Bank of China Limited

Report for the First Quarter ended 31 March 2007 (Prepared under Chinese Accounting Standards)

中國銀行
BANK OF CHINA

Bank of China Limited

Report for the First Quarter ended 31 March 2007

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, and the senior management of the Bank warrant that there are no false disclosures, misleading statements or material omissions contained 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 approving this quarterly report.

1.3 The financial information of the Bank and its subsidiaries (the "Group") contained in this report for the first quarter of 2007 prepared under Chinese Accounting Standard ("CAS") is unaudited.

1.4 Chairman Xiao Gang, President Li Lihui, Mr. Zhu Min, Executive Vice President in charge of the accounting function, and Mr. Zhang Jinliang, General Manager in charge of the Financial Management Department, undertake that the financial information contained in this quarterly report is true and complete.

II BASIC INFORMATION

2.1 Key financial data and performance indicators

2.1.1 *Key financial data and performance indicators for the Group prepared under CAS*

	As at 31 March 2007	As at 31 December 2006	**Increase/ (decrease) compared to 31 December 2006 (%)**
Total assets (RMB million)	**5,603,637**	5,332,025	5.09
Equity attributable to equity holders of the Bank (RMB million)	**398,665**	387,286	2.94
Net assets per share (RMB)	**1.57**	1.53	2.94
Adjusted net assets per share (RMB)	**1.56**	1.51	3.31

	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 activities 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)	**13,414**	11,149	20.32
Net profit attributable to equity holders (RMB million)	**12,147**	9,898	22.72
Earnings per share (Basic and diluted, RMB)	**0.05**	0.05	—
Return on period end equity (Annualized, excluding minority interest)	**12.19%**	15.84%	(3.65) percentage points
Return on weighted average equity (Annualized, excluding minority interest)	**12.36%**	16.66%	(4.30) percentage points
Return on period end equity after deducting the non-routine items (Annualized, excluding minority interest)	**12.01%**	15.13%	(3.12) percentage points
Return on weighted average equity after deducting the non-routine items (Annualized, excluding minority interest)	**12.19%**	15.92%	(3.73) 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 CAS (No. 18), 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 RMB3,652 million. This adjustment is of one-off in nature. Excluding such impact, the Group's profit after tax would be RMB17,066 million, and profit attributable to equity holders of the Bank would be RMB15,799 million, an increase of 53.07% and 59.62%, respectively, compared to the first quarter of the prior year.

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

Items (Amount in millions of RMB)	**Three month period ended 31 March 2007**
Non-operating income, net	**150**
Net gain on disposal of long-term equity investments	**3**
Write-back of impairment losses recognized in previous years*	**64**
Income tax impact of non-routine items	**(42)**
Total	**175**

* mainly represents write-back of impairment losses against accounts receivable.

2.1.2 *Reconciliation between CAS and IFRS financial information*

The Group adopted CAS issued by the Ministry of Finance in February 2006 effective 1 January 2007. 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 the consolidated equity as at 31 March 2007 and 31 December 2006 prepared under CAS to those under International Financial Reporting Standards (the "IFRS") 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.

(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

2.2 Number of shareholders and top ten shareholders

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

2.2.2 *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.

2.2.3 *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.

III SIGNIFICANT EVENTS

3.1 Significant changes in major financial statement items and indicators and the reasons thereof

√ Applicable □ N.A.

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	**24,417**	17,657	38.29%	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 2006**	**Main reasons**
Income tax	**(11,003)**	(6,508)	69.07%	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 RMB3,652 million (see 2.1.1); 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 30.11%, largely consistent with that of the prior year.

3.2 Development of significant events, related impact and resolution

☐ Applicable √ N.A.

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

√ Applicable ☐ N.A.

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

3.4 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 √ N.A.

Xiao Gang
Chairman
Board of Directors,
Bank of China Limited
27 April 2007

IV APPENDIX – UNAUDITED FINANCIAL INFORMATION

The unaudited financial information as at 31 December 2006 and for the three month period ended 31 March 2006 set forth below have been restated in accordance with CAS issued by the Ministry of Finance in February 2006 which was effective 1 January 2007.

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 (unaudited)	**As at 31 March 2007 (unaudited)**	As at 31 December 2006 (unaudited)
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	**39**	37
Property and equipment	**79,948**	81,823	**45,282**	45,593
Investment property	**8,218**	8,221	**656**	620
Deferred income tax assets	**14,288**	19,244	**14,937**	19,691
Other assets	**72,036**	64,471	**49,635**	40,676
Total assets	**5,603,637**	5,332,025	**4,674,466**	4,407,600

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 (unaudited)	**As at 31 March 2007 (unaudited)**	As at 31 December 2006 (unaudited)
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**	63,399	**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	**152,116**	153,458	**107,122**	112,529
Total liabilities	**5,174,293**	4,914,700	**4,305,296**	4,047,820

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 (unaudited)	**As at 31 March 2007 (unaudited)**	As at 31 December 2006 (unaudited)
EQUITY				
Capital and reserves attributable to equity holders of the Bank				
Share capital	**253,839**	253,839	**253,839**	253,839
Capital reserve	**76,484**	76,549	**76,101**	76,098
Statutory reserves	**10,564**	10,379	**9,720**	9,715
General and regulatory reserves	**14,041**	13,934	**11,399**	11,393
Undistributed profits	**47,096**	35,186	**20,834**	11,162
Reserve for fair value changes of available-for-sale securities	**1,384**	1,303	**(2,046)**	(1,745)
Currency translation differences	**(4,644)**	(3,688)	**(677)**	(682)
Treasury shares	**(99)**	(216)	**—**	—
	398,665	387,286	**369,170**	359,780
Minority interest	**30,679**	30,039	**—**	—
Total equity	**429,344**	417,325	**369,170**	359,780
Total equity and liabilities	**5,603,637**	5,332,025	**4,674,466**	4,407,600

Legal Representative and Chairman:
Xiao Gang

Vice Chairman and President:
Li Lihui

Executive Vice President in charge of accounting function:
Zhu Min

General Manager of the Financial Management Department
Zhang Jinliang

Income Statements

(Amount in millions of RMB)

	Bank of China Group		Bank of China Limited	
	Three month period ended 31 March 2007 (unaudited)	Three month period ended 31 March 2006 (unaudited)	**Three month period ended 31 March 2007 (unaudited)**	Three month period ended 31 March 2006 (unaudited)
Interest income	**59,668**	48,044	**49,050**	38,292
Interest expense	**(25,295)**	(21,826)	**(18,938)**	(16,036)
Net interest income	**34,373**	26,218	**30,112**	22,256
Fee and commission income	**5,906**	3,734	**4,020**	2,272
Fee and commission expense	**(738)**	(584)	**(223)**	(110)
Net fee and commission income	**5,168**	3,150	**3,797**	2,162
Net trading (losses)/gains	**(735)**	1,141	**(812)**	569
Net gains/(losses) on investment securities	**606**	152	**586**	159
Share of results of associates and joint ventures	**309**	123	**3**	—
Other operating income	**3,148**	2,671	**350**	109
Impairment losses on loans and advances	**(1,920)**	(1,836)	**(1,882)**	(2,017)
Operating expenses and others	**(16,682)**	(14,348)	**(12,609)**	(11,096)
Operating profit	**24,267**	17,271	**19,545**	12,142
Non-operating income, net	**150**	386	**135**	340
Profit before income tax	**24,417**	17,657	**19,680**	12,482
Income tax expense	**(11,003)**	(6,508)	**(9,974)**	(5,802)
Profit for the period	**13,414**	11,149	**9,706**	6,680
Attributable to:				
Equity holders of the Bank	**12,147**	9,898	**9,706**	6,680
Minority interest	**1,267**	1,251	**—**	—
	13,414	11,149	**9,706**	6,680
Earnings per share (Basic and diluted, RMB per ordinary share)	**0.05**	0.05		

Legal Representative and Chairman:
Xiao Gang

Vice Chairman and President:
Li Lihui

Executive Vice President in charge of accounting function:
Zhu Min

General Manager of the Financial Management Department
Zhang Jinliang

Cash flow Statements

(Amount in millions of RMB)

	Bank of China Group		Bank of China Limited	
	Three month period ended 31 March 2007 (unaudited)	Three month period ended 31 March 2006 (unaudited)	**Three month period ended 31 March 2007 (unaudited)**	Three month period ended 31 March 2006 (unaudited)
Cash flows from operating activities				
Interest received	**56,489**	45,893	**45,933**	35,860
Commission received	**5,954**	3,746	**4,020**	2,274
Proceeds from recovery of bad debts previously written-off	**404**	419	**214**	167
Net increase in due to banks and other financial institutions	**38,458**	10,548	**38,262**	8,448
Net increase in due to central banks	**1,825**	576	**1,825**	576
Net increase/(decrease) in certificates of deposit and placements from banks and other financial institutions	**13,067**	(40,902)	**2,664**	(43,968)
Net increase in due to customer	**210,122**	251,260	**225,051**	240,805
Cash inflow from operating activities	**326,319**	271,540	**317,969**	244,162
Payment of interest on customer deposits and inter-bank balances	**(22,443)**	(18,599)	**(17,156)**	(13,937)
Commission paid	**(783)**	(576)	**(223)**	(110)
Payment to and on behalf of the employees	**(12,221)**	(8,029)	**(10,072)**	(6,474)
Payment of operating expenses and others	**(5,324)**	(4,844)	**(2,963)**	(2,819)
Income tax paid	**(2,398)**	(1,603)	**(1,857)**	(1,017)
Business and other taxes paid	**(2,024)**	(1,744)	**(2,000)**	(1,721)
Net (increase)/decrease in due from and placements with banks and other financial institutions	**(1,135)**	20,197	**(4,996)**	52,186
Net increase in loans and advances to customers	**(155,191)**	(59,654)	**(130,526)**	(71,432)

Cash flow Statements *(Continued)*

(Amount in millions of RMB)

	Bank of China Group		Bank of China Limited	
	Three month period ended 31 March 2007 (unaudited)	Three month period ended 31 March 2006 (unaudited)	**Three month period ended 31 March 2007 (unaudited)**	Three month period ended 31 March 2006 (unaudited)
Net increase in investment securities	**(78,446)**	(195,947)	**(87,464)**	(168,449)
Net increase in balance with central banks	**(44,431)**	(7,287)	**(44,407)**	(13,154)
Net change in other operating items	**(2,700)**	(23,165)	**(10,641)**	(31,569)
Cash outflow from operating activities	**(327,096)**	(301,251)	**(312,305)**	(258,496)
Net cash outflow from operating activities	**(777)**	(29,711)	**5,664**	(14,334)
Cash flows from investing activities				
Proceeds from disposal of property and equipment, intangible assets and other long-term assets	**2,271**	346	**47**	118
Proceeds from disposal of investments in subsidiaries, associates and joint ventures	**48**	—	**1**	—
Dividends received	**25**	—	**177**	96
Cash inflow from investing activities	**2,344**	346	**225**	214
Purchase of property and equipment, intangible assets and other long-term assets	**(2,464)**	(595)	**(1,206)**	(522)
Payment for increase of investments in subsidiaries, associates and joint ventures	**(57)**	—	**—**	—
Cash outflow from investing activities	**(2,521)**	(595)	**(1,206)**	(522)

Cash flow Statements *(Continued)*

(Amount in millions of RMB)

	Bank of China Group		Bank of China Limited	
	Three month period ended 31 March 2007 (unaudited)	Three month period ended 31 March 2006 (unaudited)	**Three month period ended 31 March 2007 (unaudited)**	Three month period ended 31 March 2006 (unaudited)
Net cash outflow from investing activities	**(177)**	(249)	**(981)**	(308)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	**—**	9,996	**—**	9,996
Cash received from minority equity holders of subsidiaries	**11**	45	**—**	—
Proceeds from sales of treasury shares	**117**	—	**—**	—
Cash inflow from financing activities	**128**	10,041	**—**	9,996
Payment of interest on bonds issued	**(1,464)**	(1,383)	**(1,464)**	(1,383)
Dividend paid to minority interest	**(209)**	(95)	**—**	—
Cash outflow from financing activities	**(1,673)**	(1,478)	**(1,464)**	(1,383)
Net cash (outflow)/inflow from financing activities	**(1,545)**	8,563	**(1,464)**	8,613
Effect of foreign exchange rate changes on cash and cash equivalents	**(3,934)**	(1,770)	**(2,270)**	(1,346)
Net (decrease)/increase in cash and cash equivalents	**(6,433)**	(23,167)	**949**	(7,375)
Cash and cash equivalents as at 1 January	**519,944**	397,112	**397,042**	275,623
Cash and cash equivalents as at 31 March	**513,511**	373,945	**397,991**	268,248

Legal Representative and Chairman:
Xiao Gang

Vice Chairman and President:
Li Lihui

Executive Vice President in charge of accounting function:
Zhu Min

General Manager of the Financial Management Department
Zhang Jinliang