the excellence of advanced international banks in terms of both business volume and profitability; and gradually building up a good brand image for the financial market business.

Opportunities and challenges

In 2006, due to the uncertain expectation on the FED's interest policy, there were relatively large fluctuations in the interest rate market. The yield of the US 10-year treasury bond experienced a large decrease after its earlier large increase. Major currencies maintained movements within their normal range but with declining volatility, and the market environment was not favorable for foreign currency-denominated treasury operations.

Meanwhile, due to tight monetary policies, the overall price of the domestic bond market witnessed a downturn. The overall yield of the Renminbi-denominated bond market was in an upward trend. The yield on Renminbi-denominated bonds increased significantly compared to that of the beginning of the year. The yield curve flattened quite obviously. Treasury operations denominated in Renminbi also faced an unfavorable market environment.

However, the stock market in 2006 stayed strong, and sales of fund products were on an ascending trend. The funds distributed by the Bank on a commission basis were primarily equity funds with the highest commissions, and the market environment of the fund business was much better compared to that of 2005. The commission income of the Bank set a historic record.

By deepening research and analysis of the market and strictly following investment guidelines, the Bank managed to capture profit opportunities despite unfavorable market conditions, and achieved sound returns.

Business operations

In 2006, the overall pre-tax profit (before inter-company eliminations) of the treasury operations increased to RMB13.7 billion for the Group, representing an increase of 59.8% compared to last year. The average pre-tax ROA was 0.5%.

Unit: RMB million

	2006	2005	2004	2003
Net interest income	**29,860**	18,053	13,585	15,324
Non-interest income	**(7,324)**	(2,363)	5,680	2,350
Operating expenses and others	**(8,818)**	(7,105)	(8,568)	(7,805)
Operating profit	**13,718**	8,585	10,697	9,869
Profit before income tax	**13,718**	8,585	10,697	9,869
Segment assets	**2,725,362**	2,397,839	2,019,737	1,860,575