

Report of the Board of Directors

The Board of Directors are pleased to present their report together with the audited consolidated financial statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2006.

Principal Activities

The Bank is engaged in the provision of a range of banking and related financial services, including commercial banking, investment banking and insurance businesses.

Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the interest income and other operating income of the Group.

Results and Appropriations

The results of the Group for the year are set out in the financial statements and notes thereof.

The Board has recommended a final dividend of RMB0.04 per share, amounting to approximately RMB10.154 billion, subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on Thursday, 14 June 2007. If approved, detail arrangement of the final dividend distribution (including the closure of H Share Register of Members; the record date to determine H Share and A Share shareholders' entitlement to the final dividend) for each holder of A Share and H Share will be announced after the Annual General Meeting separately.

The 2006 final dividend of the Bank will be denominated and declared in RMB. Dividend for A Share shareholders will be paid in RMB and dividend for H Share shareholders will be paid in Hong Kong dollars. RMB will be converted into Hong Kong dollars based on the average exchange rate prevailing one week before 14 June 2007 (such day inclusive), being the date of holding the Bank's Annual General Meeting, as announced by the PBOC for such conversion.

No interim dividend was paid for the period ended 30 June 2006. At the shareholders' meeting held in April 2006, it was approved that a dividend amounting to RMB1.375 billion in total, was paid to shareholders whose names appeared on the register of members of the Bank on 31 December 2005.

Closure of Register of H Share Shareholders

The H Share Register of Members of the Bank will be closed, for the purpose of determining H Share shareholders' entitlement to attend the Annual General Meeting, from Wednesday, 16 May 2007 to Thursday, 14 June 2007 (both days inclusive), during which period no transfer of shares will be registered. In order to attend the Annual General Meeting, H Share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 15 May 2007.

There is no book closure period for A Share Register of Members. A notice of Annual General Meeting setting out the record date for the meeting and related issues will be published in due course.

Donations

Charitable and other donations made by the Group during the year amounted to approximately RMB12.35 million.

Share Capital

As at the latest practicable date prior to the issue of this Annual Report and based on publicly available information, the Bank has sufficient public float, in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange at the time of our listing.

Distributable Reserves

Please refer to Note V.36 to the Financial Statements for details of distributable reserves of the Bank.

Fixed Assets

Please refer to Note V.22 to the Financial Statements for details of the fixed assets of the Bank.

Financial Summary

The Bank was listed on Hong Kong Stock Exchange and Shanghai Stock Exchange respectively in 2006. A summary of the annual results, assets and liabilities of the Bank for the last four years is set out in the section of "Financial Highlights".

Connected Transactions

Under Chapter 14A of the Hong Kong Listing Rules, transactions between connected persons (as defined under the Hong Kong Listing Rules) and the Bank will constitute connected transactions to the Bank. The details of such connected transactions are as follows:

Exempt Continuing Connected Transactions

Commercial banking services and products provided by the Bank in the ordinary and usual course of business

The Bank provides commercial banking services and products to customers in the ordinary and usual course of business. Such commercial banking services and products include the taking of deposits. Customers who place deposits with the Bank may include the Bank's substantial shareholders, directors, supervisors and chief executive officers, ex-directors who were in office within 12 months preceding the H-share Listing Date and their respective associates, each of whom is a connected person. According to Chapter 14A of the Hong Kong Listing Rules, connected persons place deposits with the Bank will constitute continuing connected transactions for the Bank.

Furthermore, BOCHK has preferential interest rates for deposits placed by employees of BOCHK. The deposits placed by connected persons who are not the Bank's employees are at market rates and on normal commercial terms. To the extent staff rates are available for employees, the interest paid by the Bank on deposits placed by connected persons who are the Bank's employees are at staff rates, but such deposits are nevertheless on normal commercial terms as such terms are no more favorable than the staff rates applicable to other employees who are not connected persons.



The provision of commercial banking services and products to connected persons in the ordinary and usual course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties (including other comparable employees who are not connected persons) will be exempt continuing connected transactions under Rule 14A.65(4) of the Hong Kong Listing Rules, namely, financial assistance provided by a connected person in the form of deposits placed with a listed issuer for the benefit of a listed issuer on normal commercial terms (or better to the listed issuer) where no security over the assets of the listed issuer is granted in respect of the financial assistance, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

Loan and credit facilities granted by the Bank to connected persons

The Bank extends loans and credit facilities (including provision of long-term loans, short-term loans, consumer loans, credit card facilities, mortgages, guarantees, security for third party loans, comfort letters and billing discounting facilities) to customers in the ordinary and usual course of business on normal commercial terms with reference to prevailing market rates. Customers who utilize loans and credit facilities include the Bank's substantial shareholders, directors, supervisors and chief executive officers, ex-directors who were in office within 12 months preceding the H-share Listing Date and their respective

associates, each of whom is a connected person under Chapter 14A of the Hong Kong Listing Rules. According to Chapter 14A of the Hong Kong Listing Rules, loans and credit facilities granted by the Bank to connected persons constitute continuing connected transactions for the Bank.

The Bank has preferential staff rates for employees who utilize Great Wall Renminbi credit cards and BOC credit cards. Such preferential rates include waiver of annual fees and reduced handling fees. Furthermore, BOCHK has preferential staff rates for employees who use its credit cards.

The Bank also has preferential staff rates for residential loans and mortgages taken out by the Bank's employees, and the head office and branches have preferential staff rates for consumer loans taken out by the Bank's employees. These preferential staff rates are all within the range set by the PBOC. Furthermore, BOCHK has preferential staff rates for residential loans and mortgages taken out by its employees.

The loans and credit facilities the Bank provides to connected persons who are not employees of the Bank are on normal commercial terms with reference to prevailing market rates. To the extent staff rates are available for certain loans and credit facilities, the loans and credit facilities the Bank provides to connected persons who are the Bank's employees are provided at staff rates and are on normal commercial terms no more favorable than the staff rates applicable to other employees who are not connected persons.

The provision of loans and credit facilities to connected persons in the ordinary and usual course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties (which include other comparable employees who are not connected persons) will be exempt continuing connected transactions under Rule 14A.65(1) of the Hong Kong Listing Rules, namely, financial assistance provided by a listed issuer in its ordinary and usual course of business for the benefit of a connected person on normal commercial terms, and thus will be exempt from all reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

Continuing connected transactions between Prudential Corporation Holdings Limited & Its Subsidiaries and the Bank

Prudential Corporation Holdings Limited respectively owns 36% of BOCI-Prudential Asset Management Limited ("BOCI-Prudential") and 36% of BOCI-Prudential Trustee Limited ("BPTL"), both of which are indirect subsidiaries of the Bank. Accordingly, Prudential Corporation Holdings Limited and its associate are connected persons to the Bank for the purposes of the Hong Kong Listing Rules. In particular, BOCI-Prudential and BPTL, being associates of Prudential Corporation Holdings Limited, are also connected persons to the Bank.

In 2006, the Bank engaged on a regular basis in a number of transactions with Prudential Corporation Holdings Limited and its associates in ordinary and usual course of business, such as fund distribution services, fund management services, fund investment advisory services, client referral services, IT services, office rental and consumption services, deposit placing, insurance services and corporate management services. These transactions are on normal commercial terms and each percentage ratio (the profits ratio not applicable) set out in Chapter 14A of the Hong Kong Listing Rules is less than 0.1% based on the transaction categories. According to Rule 14A.33 ("De Minimis Transactions"), these transactions are exempted from the reporting, announcement and independent shareholders' approval requirements.

Corporate Governance

The Bank endeavors to observe high level corporate governance principles and practices. For details of the Bank's compliance with the Code on Corporate Governance Practices contained in Appendix 14 of the Hong Kong Listing Rules, please refer to the section on Corporate Governance.

Directors and Supervisors

The Directors and Supervisors of the Bank as at 31 December 2006 are set out in the section of Directors, Supervisors and Senior Management.



Directors' Interests in Competing Business

Since August 1998, Sir Frederick Anderson Goodwin, a non-executive director of our Bank, has been serving as a Director of the RBS Group which is the holding company of one of the world's largest banking and financial services groups. The business of RBS Group may compete directly or indirectly with our Bank. Save as disclosed above, none of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Bank.

Emoluments of Directors, Supervisors and Senior Management

Details of the emoluments of Directors, Supervisors and Senior Management of the Bank are set out in the section of Directors, Supervisors, and Senior Management.

Directors' and Supervisors' Service Contracts

None of the Directors or Supervisors has a service contract with the Bank or any of its subsidiaries which is not determinable by the employing company within one year without

payment of compensation other than the normal statutory compensation.

Directors' and Supervisors' Interests in Contract of Significance

No contracts of significance, in relation to the Bank's business to which the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or a Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and Supervisors' Rights to Acquire Shares

On 5 July 2002, the following Directors were granted options by BOCHK (BVI), the immediate holding company of BOCHK Holdings, pursuant to a Pre-Listing Share Option Scheme to purchase from BOCHK (BVI) existing issued ordinary shares of BOCHK Holdings at a price of HK\$8.50 per share. BOCHK Holdings is a subsidiary of the Bank which is also listed on the Hong Kong Stock Exchange. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years. Twenty-five percent of the shares subject to such options will vest at the end of each year.

Particulars of the outstanding options granted to the Directors of the Bank under the Pre-Listing Share Option Scheme as at 31 December 2006 are set out below:

	Date of grant	Exercise price (HKD)	Exercisable Period	Number of share options		
				Granted on 5 July 2002	Balances as at 1 January 2006	Balances as at 31 December 2006
HUA Qingshan	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	1,446,000
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	1,446,000

During the report period, none of the above Directors exercised his options nor had there been any change in their option rights.

Save as disclosed above, at no time during the year was the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors, Supervisors of the Bank, and their respective spouses or children below the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

Directors' and Supervisors' Interests in Shares, Underlying Shares and Debentures

Save as disclosed above, as at 31 December 2006, none of the Directors or Supervisors of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules.

Substantial Interests in Share Capital

Please refer to Changes in Share Capital and Shareholdings of Substantial Shareholders for details.

Management Contracts

No contracts concerning the management or administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.32 to the Financial Statements for details of the share appreciation rights plan and share option schemes of the Group.

Please refer to the section "Directors' and Supervisors' Rights to Acquire Shares" for details of the options granted by BOCHK (BVI) over shares of BOCHK Holdings pursuant to the Pre-Listing Share Option Scheme.

Purchase, Sale or Redemption of the Bank's Shares

The Bank issued 8,514,415,652 ordinary shares to NCSSF on 13 March 2006.

The Bank issued 25,568,590,000 H shares in the initial public offering and was listed on the Hong Kong Stock Exchange on 1 June 2006. 3,835,288,000 H shares were further issued pursuant to the exercise of over allotment option on 9 June 2006.

The Bank issued 6,493,506,000 A shares on 29 June 2006, and the Bank was listed on the Shanghai Stock Exchange on 5 July 2006.

As at 31 December 2006, approximately 50 million shares of the Bank were held as treasury shares. Please refer to Note V.35 to the Financial Statements for details.



Pre-emptive Rights

There are no provisions for pre-emptive rights requiring the Bank to offer new shares to existing shareholders in proportion to their existing shareholdings under the Articles of Association. The Articles of Association provides that if the Bank wishes to increase its capital, it may offer new shares to non-specified investors, may issue rights of new shares to existing shareholders or allot new shares to existing shareholders, may transfer capital reserve fund, may issue convertible bonds, or through other means permitted by competent supervisory authorities or by laws and administrative regulations. There are no compulsory provisions for shareholders to exercise their pre-emptive rights under the Articles of Association.

Use of Proceeds from the IPO

All proceeds from its IPO have been used to strengthen the capital base of the Bank.

Tax Deduction and Exemption

The bank's salary expense deductible amount for domestic operations in 2006 approved by the Ministry of Finance and State Administration of Taxation is RMB15,669 million, which is larger than the statutory deductibility limit. Please refer to Note V.10 to the Financial Statements for details.

In January 2007, in light of the Notice of Relating Taxation Issues about the Sponsor Fee by Bank of China Limited to the Games of the XXIX Olympiad by the Ministry of Finance and the State Administration of Taxation (Cai Shui[2006] No.163), the Ministry of Finance and the State Administration of Taxation have given support to the Bank's donation to the Games of the XXIX Olympiad, which mainly includes deduction of the Bank's sponsor fee to the Olympic Games and the business tax exemption in regard to the services rendered to the Beijing Organizing Committee for the Games of the XXIX Olympiad.

Auditors

Please refer to Corporate Governance for details of external auditors. A resolution for the appointment of external auditors will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

XIAO Gang
Chairman

22 March 2007