

Bank of China Limited

2006 Third Quarter Report

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Bank of China Limited

2006 Third Quarter Report

I IMPORTANT NOTES

- 1.1** The Board of Directors of Bank of China Limited (the “Bank”) and its directors, the Board of Supervisors and its supervisors, the senior management of the Bank warrant that there are no fraudulent disclosures, misleading statements or material omissions in this report and that they will be individually and jointly responsible for the truthfulness, accuracy and completeness of the report.
- 1.2** All directors of the Bank attended the meeting of the Board of Directors.
- 1.3** The third quarter report of the Bank is unaudited.
- 1.4** Chairman Xiao Gang, President Li Lihui, Vice President in charge of accounting function Zhou Zaiqun and General Manager in charge of the Accounting Department Liu Yanfen undertake that the financial statements in the third quarter report are true and complete.

II CORPORATE INFORMATION

2.1 Brief Introduction

Stock name	Bank of China Limited
Stock code	601988 (A Share)
Place of listing	Shanghai Stock Exchange
Stock name	Bank of China Limited
Stock code	3988 (H Share)
Place of listing	The Stock Exchange of Hong Kong Limited (The Hong Kong Stock Exchange)
	Secretary to the Board
Name	YEUNG Jason Chi Wai
Address	1 Fuxingmen Nei Street, Beijing, PRC China
Telephone	010-66596688
Fax	010-66016871
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2.2 Financial Information

2.2.1 Major Accounting Data and Financial Indicators

2.2.1.1 Major Accounting Data and Financial Indicators prepared under PRC Accounting Standards for Business Enterprises and the Accounting System for Financial Institutions ("PRC GAAP")

Currency: RMB

	As at 30 September 2006	As at 31 December 2005
Total assets (million)	5,268,846	4,742,806
Shareholder's equity (excluding minority interests) (million)	378,349	233,842
Net assets per share	1.49	1.12
Adjusted net assets per share	1.48	1.11

Currency: RMB

	Three month period ended 30 September 2006	Nine month period ended 30 September 2006
Earnings per share (fully diluted)	0.05	0.12
Return on net assets (%) (Annualized, excluding minority interests, fully diluted)	13.23	11.12
Return on net assets deducting non-routine profit/loss (%) (Annualized, excluding minority interests, fully diluted)	12.62	10.66

Non-routine profit/loss items are listed as below:

Amounts: in RMB millions

Items	Three month period ended 30 September 2006
Non-operating income	276
Non-operating expense	(60)
Net gain on disposal of long-term equity investment	476
Write-back of the impairments recognised in previous years	179
Income tax impact of non-routine items	(287)
Total	584

2.2.1.2 *Reconciliation between PRC GAAP and IFRS on net profit and shareholder's equity (excluding minority interests) for the period ended 30 September 2006*

Amount: in RMB millions

	Net profit	Shareholder's equity
	Nine month period ended 30 September 2006	As at 30 September 2006
PRC GAAP figures	31,541	378,349
Adjustments for accounting standard differences:		
1. Reversal of revaluation surplus and corresponding depreciation	245	(7,754)
2. Fair value measurement on investment properties	411	3,227
3. Equity securities classified as available-for-sale financial assets and stated at fair value	-	2,113
4. Early retirement benefit obligation	325	(4,772)
5. Cost method applied on non-trading precious metals	(108)	(745)
6. Deferred tax impact	211	2,006
7. Minority interests effect and others	(167)	560
Subtotal	917	(5,365)
IFRS figures	32,458	372,984

2.2.2 *Income Statements prepared under PRC GAAP (unaudited)*

Amount: in RMB millions

Items	Three month period ended 30 September 2006	Nine month period ended 30 September 2006
Interest income	56,606	156,383
Interest expense	(24,228)	(69,529)
Net interest income	32,378	86,854
Net fee and commission income	3,231	10,072
Net trading income	(1,245)	(1,438)
Investment income	607	2,288
Other operating income, net	1,047	2,844
	36,018	100,620
Operating and administrative expenses	(12,052)	(35,245)
Business tax and surcharges	(1,675)	(4,662)
Operating profit	22,291	60,713
Non-operating income, net	216	683
Profit before impairment losses	22,507	61,396
Impairment losses	(2,222)	(7,098)
Profit before tax	20,285	54,298
Income tax	(6,604)	(18,966)
Profit after tax	13,681	35,332
Minority interests	(1,164)	(3,791)
Net profit	12,517	31,541

2.3 Number of shareholders and top ten shareholders

2.3.1 Total number of shareholders: *As at the end of the reporting period, the Bank's shareholders (A-Share + H-Share) total were 846,456, including 426,386 holders of H-Share and 420,070 holders of A-Share.*

2.3.2 Top Ten Shareholders of A Share that are not Subject to Selling Restrictions

No.	Name of Shareholder	Number of Listed Trading Shares Held *	Type of Share
1	International Finance-Standard Chartered-CITIGROUP GLOBAL MARKETS LIMITED	73,451,475	A Share
2	Shanghai Huiyin Investment Limited Corporation	70,000,000	A Share
3	ICBC-GF Strategic Selection Balanced Securities Investment Fund	51,314,751	A Share
4	ICBC-E Fund Value Selection Stock Securities Investment Fund	50,397,000	A Share
5	China Life Insurance (Group) Company – Traditional - General Insurance	47,157,043	A Share
5	CNOOC Finance Corporation Ltd	47,157,043	A Share
7	CCB – BoCom Schroders Prudent Balanced Securities Investment Fund	39,611,957	A Share
8	China Pacific Life Insurance Co., Ltd – Dividend - Personal Dividend	38,064,093	A Share
9	China Pacific Life Insurance Co., Ltd – Traditional – General Insurance	35,179,154	A Share
10	China Marine Finance Co., Ltd	33,009,930	A Share

* Except that some of the above shareholders may be under the management of the same corporation, the Bank is not aware of the connected relations and the concerted action among the above shareholders.

2.3.3 Top Ten Shareholders of H Share

No.	Name of Shareholder	Number of Shares Held *	Type of Share
1	HKSCC Nominees Limited	30,247,998,800	H Share
2	RBS China Investments S.à.r.l.	20,942,736,236	H Share
3	Asia Financial Holdings Pte Ltd	10,471,368,118	H Share
4	National Council for Social Security Fund, PRC	8,377,341,329	H Share
5	UBS AG	3,377,860,684	H Share
6	Asian Development Bank	506,679,102	H Share
7	The Bank of Tokyo-Mitsubishi UFJ Ltd	473,052,000	H Share
8	Wingreat International Limited	420,490,000	H Share
9	Best Sense Investments Limited	236,526,000	H Share
10	Turbo Top Limited	236,526,000	H Share

* The number of shares held by H Share shareholders are those recorded in the Register of Members as kept by the H Share Registrar of the Bank.

III MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Brief analysis of overall operating activities in the reporting period

As of 30 September 2006, total assets of the Bank and its subsidiaries ("the Group") reached RMB5,268.846 billion, an increase of RMB 526.040 billion or 11.09% over 31 December 2005. Total liabilities stood at RMB4,862.073 billion, an increase of RMB381.887 billion or 8.52% over 31 December 2005. The Group had a total loan portfolio of RMB2,441.619 billion, an increase of RMB206.573 billion or 9.24% over 31 December 2005. The total deposits of the Group reached RMB4,050.027 billion, an increase of RMB346.250 billion or 9.35% over 31 December 2005. Owner's Equity totaled RMB378.349 billion, an increase of RMB144.507 billion or 61.80% over 31 December 2005. The Group's non-performing loans (NPLs) were RMB 98.599 billion in accordance with five tier classification standards, NPL ratio was 4.04%

The Group achieved a net profit of RMB31.541 billion from January to September. In the third quarter, the Group's net foreign exchange exposure was further reduced and hence exchange rate risk being contained further.

3.1.1 Principal operations accounting for over 10% of income or profit from principal operations

Amount: in RMB millions

Business Segment	Income from principal operations (Nine month period ended 30 September 2006)	Cost from principal operations (Nine month period ended 30 September 2006)
Commercial banking	168,644	110,470
Investment banking	2,222	968
Insurance business	6,265	5,804
Other operations	1,671	302

Income from

principal operations = interest income + fee and commission income + net trading income + investment income
+ other operating income

Cost from

principal operations = interest expense + fee and commission expense + other operating expense + operating and
administrative expenses + business tax and surcharges

Income and cost from principal operations by geographical areas

Amount: in RMB millions

Geographical Area	Income from principal operations (Nine month period ended 30 September 2006)	Cost from principal operations (Nine month period ended 30 September 2006)
the Chinese mainland	127,273	82,428
Hong Kong, Macau and other overseas locations	54,318	37,904

3.1.2 Seasonal or periodic characteristics of the Bank's operation

□ Applicable √ N.A.

3.1.3 The composition of profit for the reporting period compared with that of the previous reporting period and the reasons therefor

In the current reporting period, there was no significant change in the profit composition compared with the previous reporting period.

Amount: in RMB millions

	Nine month period ended 30 September 2006		Six month period ended 30 June 2006	
	Amount	Percentage	Amount	Percentage
Profit from principal operations	53,615	98.74%	33,546	98.63%
Other operating profit	-	-	-	-
Impairment losses	7,098	13.07%	4,876	14.34%
Operating and administrative expenses	35,245	64.91%	23,193	68.19%
Non-operating income, net	683	1.26%	467	1.37%
Profit before tax	54,298	100.00%	34,013	100.00%

Profit from

principal operations = income from principal operations - cost from principal operations - impairment losses

Profit before

tax = profit from principal operations + non-operating income, net

3.1.4 Significant changes in principal operations and its structure when compared with those of the previous reporting period and the reasons therefor

In the current reporting period, there was no significant change in principal operations and its structure in comparison with the previous reporting period. After taking into consideration the overall interest spread and investment opportunities between RMB and foreign currencies, the Group conducted foreign exchange derivative transactions. The costs arising therefrom were included in the Net trading income.

Amount: in RMB millions

	Nine month period ended 30 September 2006		Six month period ended 30 June 2006	
	Amount	Percentage	Amount	Percentage
Interest income	156,383	88.23%	99,777	86.92%
Fee and commission income	12,019	6.78%	8,166	7.11%
Net trading income	(1,438)	-0.81%	(193)	-0.17%
Investment income	2,288	1.29%	1,681	1.46%
Other operating income	8,002	4.51%	5,366	4.68%
Income from principal operations	177,254	100.00%	114,797	100.00%

3.1.5 *Significant changes in profitability of principal operations when compared with that of the previous reporting period and the reasons therefor*

In the current reporting period, there was no significant change in the profitability of principal operations in comparison with the previous reporting period.

Amount: in RMB millions

Profitability of main business	Nine month period ended 30 September 2006	Six month period ended 30 June 2006
Income from principal operations	177,254	114,797
Cost from principal operations	116,541	76,375

3.2 **Explanations of significant event, its impact and solutions**

☐ Applicable ☒ N.A.

3.3 **Changes in accounting policies, accounting estimates, consolidation scope and the significant accounting errors and the reasons therefor**

☐ Applicable ☒ N.A.

3.4 **Explanation of the Board of Directors and the Board of Supervisors on the “non-standard opinion” of the report period by the auditors**

☐ Applicable ☒ N.A.

3.5 **Warnings and Explanations on loss forecast or significant changes in net accumulative profit from the beginning of the year to the end of next report period**

☐ Applicable ☒ N.A.

3.6 **Plans on alteration of disclosed business plan or budget**

☐ Applicable ☒ N.A.

3.7 **Undertakings and its performance of the previous non-tradable share holders made in stock splitting**

☐ Applicable ☒ N.A.

3.8 **Explanation on the joint-stock reform arrangements of company that has not gone through joint-stock reform by the end of the reporting period**

☐ Applicable ☒ N.A.

Explanation of company that has not gone through joint-stock reform by the end of the reporting period

☐ Applicable ☒ N.A.

Xiao Gang

Chairman

Board of Directors,

Bank of China Limited

October 30, 2006

IV Appendix Financial Statements**Balance Sheets**

(Amount in millions of RMB)

	Bank of China Group	
	As at 30 September 2006 (unaudited)	As at 31 December 2005 (audited)
ASSETS		
Cash	32,344	28,644
Precious metals	42,209	30,314
Due from central banks	345,826	316,941
Government certificates of indebtedness for bank notes issued	37,318	35,586
Trading and other debt securities at fair value through profit or loss	102,704	107,271
Derivative financial instruments	21,695	16,808
Due from and placements with banks and other financial institutions	328,902	344,537
Debt securities	1,849,650	1,562,320
Loans and advances to customers	2,441,619	2,235,046
Less: Provision for loan losses	(90,890)	(83,153)
Interest receivable	25,430	20,408
Equity investments	14,590	15,393
Fixed assets	69,886	72,978
Construction in progress	4,178	3,342
Deferred tax assets	17,888	17,561
Other assets	25,497	18,810
Total assets	5,268,846	4,742,806

Balance Sheets (continued)

(Amount in millions of RMB)

	Bank of China Group	
	As at 30 September 2006 (unaudited)	As at 31 December 2005 (audited)
LIABILITIES		
Due to central banks	41,712	30,055
Bank notes in circulation	37,317	35,731
Derivative financial instruments and liabilities at fair value through profit or loss	110,259	91,174
Due to and placements from banks and other financial institutions	353,021	345,233
Deposits from customers	4,050,027	3,703,777
Interest payable	35,868	27,024
Special purpose borrowings	47,761	52,164
Bonds issued	60,175	60,179
Deferred tax liabilities	281	184
Other liabilities	<u>125,652</u>	<u>134,665</u>
Total liabilities	<u>4,862,073</u>	<u>4,480,186</u>
Minority interests	<u>28,424</u>	<u>28,778</u>
Equity		
Share capital	253,839	209,427
Capital reserve	76,545	3,978
Surplus reserve	8,095	5,987
General reserve and statutory reserve of subsidiary	9,430	5,109
Undistributed profits	36,323	12,585
Reserve for fair value changes of available-for-sale securities	(2,864)	(1,380)
Currency translation differences	<u>(3,019)</u>	<u>(1,864)</u>
Total equity	<u>378,349</u>	<u>233,842</u>
Total liabilities and equity	<u>5,268,846</u>	<u>4,742,806</u>

Legal Representative and Chairman:

Xiao Gang

Vice President in charge of accounting function:

Zhou Zaiqun

Vice Chairman and President:

Li Lihui

General Manager of the Accounting Department

Liu Yanfen

Income Statements

(Amount in millions of RMB)

Bank of China Group

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Legal Representative and Chairman:

Xiao Gang

Vice Chairman and President:

Li Lihui

Vice President in charge of accounting function:

Zhou Zaiqun

General Manager of the Accounting Department:

Liu Yanfen