

Bank of China Limited

**Report for the First Quarter ended
31 March 2007**

(Prepared under International Financial Reporting Standards)



中國銀行股份有限公司
BANK OF CHINA LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3988)

Report for the First Quarter ended 31 March 2007

The Board of Directors (the “Board”) of Bank of China Limited (the “Bank”) is pleased to announce the unaudited results of the Bank and its subsidiaries (the “Group”) for the first quarter ended 31 March 2007.

I. BASIC INFORMATION

1.1 Key financial data and performance indicators

1.1.1 Key financial data and performance indicators for the Group prepared in accordance with International Financial Reporting Standards (“IFRS”)

	As at 31 March 2007	As at 31 December 2006	Increase/ (decrease) compared to 31 December 2006 (%)
Total assets (RMB million)	5,598,852	5,327,653	5.09
Equity attributable to equity holders of the Bank (RMB million)	393,882	382,917	2.86
Net assets per share (RMB)	1.55	1.51	2.86

	Three month period ended 31 March 2007	Three month period ended 31 March 2006	Increase/ (decrease) compared to three month period ended 31 March 2006 (%)
Net cash outflow from operating activities (RMB million)	(777)	(29,711)	97.38
Net cash outflow from operating per share (RMB)	(0.003)	(0.140)	97.86

	Three month period ended 31 March 2007	Three month period ended 31 March 2006	Increase/ (decrease) compared to three month period ended 31 March 2006 (%)
Profit after tax (RMB million)	12,985	11,214	15.79
Profit attributable to equity holders of the Bank (RMB million)	11,718	9,963	17.62
Earnings per share (basic and diluted, RMB)	0.05	0.05	—
Return on average equity (Annualized, excluding minority interest)	12.07%	16.89%	(4.82) percentage points

On 16 March 2007, the National People's Congress approved the new PRC Enterprise Income Tax Law. This legislation will reduce the enterprise income tax rate for domestic enterprises from 33% to 25% with effect from 2008. In accordance with International Accounting Standards (No. 12), the Group re-measured its net deferred tax assets of the domestic operations as at the date of pronouncement of the new Income Tax Law to reflect future realisation at the newly enacted tax rate and thereby increased the tax expenses by RMB4,178 million. This adjustment is of one-off in nature. Excluding such impact, the Group's profit after tax would be RMB17,163 million, and profit attributable to equity holders of the Bank would be RMB15,896 million, an increase of 53.05% and 59.55%, respectively, compared to the first quarter of the prior year.

1.1.2 Reconciliation between IFRS and CAS Financial Information

The reconciliations of the Group's net profit attributable to equity holders of the Bank for the three month periods ended 31 March 2006 and 2007 and consolidated equity as at 31 March 2007 and 31 December 2006 prepared under IFRS to those under Chinese Accounting Standards ("CAS") are set forth below. The unaudited financial information as at 31 December 2006 and for the three month period ended 31 March 2006 has been restated in accordance with CAS issued by the Ministry of Finance in February 2006 which was effective 1 January 2007.

(Amount in millions of RMB)	Equity (including minority interest)		Net profit attributable to equity holders of the Bank	
	As at 31 March 2007	As at 31 December 2006	Three month period ended 31 March 2007	Three month period ended 31 March 2006
CAS figures	429,344	417,325	12,147	9,898
Adjustments for differences in accounting standards:				
Reversal of asset revaluation surplus, related depreciation and other items	(6,377)	(6,521)	144	97
Deferred tax impact	1,594	2,152	(573)	(32)
Subtotal	(4,783)	(4,369)	(429)	65
IFRS figures	424,561	412,956	11,718	9,963

1.2 Number of shareholders and top ten shareholders

1.2.1 *As at 31 March 2007, the Bank's total number of shareholders was 1,073,786, comprising 345,923 holders of H Share and 727,863 holders of A Share.*

1.2.2 Top ten shareholders of A Share as at 31 March 2007 that were not subject to selling restrictions

No.	Name of shareholder	Number of shares not subject to selling restrictions (Share)
1	Agricultural Bank of China – Dacheng Active Growth Stock Securities Investment Fund	89,627,909
2	Agricultural Bank of China – Baoying Strategic Growth Stock Securities Investment Fund	80,256,120
3	China Pacific Life Insurance Co., Ltd – Traditional – Ordinary Insurance Products	55,370,580
4	China Life Insurance (Group) Company – Traditional – General Insurance	55,044,524
5	ICBC – SSE 50 Trading Open-end Index Securities Investment Fund	48,452,875
6	International Finance – Standard Chartered – CITIGROUP GLOBAL MARKETS LIMITED	47,475,735
7	Agricultural Bank of China – Jingshun Great Wall Domestic Demand Open-ended Securities Investment Fund	30,800,000
8	New China Life Insurance Co. Ltd – Dividend – Personal Dividend – 018L – FH002 SH	27,905,180
9	China Life Insurance Company Limited – Traditional – Ordinary Insurance Products – 005L – CT001 SH	27,058,100
10	China Pacific Life Insurance Co., Ltd – Dividend – Personal Dividend	26,282,563

Note: Certain of the above shareholders are under common control. Save for this, the Bank is not aware of any connected relationship among the above-mentioned shareholders or whether they are parties acting in concert.

1.2.3 Top ten shareholders of H Share as at 31 March 2007

No.	Name of shareholder	Number of shares held (Share)
1	HKSCC Nominees Limited	30,270,836,046
2	RBS China Investments S.à.r.l.	20,942,736,236
3	Asia Financial Holdings Pte. Ltd	10,471,368,118
4	National Council for Social Security Fund, PRC	8,377,341,329
5	UBS AG	3,377,860,684
6	Asian Development Bank	506,679,102
7	The Bank of Tokyo-Mitsubishi UFJ Ltd	473,052,000
8	Wingreat International Limited	420,490,000
9	Best Sense Investments Limited	236,526,000
10	Turbo Top Limited	236,526,000

Note: The number of shares held by H Share shareholders was as recorded in the Register of Members maintained by the H Share Registrar of the Bank as at 31 March 2007.

II. SIGNIFICANT EVENTS

2.1 Significant changes of major financial statement items and indicators and the reasons thereof

✓ Applicable ☐ Not Applicable

The Group's key financial items and indicators which fluctuated over 30% compared to the first quarter of 2006:

Items	Three month period ended 31 March 2007 (RMB million)	Three month period ended 31 March 2006 (RMB million)	% Change from first quarter of 2006	Main reasons
Net interest income	34,373	26,218	31.10%	Increase in net interest margin and average interest-earning assets
Net fee and commission income	5,168	3,150	64.06%	Growth in businesses including fund distribution, bank card, and credit commitment and guarantee.
Net trading (losses)/gains	(735)	1,141	(164.42%)	Increase of net loss from revaluation of foreign exchange position due to the accelerated appreciation of RMB against major foreign currencies. In addition, interest earned from relatively higher yielding foreign currency denominated assets (including assets arising from USD/RMB swaps entered into by the Group to take advantage of interest differentials) was reported under "interest income", but the related swap costs were included in "net trading (losses)/gains".
Net gains/ (losses) on investment securities	606	152	298.68%	Increase in gains arising from the disposal of available-for-sale securities.
Profit before income tax	24,561	17,754	38.34%	Increase due to the above-mentioned factors.

Items	Three month period ended 31 March 2007 (RMB million)	Three month period ended 31 March 2006 (RMB million)	% Change from first quarter of 2006	Main reasons
Income tax	(11,576)	(6,540)	77.00%	Increase of income tax expenses for the first quarter of 2007 was mainly due to: (1) re-measurement of deferred tax assets which accounted for an increase of tax expenses amounting to RMB4,178 million (see 1.1.1); and (2) the increase of profit for the period. Excluding the impact under (1) above, the effective income tax rate for the first quarter of 2007 would be 30.12%, largely consistent with that of the prior year.

2.2 Development of significant events, related impact and resolution

☐ Applicable ☒ Not Applicable

2.3 Fulfillment of undertakings by the company, shareholders and controlling parties

☒ Applicable ☐ Not Applicable

Based on the best knowledge of the Bank, undertakings by the Bank, its shareholders and controlling parties were fulfilled during the reporting period.

2.4 Warnings and explanations of any forecasted losses or significant changes to retained earnings brought from the beginning of the financial year to the end of next reporting period

☐ Applicable ☒ Not Applicable

The Board of Directors
27 April 2007

III. APPENDIX – FINANCIAL INFORMATION

Consolidated Income Statement

(Amount in millions of RMB)

	Three month period ended 31 March 2007 (unaudited)	Three month period ended 31 March 2006 (unaudited)
Interest income	59,668	48,044
Interest expense	(25,295)	(21,826)
Net interest income	34,373	26,218
Fee and commission income	5,906	3,734
Fee and commission expense	(738)	(584)
Net fee and commission income	5,168	3,150
Net trading (losses)/gains	(735)	1,141
Net gains/(losses) on investment securities	606	152
Other operating income	3,313	3,062
Impairment losses on loans and advances	(1,920)	(1,836)
Operating expenses and others	(16,553)	(14,256)
Operating profit	24,252	17,631
Share of results of associates and joint ventures	309	123
Profit before income tax	24,561	17,754
Income tax expense	(11,576)	(6,540)
Profit for the period	12,985	11,214
Attributable to:		
Equity holders of the Bank	11,718	9,963
Minority interest	1,267	1,251
	12,985	11,214
Earnings per share for profit attributable to equity holders of the Bank for the period (RMB per ordinary share) — Basic and diluted	0.05	0.05

Xiao Gang
Director

Li Lihui
Director

Balance Sheets

(Amount in millions of RMB)

	Bank of China Group		Bank of China Limited	
	As at 31 March 2007 (unaudited)	As at 31 December 2006 (audited)	As at 31 March 2007 (unaudited)	As at 31 December 2006 (audited)
ASSETS				
Cash and due from banks	40,789	39,812	35,678	37,842
Balances with central banks	405,739	379,631	379,259	354,881
Placements with banks and other financial institutions	396,192	399,138	316,260	303,002
Government certificates of indebtedness for bank notes issued	36,547	36,626	2,138	1,713
Precious metals	40,138	42,083	38,784	40,542
Trading assets and other financial instruments at fair value through profit or loss	130,841	115,828	92,398	76,581
Derivative financial instruments	26,139	24,837	17,487	16,363
Loans and advances to customers, net	2,490,593	2,337,726	2,100,295	1,971,865
Investment securities				
– available-for-sale	894,210	815,178	787,955	706,739
– held-to-maturity	445,379	461,140	272,043	287,398
– loans and receivables	516,305	500,336	476,173	458,606
Investment in subsidiaries	—	—	45,447	45,451
Investment in associates and joint ventures	6,275	5,931	21	21
Property and equipment	84,458	86,200	49,296	49,473
Investment property	8,218	8,221	656	620
Deferred income tax assets	15,883	21,396	16,532	21,843
Other assets	61,146	53,570	39,240	30,272
Total assets	5,598,852	5,327,653	4,669,662	4,403,212

Balance Sheets (Continued)
(Amount in millions of RMB)

	Bank of China Group		Bank of China Limited	
	As at 31 March 2007 (unaudited)	As at 31 December 2006 (audited)	As at 31 March 2007 (unaudited)	As at 31 December 2006 (audited)
LIABILITIES				
Due to banks and other financial institutions	217,235	178,777	202,638	164,376
Due to central banks	44,199	42,374	44,174	42,349
Bank notes in circulation	36,304	36,823	1,895	1,909
Certificates of deposit and placements from banks and other financial institutions	159,975	146,908	149,260	146,596
Derivative financial instruments and liabilities at fair value through profit or loss	110,131	113,048	84,648	91,084
Due to customers	4,301,240	4,091,118	3,583,616	3,358,565
Bonds issued	60,624	60,173	60,171	60,173
Other borrowings	60,424	63,398	44,339	46,006
Current tax liabilities	21,824	18,149	20,122	16,757
Retirement benefit obligations	7,259	7,444	7,259	7,444
Deferred income tax liabilities	2,962	3,029	52	32
Other liabilities	152,114	153,456	107,119	112,527
Total liabilities	5,174,291	4,914,697	4,305,293	4,047,818

Balance Sheets (Continued)
(Amount in millions of RMB)

	Bank of China Group		Bank of China Limited	
	As at 31 March 2007 (unaudited)	As at 31 December 2006 (audited)	As at 31 March 2007 (unaudited)	As at 31 December 2006 (audited)
EQUITY				
Capital and reserves attributable to equity holders of the Bank				
Share capital	253,839	253,839	253,839	253,839
Capital reserve	66,553	66,617	66,169	66,166
Statutory reserves	10,564	10,379	9,720	9,714
General and regulatory reserves	14,041	13,934	11,399	11,393
Undistributed profits	49,906	38,425	23,625	14,385
Reserve for fair value changes of available-for-sale securities	2,106	2,009	(1,324)	(1,038)
Currency translation differences	(3,028)	(2,070)	941	935
Treasury shares	(99)	(216)	—	—
	393,882	382,917	364,369	355,394
Minority interest	30,679	30,039	—	—
Total equity	424,561	412,956	364,369	355,394
Total equity and liabilities	5,598,852	5,327,653	4,669,662	4,403,212

Xiao Gang
Director

Li Lihui
Director

Consolidated Cash flow Statement

(Amount in millions of RMB)

	Three month ended 31 March 2007 (unaudited)	Three month ended 31 March 2006 (unaudited)
Cash flows from operating activities		
Profit before income tax	24,561	17,754
Adjustments:		
Impairment losses on loans and advances	1,920	1,836
Impairment losses on other assets	53	16
Depreciation of property and equipment	1,390	1,274
Amortisation of intangible assets and other assets	301	152
Net gains on disposal of property and equipment and other long-term assets	(102)	(18)
Net gains on disposal of investments in subsidiaries, associates and joint ventures	(3)	—
Share of results of associates and joint ventures	(309)	(123)
Interest expense arising from bonds issued	720	689
Net changes in operating assets and liabilities:		
Net increase in balances with central banks	(44,431)	(7,287)
Net (increase)/decrease in due from banks and placements with banks and other financial institutions	(1,135)	20,197
Net increase in loans and advances to customers	(155,191)	(59,654)
Net increase in investment securities	(78,432)	(195,947)
Net decrease/(increase) in other assets	1,962	(16,136)
Net increase in due to central banks	1,825	576
Net increase in due to banks and other financial institutions	38,458	10,548
Net increase/(decrease) in certificates of deposit and placements from banks and other financial institutions	13,067	(40,902)
Net increase in due to customers	210,122	251,260
Net decrease in other liabilities	(13,155)	(12,343)
Net cash from operating activities	1,621	(28,108)
Income tax paid	(2,398)	(1,603)
Net cash outflow from operating activities	(777)	(29,711)

Consolidated Cash flow Statement (Continued)

(Amount in millions of RMB)

	Three month ended 31 March 2007 (unaudited)	Three month ended 31 March 2006 (unaudited)
Cash flows from investing activities		
Proceeds from disposal of investments in subsidiaries, associates and joint ventures	48	—
Proceeds from disposal of property and equipment, intangible assets and other long-term assets	2,271	346
Dividends received	25	—
Payment for increase of investments in subsidiaries, associates and joint ventures	(57)	—
Purchase of property and equipment, intangible assets and other long-term assets	(2,464)	(595)
Net cash outflow from investing activities	(177)	(249)
Net cash outflow before financing activities	(954)	(29,960)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	—	9,996
Proceeds from minority equity holders of subsidiaries	11	45
Proceeds from sales of treasury shares	117	—
Payment of interest on bonds issued	(1,464)	(1,383)
Dividend paid to minority interest	(209)	(95)
Net cash (outflow)/inflow from financing activities	(1,545)	8,563
Effect of exchange rate changes on cash and cash equivalents	(3,934)	(1,770)
Net decrease in cash and cash equivalents	(6,433)	(23,167)
Cash and cash equivalents as of 1 January	519,944	397,112
Cash and cash equivalents as of 31 March	513,511	373,945

Xiao Gang
Director

Li Lihui
Director