Management Discussion & Analysis

Economic, Financial and Regulatory Environment

In the first half of 2006, the global economy achieved robust growth. The International Monetary Fund raised its global GDP growth forecast to 4.9% for 2006, which will be the fourth consecutive year with growth rate over 4%. The Chinese economy continued to maintain its trend of steady expansion, with a year-on-year GDP growth of 10.9% to RMB9,143.3 billion in the first half of 2006. Commodity price remained stable. During the period, consumer price index rose by 1.3%, investments and exports grew especially strongly, while consumption steadily increased. Foreign trade climbed 23.4%, 0.2 percentage point higher than the growth rate a year earlier. Trade surplus reached USD61.4 billion. With strengthened macro-economic adjustment measures, the overheated factors in the economy have shown signs of cooling down. Total retail sales of consumer goods increased by 13.3%, or 12.4% in real terms, 0.4 percentage points higher than the growth a year earlier. The Chinese economy continued to register fast growth and low inflation.

In the first half of 2006, China's financial market advanced smoothly with financial credits and money supply increased and more financial innovations introduced. RMB interest rate and exchange rate remained stable. By the end of June, RMB had appreciated 0.94% against the USD. The balance of all financial institutions' RMB and foreign currency loans had increased by 14.34% to RMB22.79 trillion, and the balance of deposits had surged by 17.19%.

2006 is the fifth year following China's entry to the WTO. With the country fully opening up its financial sector to the world by the end of the year, competition among domestic and foreign financial institutions has become increasingly fierce.

The China Banking Regulatory Commission (CBRC) promulgated a series of regulatory policies in the first half of 2006, covering such areas as the adoption of unified regulatory rating system for all commercial banks, promotion of corporate governance and innovations, approval for banks to offer overseas wealth management services to customers, strengthening regulation of foreign exchange risk management and guidance on loan issuance. These policies have significant bearing on the banking industry's profitability and business management.

The changing economic, financial and regulatory environment has imposed more stringent requirements on the operation and management of commercial banks.

Our Target   This year, the Bank will firmly push forward all its reforms in greater depth. While seizing the opportunities arising from China's continuous economic growth, it will also vigilantly guard against potential risks for the financial sector caused by conflicts in the inner working of the economy. It will accelerate the development of its risk management and internal control system, consolidate management and business processes, speed up the implementation of its IT blueprint, and make efforts to improve management capabilities. It will expedite product and service innovation to enhance its core competitiveness. Our goal is to ensure the Bank develops in a comprehensive, coordinated and sustainable manner, thereby create greater value for shareholders, the Bank, our clients and employees.

Financial Statement Analysis

Overview

As of 30 June, 2006, total assets of Bank of China Limited ("the Bank") and its subsidiaries ("the Group") reached RMB5,231.635 billion, an increase of RMB491.587 billion or 10.37% over 31 December 2005. Total liabilities stood at RMB4,846.553 billion, an increase of RMB362.024 billion or 8.07% over 31 December 2005. Owners' equity (excluding minority interests) totaled RMB355.747 billion, an increase of RMB129.328 billion or 57.12% over 31 December 2005.

The Group achieved a net profit of RMB19.477 billion in the first half of 2006, a year-on-year increase of RMB4.296 billion or 28.30%. The Group is in a good financial position.

Income Statement Analysis

Unit: RMB million

	Half year ended 30 June 2006	Half year ended 30 June 2005	Year ended 31 December 2005
Net interest income	54,823	48,808	101,008
Non-interest income	14,680	12,562	24,098
Impairment losses on loans and advances	(5,479)	(4,966)	(11,486)
Other operating expenses	(29,686)	(27,721)	(59,984)
Operating profit	34,338	28,683	53,636
Profit before income tax	34,709	28,731	53,811
Income tax expense	(12,458)	(10,957)	(22,253)
Profit for the period	22,251	17,774	31,558
Profit for the period attributable to equity holders of the Bank	19,477	15,181	25,921

Reconciliation Between PRC GAAP and IFRS Financial Information

Unit: RMB million

	Net Assets		Net Profit	
	At 30 June 2006	At 31 December 2005	Half year ended 30 June 2006	Half year ended 30 June 2005
PRC GAAP figures	357,641	233,842	19, 024	16,434
Adjustments for accounting standard differences:				
– Reversal of asset revaluation surplus and corresponding depreciation	(7,794)	(7,999)	205	133
– Fair value measurement on investment properties	3,199	2,816	438	1,059
– Equity securities classified as available-for-sale financial assets	3,566	1,775	-	-
– Early retirement benefit obligation	(4,911)	(5,097)	186	(1,749)
– Cost method to non-trading precious metals	(757)	(637)	(120)	(83)
– Deferred tax impact	4,222	992	(97)	(97)
– Minority interests effect and others	581	727	(159)	(516)
Sub-total	(1,849)	(7,423)	453	(1,253)
IFRS figures	355,747	226,419	19,477	15,181

Please refer to the Supplementary Information (Reconciliation between RPRC GAAP and IFRS financial information) for details.

Operation of Major Subsidiary

	Half year ended June 2006	Half year ended June 2005
Name	BOC Hong Kong (Holdings) Limited	
Listing place and code	Hong Kong 2388	
Scope of business	BOC Hong Kong (Holdings) Limited is a holding company; its subsidiaries provide banking and relevant financial services in Hong Kong.	
Net profit	RMB7.515 billion	RMB7.109 billion
Contribution of major subsidiary to the net profit of the Group during the period	33.77%	40.00%

Net Interest Income

The Group achieved a net interest income of RMB54.823 billion in the first half of 2006, a year-on-year increase of RMB6.015 billion or 12.32%. The average balance[7] and average interest rate[8] of the Group's interest-earning assets and interest-bearing liabilities are shown in the table below:

Unit: RMB million

Items	Half year ended 30 June 2006				Half year ended 30 June 2005				Year ended 31 December 2005			
	Average balance		Interest income/ expense	Average interest rate(%)	Average balance		Interest income/ expense	Average interest rate(%)	Average balance		Average interest rate	Interest income/ expense (%)
	Volume	Proportion (%)			Volume	Proportion (%)			Volume	Proportion (%)		
Interest-earning assets												
Loans and advances to customers	2,294,002	48	60,707	5.29	2,198,126	52	52,120	4.74	2,194,078	51	110,313	5.03
Investment securities[9]	1,850,510	38	30,652	3.31	1,391,696	33	19,909	2.86	1,485,640	34	44,938	3.02
Due from banks and other financial institutions	694,824	14	8,765	2.52	639,077	15	5,587	1.75	655,359	15	12,697	1.94
Sub-total	4,839,336	100	100,124	4.14	4,228,899	100	77,616	3.67	4,335,077	100	167,948	3.87
Interest-bearing liabilities												
Due to customers*	4,001,322	89	38,887	1.94	3,471,702	88	23,815	1.37	3,560,014	88	55,914	1.57
Due to banks and other financial institutions	371,143	8	4,122	2.22	336,394	9	2,827	1.68	355,856	9	6,512	1.83
Other borrowed funds	112,108	3	2,292	4.09	113,672	3	2,166	3.81	115,843	3	4,514	3.90
Sub-total	4,484,573	100	45,301	2.02	3,921,768	100	28,808	1.47	4,031,713	100	66,940	1.66
Net interest income			54,823				48,808				101,008	
Net interest spread[10](%)				2.12				2.20				2.21
Net interest margin[11](%)				2.27				2.31				2.33

* Include the balance of certificates of deposits issued.

The following table illustrates changes in the Group's net interest income arising from changes of volume and interest rate factors[12]. Variances caused by changes in both volume and rate are attributed to interest rate factor.

[7] Average balances of interest-earning assets and interest-bearing liabilities are daily average balances derived from the Bank's management accounts.
[8] The average interest rate is annualized rate and calculated by dividing interest income/expense by average balance. Average interest rates in the first half of 2006 and the first half of 2005 are converted into annualized rates.
[9] Include investment securities classified as loans and receivables, held-to-maturity securities and available-for-sale securities and trading debt securities.
[10] Net interest spread=Average yield of interest-earning assets - Average cost of interest-bearing liabilities
[11] Net interest margin=Net interest income / Average balance of interest-earning assets
[12] Volume variance is calculated based on movements in average balances of interest-earning assets and interest-bearing liabilities in the report period; and interest rate variance is calculated based on changes in average interest rates on interest-earning assets and interest-bearing liabilities in the report period.

Unit: RMB million

	Half year ended 30 June 2006 vs Half year ended 30 June 2005		
	Volume	Interest rate	Total
Interest income			
Loans and advances to customers	2,272	6,315	8,587
Investment securities	6,561	4,182	10,743
Due from banks and other financial institutions	488	2,690	3,178
Sub-total	9,321	13,187	22,508
Interest expense			
Due to customers	(3,628)	(11,444)	(15,072)
Due to banks and other financial institutions	(292)	(1,003)	(1,295)
Other borrowed funds	30	(156)	(126)
Sub-total	(3,890)	(12,603)	(16,493)
Net interest income	5,431	584	6,015

Interest Income

The Group's interest income was RMB100.124 billion in the first half of 2006, a year-on-year increase of RMB22.508 billion or 29.00%. The growth is attributable to the size expansion as well as the increase of average interest rate of interest-earning assets. The average balance of the Group's interest-earning assets increased by 14.43% from RMB4,228.899 billion in the first half of 2005 to RMB4,839.336 billion in the first half of 2006. The average interest rate of interest-earning assets climbed from 3.67% in the first half of 2005 to 4.14% in the first half of 2006, an increase of 47 basis points.

Loans and Advances to Customers

In the first half of 2006, interest income from loans and advances of the Group reached RMB60.707 billion, a year-on-year increase of RMB8.587 billion or 16.48%. It is mainly attributable to a 55 basis points increase in the average yield of loans from 4.74% in the first half of 2005 to 5.29% in the first half of 2006, and the increase in the average balance of loans and advances from RMB2,198.126 billion to RMB2,294.002 billion. The Group continued to firmly control loan qualities and achieved a steady growth of loans and advances. The major reasons for the growth of the average yield of loans are: (1) continuous pickup of foreign currency loan interest rates; (2) upward adjustment of the benchmark interest rate of RMB loans at the end of April 2006 by the People's Bank of China. Influenced by the low interest rate of the domestic RMB money market, the discount yield was under pressure, thus partly offset the rapid growth of interest income.

Investment Securities

In the first half of 2006, interest income from investment securities of the Group reached RMB30.652 billion, a year-on-year increase of RMB10.743 billion or 53.96%. The main reason is that the average balance of investment securities soared by 32.97% from RMB1,391.696 billion in the first half of 2005 to RMB1,850.51 billion in the first half of 2006, and the average yield increased by 45 basis points from 2.86% in the first half of 2005 to 3.31% in the first half of 2006. The increase in average balance is primarily due to the following factors: (1) with continuous increase in deposits from customers, the Group invested the funds not used as loans in securities which have higher yield than due from banks and other financial institutions; (2) the Group continued to optimize the asset portfolio by reducing the proportion of relatively lower yield due from and placement with banks and other financial institutions. The increase in average yield was attributed to the continuous rise of yield on foreign currency securities due to market influence, which offset the impact of the lower interest rate in the domestic RMB money market.

Due from Banks and Other Financial Institutions

In the first half of 2006, interest income from due from banks and other financial institutions of the Group reached RMB8.765 billion, a year-on-year increase of RMB3.178 billion or 56.88%. The increase is mainly due to (1) 77 basis points increase in the average yield from 1.75% in the first half of 2005 to 2.52% in the first half of 2006 driven by the continuous increase of the average yield of foreign currency assets, and (2) the 8.72% increase in average balance from RMB639.077 billion in the first half of 2005 to RMB694.824 billion in the first half of 2006 which was attributable to the growth of deposit reserves placed with central banks as a result of increasing customer deposits, though partly offset by the reduction of lower yield due from and placements with banks and other financial institutions.

Interest Expense

In the first half of 2006, the Group's interest expense reached RMB45.301 billion, a year-on-year increase of RMB16.493 billion or 57.25%. The growth is attributable to the size expansion as well as the increase of the average cost of interest-bearing liabilities. The average balance of interest-bearing liabilities increased by 14.35% from RMB3,921.768 billion in the first half of 2005 to RMB4,484.573 billion in the first half of 2006, and the average cost of interest-bearing liabilities rose by 55 basis points from 1.47% in the first half of 2005 to 2.02% in the same period of 2006.

Due to Customers

In the first half of 2006, the Group's interest expense for deposits from customers was RMB38.887 billion, a year-on-year increase of RMB15.072 billion or 63.29%. The increase in interest expense is mainly attributable to a 57 basis points increase in the interest rate from 1.37% in the first half of 2005 to 1.94% in the same period of 2006, and a RMB529.62 billion or 15.26% increase in the average balance of deposits from customers from RMB3,471.702 billion in the first half of 2005 to RMB4,001.322 billion in the same period of 2006. The growth of interest rate of deposits from customers is principally due to: (1) significant increase in the interest rate of low balance foreign currency deposits; (2) continuous growth of the overseas market interest rate. The growth of the average balance of deposits from customers is largely due to the rapid growth of RMB business with the development of the Chinese economy, which offset the decline of domestic foreign currency deposits caused by the expectation of RMB appreciation.

Due to Banks and Other Financial Institutions

In the first half of 2006, the Group's interest expense for due to banks and other financial institutions was RMB4.122 billion, a year-on-year increase of RMB1.295 billion or 45.81%. It is primarily attributed to a 54 basis points rise in the cost of foreign currency funds from 1.68% in the first half of 2005 to 2.22% in the same period of 2006. Although the average balance increased by 10.33% from RMB 336.394 billion in the first half of 2005 to RMB 371.143 billion in the first half of 2006, the proportion of due to banks and other financial institutions in the interest-bearing liabilities declined from 9% in the first half of 2005 to 8% in the first half of 2006.

Other Borrowed Funds

In the first half of 2006, the Group's interest expense for the special purpose borrowings and bonds issued was RMB2.292 billion, a year-on-year increase of RMB126 million or 5.82%. The change is primarily attributable to the growth of fund cost, with the interest rate rising by 28 basis points from 3.81% in the first half of 2005 to 4.09% in the same period of 2006.

Net Interest Margin and Net Interest Spread

In the first half of 2006, the Group's net interest spread declined by 8 basis points to 2.12%. Due to increase in interest rate, contribution from cost free funds increased by 4 basis points; and net interest margin decreased by 4 basis points to 2.27%. The decrease in interest spread is mainly attributable to: (1) although the proportion of investment securities to total interest-earning assets increased by 5 percentage points, yet the increase of yield was offset by the low interest rate in RMB money market; (2) due to rapid expansion of interest-earning assets and the Group's prudence in balancing risk and return, the proportion of loans in the interest-earning assets relatively declined and more funds were invested in the debt market; and (3) the cost of foreign currency fund increased.

In the first half of 2006, based on the market forecast and development needs of assets and liabilities business, the Group intensified its efforts to absorb RMB deposits, and optimizd asset and liability structure. The robust growth in various business lines mitigated the negative impact of the decrease in interest spread. Net interest income increased by 12.32% from RMB48.808 billion in the first half of 2005 to RMB54.823 billion in the same period of 2006.

Non-interest Income

The Group achieved a non-interest income of RMB14.68 billion in the first half of 2006, a year-on-year increase of RMB2.118 billion or 16.86%.

Unit: RMB million

	Half year ended June 2006	Half year ended June 2005	Year ended December 2005
Net fee and commission income	6,841	4,518	9,247
Net trading income	557	2,795	4,283
Net gains/(losses) on investment securities	64	20	(582)
Other operating income	7,218	5,229	11,150
Total	14,680	12,562	24,098

Net Fee and Commission Income

Unit: RMB million

	Half year ended June 2006	Half year ended June 2005	Full year ended December 2005
Settlement and clearing fees	1,794	1,287	2,941
Agency commission	2,201	1,235	2,735
Credit commitment fees	1,438	1,308	2,693
Bank card fees	1,365	1,049	2,340
Custodian and other fiduciary service fees	248	235	483
Others	1,120	801	1,506
Fee and commission income	8,166	5,915	12,698
Fee and commission expense	(1,325)	(1,397)	(3,451)
Net fee and commission income	6,841	4,518	9,247

The Group achieved a net fee and commission income of RMB6.841 billion in the first half of 2006, a year-on-year increase of RMB2.323 billion or 51.42%. The increase was mainly attributed to the Group's intensified efforts to drive the growth in fee-based businesses. As a result, significant increase was recorded in agency commissions, settlement and clearing fees, and bank card fees.

Agency commission reached RMB2.201 billion, a year-on-year increase of RMB966 million or 78.22%. The growth is mainly attributable to increased sales of products and services such as treasury bonds, investment funds and insurance.

Settlement and clearing fees stood at RMB1.794 billion as of 30 June 2006, a year-on-year increase of RMB507 million or 39.39%. The growth is primarily attributable to the rapid growth of businesses such as factoring, L/C settlement and personal electronic remittance.

Bank card fees reached RMB1.365 billion as of 30 June 2006, a year-on-year increase of RMB316 million or 30.12%. The growth is mainly attributable to the intensified efforts of the Group on promoting bank cards business in line with market changes and customer demand, which led to continuous increase in new card issuance, transaction volume and frequency of ATM transactions.

Net Trading Income

Unit: RMB million

	Half year ended June 2006	Half year ended June 2005	Full year ended December 2005
Net gains/(losses) from foreign exchange and foreign exchange products	1,243	3,155	2,226
Net gains/(losses) from precious metal transactions	136	85	150
Net gains/(losses) from interest rate instrument	(1,008)	(355)	1,753
Net gains/(losses) from trading equity securities	180	(113)	130
Others	6	23	24
Total	557	2,795	4,283

In the first half of 2006, net trading income of the Group reached RMB557 million, a year-on-year decline of RMB2.238 billion or 80.07%.

In the first half of 2006, the domestic operations' spread income from foreign exchange dealings with customers was RMB2.728 billon, a year-on-year increase of RMB804 million or 41.79%. The increase is mainly attributable to the change in foreign exchange rate and moderate liberalization of personal limits that spurred the growth of personal foreign exchange transactions. During the same period, due to interest rate volatility, the Group suffered a loss from interest rate instruments of RMB1.008 billion, a year-on-year decrease of RMB653 million or 183.94%.

Starting from 21 July 2005, the People's Bank of China adopted a managed floating exchange rate regime. As a result of RMB appreciation, the Group suffered a net loss of RMB3.5 billion on foreign currency exposure under the restricted foreign exchange capital account in the first half of 2006. At the same time, the foreign exchange option contract entered into between the Group and Central SAFE Investments Limited gave rise to evaluation gain of RMB300 million. Should the above factors be excluded, the Group's net trading income has increased by 34.42% year-on-year.

Net gains on Investment Securities

Unit: RMB million

	Half year ended June 2006	Half year ended June 2005	Full year ended December 2005
De-recognition of available-for-sale securities	97	40	(606)
(Charge)/ write back for impairment losses	(33)	(20)	24
Total	64	20	(582)

In the first half of 2006, net gains on investment securities of the Group increased by RMB44 million or 220% to RMB64 million. The increase is mainly attributable to gains from sale of the available-for-sale securities.

Other Operating Income

Unit: RMB million

	Half year ended June 2006	Half year ended June 2005	Full year ended December 2005
Changes in fair value of investment properties	606	996	1,697
Insurance premiums	4,286	2,624	5,237
Net gains on disposal of other subsidiaries and associates	138	-	320
Net gains on disposal of property and equipment and other assets	70	517	870
Dividend income	18	27	194
Others	2,100	1,065	2,832
Total	7,218	5,229	11,150

In the first half of 2006, other operating income of the Group was RMB7.218 billion, a year-on-year increase of RMB1.989 billion or 38.04%. This increase is primarily attributable to: (1) the rapid development of insurance business; (2) net gains on sales of other subsidiaries and associates; and (3) other gains arising from the sale of certain debt assets.

Impairment Losses on Loans and Advances

Unit: RMB million

	Half year ended June 2006	Half year ended June 2005	Full year ended December 2005
Impairment losses on loans and advances	(5,479)	(4,966)	(11,486)

In the first half of 2006, the impairment losses on loans and advances of the Group were RMB5.479 billion, a year-on-year increase of RMB513 million.

Other Operating Expenses

Unit: RMB million

	Half year ended June 2006	Half year ended June 2005	Full year ended December 2005
Staff costs	13,093	13,403	27,106
General operating and administrative expenses	5,861	5,114	13,251
Depreciation and amortization	2,840	3,135	6,314
Business and other taxes	2,987	2,670	5,680
Insurance claims expenses	3,423	2,168	4,153
Operating lease rentals	820	727	1,550
Impairment losses on other assets	-	-	433
Losses on disposal of property and equipment	-	-	205
Provision for litigation losses	385	3	712
Other expenses	277	501	872
Total	29,686	27,721	59,984

In the first half of 2006, other operating expenses of the Group totaled RMB29.686 billion, a year-on-year increase of RMB1.965 billion or 7.09%. The increase is mainly attributable to increases in insurance claims, general operating and administrative expenses, provisions for legal proceedings and business and other taxes. Among them, the rapid development of insurance business resulted in increased insurance claims expenses, and general operating and administrative expenses for supporting the Group's business increased with the expansion of business and increasingly fierce market competition. Business and other taxes also increased as a result of the increasing income of domestic operations. However, depreciation expense continued to decline as a result of factors such as the sale and disposal of fixed assets in previous years.

Income Tax Analysis

In the first half of 2006, the Group's income tax expense was RMB12.458 billion, a year-on-year increase of RMB1.501 billion or 13.70%. The Group's effective tax rate was 35.89%, a year-on-year decrease of 2.25 percentage points.

Balance Sheet Analysis

Unit: RMB million

	At 30 June 2006	At 31 December 2005	At 31 December 2004
Balances with central banks	340,651	316,941	284,348
Placements with banks and other financial institutions	293,140	332,099	340,192
Investment securities[13]	2,002,555	1,683,313	1,321,646
Loans and advances to customers, net	2,317,625	2,152,112	2,072,919
Property and equipment	62,238	62,417	65,012
Total assets	5,231,635	4,740,048	4,265,221
Due to banks	171,422	134,217	111,788
Due to central banks	30,495	30,055	66,738
Certificates of deposits and placements from banks and other financial institutions	190,880	212,626	141,087
Due to customers	4,048,438	3,699,464	3,338,448
Total liabilities	4,846,553	4,484,529	4,037,314
Minority interests	29,335	29,100	27,152
Capital and reserves attributable to equity holders of the Bank	355,747	226,419	200,755
Total equity	385,082	255,519	227,907

Investment Securities

Unit: RMB million

	At 30 June 2006	At 31 December 2005	At 31 December 2004
Trading assets and other financial instruments at fair value through profit or loss	114,167	111,782	92,124
Available-for-sale securities	929,894	602,221	357,587
Held-to-maturity securities, net	569,126	607,459	457,994
Securities classified as loans and receivables, net	389,368	361,851	413,941
Total	2,002,555	1,683,313	1,321,646

As of 30 June 2006, securities of the Group reached RMB2,002.555 billion, an increase of RMB319.242 billion or 18.97% over 31 December 2005. The increase was mainly attributed to the growth of RMB327.673 billion in available-for-sale securities.

[13]Include avaiable-for-sale securities, held-to-maturity securities, investment securities classified as loans and receivables, and trading assets and other financial instruments at fair value through profit or loss.

Loans and Advances

As of 30 June 2006, the Group had a total loan portfolio of RMB2,405.753 billion, an increase of RMB170.488 billion or 7.6% over the previous year-end. Loans and advances by domestic operations were RMB1,972.848 billion, an increase of RMB172.706 billion or 9.6% over the previous year-end. Loans and advances by domestic operations of the Eastern Region grew at the highest rate, with an RMB93.813 billion or 13.1% increase over the previous year-end.

Loan Portfolio Concentrations by Geographic Region

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proporti on (%)	Balance	Proportion (%)
Domestic operations	1,972,848	82.01	1,800,142	80.53	1,735,528	80.81
Overseas operations	432,905	17.99	435,123	19.47	412,160	19.19
Total	2,405,753	100.00	2,235,265	100.00	2,147,688	100.00

Domestic Loans and Advances by Geographic Region

Unit: RMB million

Domestic	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Northern Region	353,477	17.92	322,451	17.91	314,843	18.14
Northeast Region	135,304	6.86	131,649	7.32	128,600	7.41
Eastern Region	813,572	41.24	719,759	39.98	679,773	39.17
Central & Southern Region	470,372	23.84	444,869	24.71	433,860	25.00
Western Region	200,123	10.14	181,414	10.08	178,452	10.28
Total	1,972,848	100.00	1,800,142	100.00	1,735,528	100.00

Note: Northern Region includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region, and the Head Office of the Bank;
Northeastern Region includes Heilongjiang Province, Jilin Province, and Liaoning Province;
Eastern Region includes Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, and Shandong Province;
Central & Southern Region includes Henan Province, Hubei Province, Hunan Province, Guangdong Province, Shenzhen City, Guangxi Autonomous Region, and Hainan Province;
Western Region includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Ningxia Autonomous Region, Qinghai Province, Tibet Autonomous Region, and Xinjiang Uighur Autonomous Region.

Industry Concentration of the Group's Loans and Advances

As at 30 June 2006, the outstanding balance of the Group's corporate loans and advances was RMB1,864.298 billion, an increase of RMB 152.036 billion or 8.9% from the beginning of the year. These loans and advances were mainly concentrated in the sectors of manufacturing, commerce and services, accounting for 31.8% and 17.3% of total corporate loans and advances respectively. Industry concentration of corporate loans and advances by domestic operations was consistent with the overall characteristics of the Group.

Industry Concentration of Corporate Loans and Advances by the Group

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Manufacturing	592,126	31.76	531,410	31.04	523,732	31.67
Commerce and services	323,348	17.34	301,863	17.63	348,432	21.07
Real estate	201,585	10.81	190,297	11.11	187,110	11.31
Energy, mining and agriculture	252,415	13.54	230,854	13.48	203,544	12.31
Transportation	200,503	10.76	193,428	11.30	185,449	11.21
Public utilities	104,827	5.62	91,924	5.37	87,731	5.31
Construction	38,304	2.05	36,050	2.11	36,059	2.18
Financial services	112,153	6.02	96,245	5.62	46,518	2.81
Others	39,037	2.10	40,191	2.34	35,072	2.13
Total	1,864,298	100.00	1,712,262	100.00	1,653,647	100.00

Industry Concentration of Corporate Loans and Advances by Domestic Operations

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Manufacturing	544,048	34.70	491,117	34.58	497,543	35.94
Commerce and services	276,491	17.63	255,460	17.99	284,772	20.57
Real estate	104,121	6.64	96,390	6.79	100,932	7.29
Energy, mining and agriculture	233,357	14.88	210,281	14.81	186,942	13.51
Transportation	173,417	11.06	165,396	11.64	158,762	11.47
Public utilities	104,827	6.68	91,924	6.47	87,731	6.34
Construction	32,940	2.10	30,089	2.12	27,938	2.02
Financial services	96,440	6.15	77,237	5.44	32,079	2.32
Others	2,512	0.16	2,290	0.16	7,484	0.54
Total	1,568,153	100.00	1,420,184	100.00	1,384,183	100.00

Loans and Advances of the Group by Customer

As at 30 June 2006, the outstanding balance of the Group's corporate loans and advances was RMB1,864.298 billion, an increase of RMB152.036 billion or 8.9% from the prior year-end, representing 77.5% of the total. The outstanding balance of personal loans and advances was RMB541.455 billion, an increase of RMB18.452 billion or 3.5% from the prior year-end, representing 22.5% of the total.

Loans and Advances of the Group by Customer

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Corporate loans and advances	1,864,298	77.49	1,712,262	76.60	1,653,647	77.00
Trade bills	269,713	11.21	225,026	10.07	177,738	8.28
Personal loans and advances	541,455	22.51	523,003	23.40	494,041	23.00
Total	2,405,753	100.00	2,235,265	100.00	2,147,688	100.00

Loans and Advances of Domestic Operations by Customer

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Corporate loans and advances	1,568,153	79.49	1,420,184	78.89	1,384,183	79.76
Trade bills	240,826	12.21	195,311	10.85	148,832	8.58
Personal loans and advances	404,695	20.51	379,958	21.11	351,345	20.24
Total	1,972,848	100.00	1,800,142	100.00	1,735,528	100.00

Personal Loans and Advances of Domestic Operations by Product

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Mortgage	308,387	76.20	286,829	75.49	240,640	68.49
Credit cards	2,212	0.55	1,929	0.51	1,441	0.41
Others*	94,096	23.25	91,200	24.00	109,264	31.10
Total	404,695	100.00	379,958	100.00	351,345	100.00

* Others mainly include auto loans, personal investment loans and personal education loans.

Loans and Advances of the Group by Currency

As of 30 June 2006, the outstanding balance of the Group's loans and advances in RMB was RMB1,643.896 billion, an increase of RMB 166.037 billion or 11.2% from the beginning of the year. It accounted for 68.3% of the total.

Loans and Advances of the Group by Currency

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
RMB	1,643,896	68.3	1,477,859	66.1	1,378,760	64.2
Foreign currencies	761,857	31.7	757,406	33.9	768,928	35.8
Total	2,405,753	100.00	2,235,265	100.00	2,147,688	100.00

Loans and Advances of Domestic Operations by Currency

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
RMB	1,641,482	83.2	1,475,821	82.0	1,378,343	79.4
Foreign currencies	331,366	16.8	324,321	18.00	357,185	20.6
Total	1,972,848	100.00	1,800,142	100.00	1,735,528	100.00

Loans and Advances of the Group by Types of Security

As of 30 June, 2006, a large proportion of the Group's loans and advances were secured, accounting for 45.9% of the total. Unsecured loans accounted for 24.1%.

Loans and Advances of the Group by Types of Security

Unit: RMB million

Types of security	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Unsecured	579,204	24.08	475,983	21.29	449,026	20.91
Guaranteed	723,502	30.07	684,824	30.64	650,905	30.31
Collateralized and other secured	1,103,047	45.85	1,074,458	48.07	1,047,757	48.78
Total	2,405,753	100.00	2,235,265	100.00	2,147,688	100.00

Quality of the Group's Loans and Advances

As of 30 June 2006, the Group's total impaired loans and advances were RMB105.944 billion, a decrease of RMB3.586 billion over the previous year-end; and the impaired loan ratio was 4.4%, a decrease of 0.5 percentage point. The impaired loans and advances of domestic operations were RMB99.543 billion, a decrease of RMB2.816 billion over the previous year-end; and the impaired loan ratio was 5.05%, a decrease of 0.64 percentage point. The impaired loans and advances of overseas operations were RMB6.401 billion, a decrease of RMB770 million over the previous year-end; and the impaired loan ratio was 1.48%, a decrease of 0.17 percentage point.

Impaired Loan Portfolio Concentration of the Group by Region

Unit: RMB million

	At 30 June 2006			At 31 December 2005			At 31 December 2004		
	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)
Domestic Operations	99,543	93.96	5.05	102,359	93.45	5.69	104,553	88.32	6.02
Overseas Operations	6,401	6.04	1.48	7,171	6.55	1.65	13,830	11.68	3.36
Total	105,944	100.00	4.40	109,530	100.00	4.90	118,383	100.00	5.51

Notes: 1. According to the International Accounting Standard No. 39, if objective impairment evidence shows that the future cash flow of loans will decreases and the amount can be estimated, then the Bank identifies the loan as impaired loan and recognizes the losses as well.
2. Impaired loan ratio is calculated by dividing the balance of impaired loans with the balance of total loans and advances.

Impaired Loan Portfolio Concentration of Domestic Operations by Region

Unit: RMB million

	At 30 June 2006			At 31 December 2005			At 31 December 2004		
	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)
Northern Region	18,457	18.54	5.22	17,699	17.29	5.49	22,600	21.62	7.18
Northeastern Region	11,967	12.02	8.84	12,582	12.29	9.56	13,396	12.81	10.42
Eastern Region	25,963	26.08	3.19	27,811	27.17	3.86	28,595	27.35	4.21
Central & Southern Region	30,071	30.21	6.39	30,611	29.91	6.88	26,611	25.45	6.13
Western Region	13,085	13.15	6.54	13,656	13.34	7.53	13,351	12.77	7.48
Total	99,543	100.00	5.05	102,359	100.00	5.69	104,553	100.00	6.02

Industry Concentration of Impaired Corporate Loans by Domestic Operations

Unit: RMB million

	At 30 June 2006			At 31 December 2005			At 31 December 2004		
	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)
Manufacturing	34,856	38.86	6.41	33,188	35.73	6.76	32,444	33.53	6.52
Commerce and services	23,162	25.83	8.38	25,443	27.39	9.96	26,344	27.22	9.25
Real estate	11,596	12.93	11.14	12,763	13.74	13.24	13,453	13.90	13.33
Energy, mining and agriculture	6,624	7.39	2.84	6,665	7.18	3.17	6,588	6.81	3.52
Transportation	7,176	8.00	4.14	7,759	8.35	4.69	9,729	10.05	6.13
Public utilities	4,312	4.81	4.11	4,627	4.98	5.03	5,564	5.75	6.34
Construction	1,717	1.91	5.21	2,226	2.40	7.40	2,569	2.65	9.20
Financial services	235	0.26	0.24	215	0.23	0.28	72	0.08	0.22
Others	6	0.01	0.26	0	0.00	0.00	6	0.01	0.08
Total	89,684	100.00	5.72	92,886	100.00	6.54	96,769	100.00	6.99

Impaired Loans of the Group by Customer

Unit: RMB million

	At 30 June 2006			At 31 December 2005			At 31 December 2004		
	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)
Corporate loans and advances	95,120	89.78	5.10	98,888	90.28	5.78	108,230	91.42	6.54
Personal loans and advances	10,824	10.22	2.00	10,642	9.72	2.03	10,153	8.58	2.06
Total	105,944	100.00	4.40	109,530	100.00	4.90	118,383	100.00	5.51

Impaired Loans of Domestic Operations by Customer

Unit: RMB million

	At 30 June 2006			At 31 December 2005			At 31 December 2004		
	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)
Corporate loans and advances	89,684	90.10	5.72	92,886	90.75	6.54	96,769	92.55	6.99
Personal loans and advances	9,859	9.90	2.44	9,473	9.25	2.49	7,784	7.45	2.22
Total	99,543	100.00	5.05	102,359	100.00	5.69	104,553	100.00	6.02

Impaired Personal Loans of Domestic Operations by Product

Unit: RMB million

	At 30 June 2006			At 31 December 2005			At 31 December 2004		
	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)	Balance	Proportion (%)	Impaired loan ratio(%)
Mortgage	3,930	39.87	1.27	3,837	40.50	1.34	3,608	46.35	1.50
Credit cards	267	2.71	12.08	228	2.41	11.82	218	2.80	15.13
Others	5,662	57.42	6.02	5,408	57.09	5.93	3,958	50.85	3.62
Total	9,859	100.00	2.44	9,473	100.00	2.49	7,784	100.00	2.22

Five-category Classification of Loans and Advances

As of 30 June, 2006, the Group's non-performing loans (NPLs) were RMB100.788 billion in accordance with regulatory classification standards, a decrease of RMB2.438 billion over the previous year-end; NPL ratio was 4.19%, a decrease of 0.43 percentage point. NPLs of domestic operations stood at RMB96.519 billion, a decrease of RMB1.69 billion over the previous year-end; NPL ratio was 4.89%, a decrease of 0.57 percentage point. Loans and advances of the Group classified as special mention stood at RMB261.788 billion, a decrease of RMB22.26 billion over the previous year-end, accounting for 10.88% of total loans and advances, a decrease of 1.83 percentage points.

Asset Quality of the Group

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass	2,043,177	84.93	1,847,991	82.67	1,612,936	75.10
Special mention	261,788	10.88	284,048	12.71	424,606	19.77
Substandard	42,082	1.75	45,573	2.04	61,515	2.87
Doubtful	43,479	1.81	44,550	1.99	32,931	1.53
Loss	15,227	0.63	13,103	0.59	15,700	0.73
Total	2,405,753	100.00	2,235,265	100.00	2,147,688	100.00
Total NPLs	100,788	4.19	103,226	4.62	110,146	5.13

Asset Quality of Domestic Operations

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass	1,625,993	82.42	1,430,429	79.46	1,228,414	70.78
Special mention	250,336	12.69	271,504	15.08	408,571	23.54
Substandard	40,917	2.07	44,056	2.45	57,882	3.33
Doubtful	41,760	2.12	42,852	2.38	29,787	1.72
Loss	13,842	0.70	11,301	0.63	10,874	0.63
Total	1,972,848	100.00	1,800,142	100.00	1,735,528	100.00
Total NPLs	96,519	4.89	98,209	5.46	98,543	5.68

Due to Customers

Unit: RMB million

	At 30 June 2006	At 31 December 2005	At 31 December 2004
Demand deposit			
– Corporate deposits	940,638	836,763	776,648
– Personal deposit	734,894	667,957	697,028
– Others	168,780	128,392	107,061
Sub-total	1,844,312	1,633,112	1,580,737
Time deposit			
– Corporate deposit	558,621	511,983	406,019
– Personal deposit	1,645,505	1,554,369	1,351,692
Sub-total	2,204,126	2,066,352	1,757,711
Total	4,048,438	3,699,464	3,338,448

As of 30 June 2006, total deposits of the Group reached RMB4,048.438 billion, an increase of RMB348.974 billion or 9.43% over the previous year-end. Of the total amount, demand deposits increased by RMB211.2 billion, accounting for 60.52% of the increase. Personal and corporate deposits increased by RMB158.073 billion and RMB150.513 billion respectively over the previous year-end.

Due to Customers by Currency

As of 30 June 2006, the balance of the Group's RMB deposits increased by RMB344.697 billion or 13.6% from the beginning of the year to RMB2,876.575 billion. The balance of RMB deposits accounted for 71.1% of total deposits.

Due to customers of the Group by Currency

Unit: RMB million

	At 30 June 2006		At 31 December 2005		At 31 December 2004	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
RMB	2,876,575	71.05	2,531,878	68.44	2,093,272	62.70
Foreign currencies	1,171,863	28.95	1,167,586	31.56	1,245,176	37.30
Total	4,048,438	100.00	3,699,464	100.00	3,338,448	100.00

Equity

Shareholders' Equity

Unit: RMB million

	At 30 June 2006	At 31 December 2005	At 31 December 2004
Minority interests	29,335	29,100	27,152
Equity	355,747	226,419	200,755
Total equity	385,082	255,519	227,907

Changes in Shareholders' Equity within the Report Period

Unit: RMB million

	Share capital	Capital reserve	Statutory reserve	General and regulatory reserve	Undistributed profit	Reserve for fair value changes of available-for-sale securities	Currency translation differences	Minority interests	Total
Balance at 1 January 2006	209,427	(5,954)	5,987	5,109	10,188	1,899	(237)	29,100	255,519
Net profit for the period	-	-	-	-	19,477	-	-	2,774	22, 251
Issue of ordinary shares (net of issuance cost)	44,412	72,567	-	-	-	-	-	-	116,979
Appropriation to statutory reserve	-	-	2,108	-	(2,108)	-	-	-	-
Appropriation to general and regulatory reserve	-	-	-	4,291	(4,291)	-	-	-	-
Net change in fair value of available-for-sale securities	-	-	-	-	-	(5,502)	-	(284)	(5,786)
Dividends	-	-	-	-	(1,375)	-	-	(1,891)	(3,266)
Translation differences	-	-	-	-	-	-	(251)	(312)	(563)
Sale of shares in subsidiaries	-	-	-	(2)	2	-	-	(52)	(52)
Balance at 30 June 2006	253,839	66,613	8,095	9,398	21,893	(3,603)	(488)	29,335	385,082

Supplementary Financial Information as of the End of the Last Three Report Periods

Major regulatory indicators		Regulatory Criteria	At 30 June 2006	At 31 December 2005	At 31 December 2004
Capital adequacy ratio (%)		≥8	12.4	10.4	10.0
Core capital adequacy ratio (%)		≥4	10.6	8.1	8.5
Liquidity ratio (%)	RMB	≥25	32.0	48.9	35.3
	Foreign currencies	≥25	45.8	87.4	78.6
Loan-deposit ratio (%)	RMB	≤75	57.2	51.7	59.6
	Foreign currencies	≤85	64.7	70.4	67.9
NPL ratio (%)	-		4.2	4.6	5.1
Provision coverage ratio (%)		≥60	87.4	80.6	68.0
Proportion of single largest customer loans (%)		≤10	3.9	4.7	3.4
Proportion of loans to top 10 customers (%)		≤50	19.3	25.6	25.4

The above regulatory indicators are calculated in accordance with relevant provisions of CBRC, and financial information is prepared in accordance with the *Accounting Standards for Business Enterprises* and the *Accounting System for Financial Institutions*. The liquidity ratio is calculated in accordance with relevant provisions of CBRC in 2006.

Capital Adequacy Ratio

The Bank calculates and discloses the capital adequacy ratio in line with the *Management Measures on Capital Adequacy Ratio of Commercial Banks* (CBRC Decree [2004] No.2) promulgated by CBRC on 23 February 2004. In 2005, the Group calculated market risk capital in line with the provisions of the *Circular of the General Office of China Banking Regulatory Commission on Issuing Market Risk Capital Calculation Sheet and Explanation for Commercial Banks* (YJF [2004] No.374) promulgated by the CBRC. As of 30 June 2006, the Group's capital adequacy ratio increased by 1.98 percentage points to 12.40%, and core capital adequacy ratio also increased by 2.55 percentage points to 10.63%.

The Group's net capital amounted to RMB452.027 billion as of 30 June 2006, an increase of RMB125.79 billion over the previous year-end. The net core capital grew by RMB134.728 billion to RMB387.698 billion, and risk-weighted assets (excluding market risk) increased by RMB370.47 billion to RMB3,163.659 billion. The market risk Capital requirement of the Group was RMB38.549 billion, and the balance of corresponding risk-weighted assets was RMB481.868 billion.

Unit: RMB million/%

Items	At 30 June, 2006	At 31 December, 2005	Change
Net core capital (a)	387,698	252,970	134,728
Net capital (b)	452,027	326,237	125,790
Risk-weighted assets (c)	3,163,659	2,793,189	370,470
Market risk capital (d)	38,549	27,025	11,524
Core capital adequacy ratio (%) [e=a/(c+d*12.5)]	10.63%	8.08%	2.55%
Capital adequacy ratio (%) [f=b/(c+d*12.5)]	12.40%	10.42%	1.98%

Segment Reporting

Reporting by Region

Unit: RMB million

At 30 June 2006	Mainland	Hong Kong & Macau	Other overseas regions	Eliminations	Group
Net interest income	45,347	8,627	845	4	54,823
Non-interest income	4,933	10,058	191	(502)	14,680
(Charge)/write-back for impairment losses	(6,473)	876	118	-	(5,479)
Other operating expenses	(21,722)	(7,294)	(702)	32	(29,686)
Operating profit	22,085	12,267	452	(466)	34,338
Gross profit	11,276	11,012	310	(347)	22,251
Segment assets	4,198,974	998,924	199,286	(165,549)	5,231,635
Segment liabilities	(3,921,380)	(898,840)	(191,882)	165,549	(4,846,553)

Unit: RMB million

At 30 June 2005	Mainland	Hong Kong & Macau	Other overseas regions	Eliminations	Group
Net interest income	40,619	7,345	844	-	48,808
Non-interest income	5,660	6,413	489	-	12,562
(Charge)/write-back for impairment losses	(6,818)	1,642	210	-	(4,966)
Other operating expenses	(21,420)	(5,710)	(591)	-	(27,721)
Operating profit	18,041	9,690	952	-	28,683
Gross profit	8,557	8,425	792	-	17,774
Segment assets	3,736,930	969,872	186,995	(153,749)	4,740,048
Segment liabilities	3,586,428	872,995	178,855	(153,749)	4,484,529

During the first half of 2006, the Chinese mainland remained to be the primary business region of the Group and the important sources of income and profit as well, accounting for 80% of total assets and 51% of net profit of the Group. Hong Kong and Macau were also key business regions, accounting for 19% of total assets and 49% of net profit of the Group.

Reporting by Business Line

Unit: RMB million

At 30 June 2006	Corporate banking	Personal banking	Treasury services	Investment banking	Insurance business	Others	Eliminations	Total
Net interest income	26,761	17,083	11,362	19	250	(656)	4	54,823
Non-interest income	4,988	4,236	(1,548)	1,175	3,853	3,127	(1,151)	14,680
(Charge)/write-back for impairment losses	(4,639)	(835)	-	(5)	-	-	-	(5,479)
Other operating expenses	(9,623)	(11,933)	(3,909)	(229)	(3,714)	(959)	681	(29,686)
Operating profit	17,487	8,551	5,905	960	389	1,512	(466)	34,338
Profit before income tax	17,487	8,551	5,905	1,109	389	1,818	(550)	34,709
Segment assets	1,811,161	636,140	2,689,385	18,003	17,112	84,097	(24,263)	5,231,635
Capital expenditure	416	782	31	6	2	953	-	2,190

Unit: RMB million

At 30 June 2005	Corporate banking	Personal banking	Treasury services	Investment banking	Insurance business	Others	Eliminations	Total
Net interest income	25,845	16,126	6,996	63	183	(405)	-	48,808
Non-interest income	4,179	2,714	660	290	2,394	2,613	(288)	12,562
(Charge)/write-back for impairment losses	(5,494)	571	-	(4)	-	(39)	-	(4,966)
Other operating expenses	(9,813)	(11,379)	(3,516)	(192)	(2,443)	(666)	288	(27,721)
Operating profit	14,717	8,032	4,140	157	134	1,503	-	28,683
Profit before income tax	14,717	8,032	4,140	203	134	1,505	-	28,731
Segment assets	1,655,351	599,263	2,397,839	15,086	12,316	78,617	(18,424)	4,740,048
Capital expenditure	342	665	32	4	25	698	-	1,766

With effect from 1 January 2006, the internal funding transfer pricing mechanism of the Bank was revised. The new pricing mechanism is based on the market deposit and lending rates, adjusted for pre-determined margins with reference to different products and respective maturities. Previously, blended mid prices between the Bank's average cost of funding and average yield on interest bearing assets were adopted, without taking into consideration the variety of products and respective maturities. The reason for the change is primarily to better reflect the performance of the individual segments as part of the Bank's efforts to enhance its assets and liabilities management capability. The above segment information at 30 June 2005 is based on the new transfer pricing mechanism.

Business Review

Commercial Banking

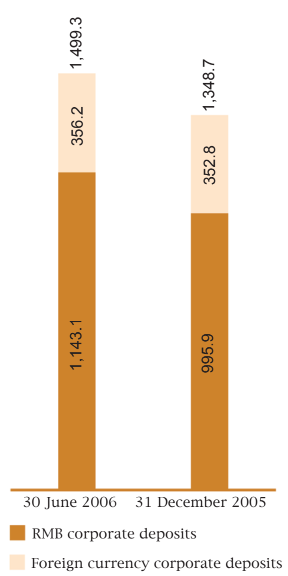
The Bank operates three principal lines of business – commercial banking, investment banking and insurance. With a global presence in 27 countries and regions, we maintain correspondent relationships with over 1,400 foreign banks, which collectively have 46,900 branches worldwide. Leveraging our global network, quality services, and operational strengths, we enjoy a distinctive competitive advantage in the domestic banking market.

Corporate Banking

Corporate banking refers to a variety of financial products, credit facilities and financial solutions that we provide to our customers, including deposit-taking, lending, trade finance, settlement, clearing and custody.

Corporate Deposits and Loans The Bank continued to strengthen marketing efforts to promote corporate deposits. RMB corporate deposits maintained its sustainable and rapid growth momentum which has persisted over the years. As at the end of June 2006, the balance of domestic RMB corporate deposits was RMB1,142.1 billion, an increase of RMB146.7 billion or 14.7% from the prior year-end with a market share of 8.2% among all financial institutions[14]. The Bank actively expanded the key customer segment and applied differentiation policies in business management and service delivery, leveraged concerted marketing strengths between the Head Office and branches in marketing for key projects and speeded up the development of quality asset business. As at the end of June 2006, the outstanding balance of domestic RMB corporate loans stood at RMB1,236.7 billion, an increase of RMB140.9 billion or 12.8% from the prior year-end, representing a market share of 6.7% among all financial institutions. While maintaining the stable growth of RMB corporate deposits, the Bank also strengthened its efforts in promoting foreign currency corporate deposits in a bid to sustain its leading position in the market. As of the end of June 2006, the balance of domestic foreign currency corporate deposits was USD17.67 billion, an increase of USD1.29 billion from the prior year-end, with a market share among all financial institutions of 21.1%. Fully leveraging its strength in foreign exchange business, the Bank actively conducted product innovation and seized opportunities to develop its trade finance business, which promoted the

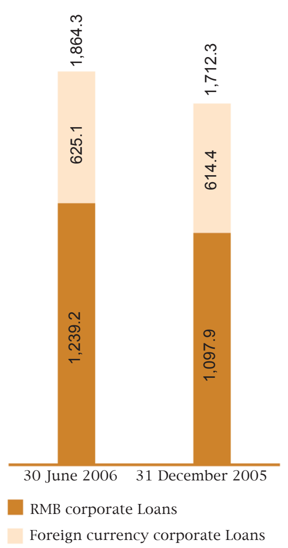
Corporate Deposits of the Group by Currency
Unit: (RMB billion)



[14] All financial institutions include: People's Bank of China, policy banks, state-owned commercial banks, other commercial banks, urban commercial banks, rural commercial banks, urban credit cooperatives, rural cooperative banks, rural credit cooperatives, financial companies, trust and investment corporations, leasing companies, and savings and remittance bureaus.

growth in foreign currency corporate loans. By the end of the report period, the outstanding balance of domestic foreign currency corporate loans was USD41.44 billion, with a market share of 33.5%, representing an increase of USD1.26 billion, and a decrease of 0.4 percentage point from the prior year-end respectively. The balance of foreign currency corporate deposits of overseas operations was USD26.9 billion, and outstanding balance of foreign currency corporate loans was USD37.04 billion.

Corporate Loans of the Group by Currency
Unit: (RMB billion)



In the first half of 2006, the Bank devoted great efforts to expand its high-quality customers segment, and forged ahead with reforming the corporate business operation and management model. It continued to strengthen joint marketing between the Head Office and branches on key projects or to key customers, and enhanced cooperation between product departments to expand cross selling. It also reinforced collaboration between domestic operations and Bank of China (Hong Kong) Limited ("BOC Hong Kong"), BOC International Holdings ("BOCI"), Bank of China Group Investment Limited ("BOCGI"), Bank of China Group Insurance company Limited ("BOCG Insurance") and other overseas operations to promote the overall competitiveness of its corporate banking. By launching initiatives such as pilot projects targeting small enterprises and strengthening product innovation, the Bank seeks to ensure sustainable and healthy development of its corporate business.

Institutional Banking Institutional banking business of the Bank refers to various asset, liability and fee-based services the Bank is engaged in by leveraging on its own resources, with a view to serving various financial institutions and generating comprehensive benefits. Institutional deposits grew rapidly in May-June 2006 as influenced by the stock market. At the end of June 2006, the balance of RMB deposits from financial institutions for domestic operations was RMB172.33 billion, an increase of RMB18.27 billion from the prior year-end. The balance of current and time foreign currency deposits from financial institutions for domestic operations was USD9.87 billion, a decrease of USD180 million.

Since 1987, the Bank has sequentially designated its New York, Tokyo and Frankfurt branches as the major clearing channels for US dollar, yen and euro respectively. Over years' efforts, the Bank has set up a comprehensive overseas clearing system which covers different currencies and regions and provides domestic and overseas customers with efficient and convenient clearing services.

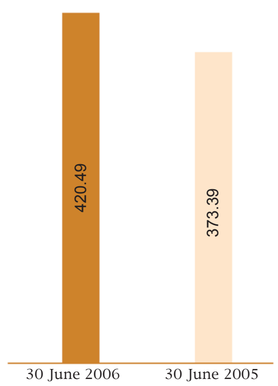
Custody and Fund Distribution The Bank serves as custodian for a diverse range of closed-end funds, open-end funds, brokerage wealth management programs, Social Security Fund, insurance companies, QFII, annuity funds, trust companies, asset securitization capitals and emerging products such as industry funds and QDII etc. The funds we distribute as agent cover all types of open-end funds such as equity, balanced and bond funds, brokerage wealth management program, and investment-linked insurance products.

In the first half of 2006, the environment of custody and fund distribution business improved generally. Facing an active stock market, investors have quickened the pace of investment and more innovations have been introduced to the market. The fund distribution and custody business thus maintained generally healthy and fast development. As at the end of June 2006, total assets in the Bank's custody, leading the market, reached nearly RMB210 billion, an increase of 20% over the year beginning. Total volume of the Bank's fund distributions exceeded RMB28 billion, a year-on-year increase of 50%.

In the first half of 2006, the Bank achieved new breakthroughs in custody business for QFII funds, insurance funds, corporate annuity and local social insurance fund, making it the largest Chinese QFII custodian bank.

International settlement and trade finance The Bank's international settlement and trade finance services include issuance of import letters of credit, collection and presentation of document under export letter of credit, import bill advance, export bill purchase, forfeiting, confirmation of letters of credit, letter of guarantee and factoring. In addition to traditional international settlement and trade finance services, the Bank also exclusively provides such services as processing trade account services, tax payment guarantee, etc, meeting customers' different settlement and financing needs.

International Settlement Volume of the Group
Unit: (USD billion)

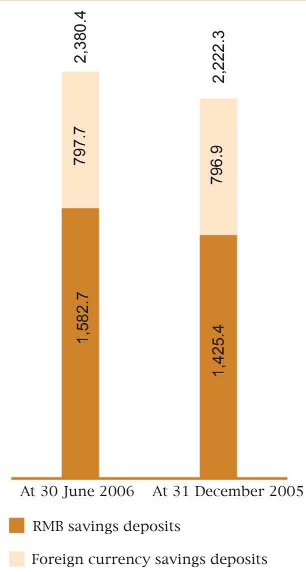


During the first half of 2006, the Group's total volume of international settlements reached USD420.49 billion, an increase of 12.6% year-on-year. Of the total amount, USD269.9 billion was carried out by domestic operations, a year-on-year increase of 10.7%, and USD150.5 billion was by overseas operations, a year-on-year increase of 16.2%. Due to the steady growth of domestic economy, the volume of domestic trade finance surged sharply, with factoring business climbing 223%. The growth of international trade finance slowed down due to the pickup of interest rate in the international market. In the first half of 2006, the Group undertook total volume of international trade finance of USD29.17 billion, a year-on-year increase of 13.3%. Of the total amount, USD13.14 billion was undertaken by domestic operations, and USD19.91 billion was by overseas operations. The volume of letters of guarantee denominated in foreign currencies issued by domestic operations was USD4.77 billion, a year-on-year increase of 83.5%; and those denominated in RMB was 37.3 billion, a year-on-year increase of 109.5%. The volume of international factoring transactions undertaken by domestic operations was USD2.58 billion, representing an increase of 27.4% over the same period last year; and the volume of domestic factoring transactions was RMB12.76 billion, reflecting a year-on-year increase of 192.3%.

The Bank strengthened innovation and improved portfolioed application of trade finance and fee-based products in the first half of 2006. A series of competitive products were launched, including “Export Quan Yi Da, Import Hui Li Da, Import Bao Fu Da, and E-customs Declaration”. The Bank also developed such new products and services as forfeiting under export credit insurance. These product innovations highlighted the Bank’s distinctive advantages in products and services of international settlement and trade finance, and have helped to consolidate its leadership in this area.

Personal Banking

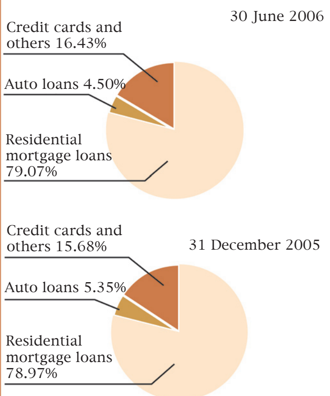
Savings Deposits of the Group by Currency
Unit: (RMB billion)



Personal banking refers to the financial services provided by the Bank to residents or households, including deposit-taking, lending, wealth management and bank card services.

Savings Deposits As at the end of June 2006, the balance of domestic RMB savings deposits was RMB1,573.8 billion, an increase of RMB157.44 billion over the prior year-end, representing a market share of 10.2%, an increase of 0.1 percentage point. The balance of domestic foreign currency savings deposits totaled USD31.69 billion, a decrease of USD820 million from the prior year-end, representing a market share of 49.8%, a decrease of 0.9 percentage point. Savings deposits at overseas operations amounted to USD69.2 billion (including RMB8.97 billion of savings deposits), an increase of USD1.84 billion. The decrease of foreign currency savings deposits was mainly attributable to the reform of the RMB exchange rate regime, which buoyed the market’s expectation of further RMB appreciation and weakened residents’ willingness to hold such deposits.

Personal Loans of the Group by Category



Note: (1) Others include personal investment loans and personal education loans.

Personal Loans At the end of June 2006, the outstanding balance of domestic personal loans was RMB404.7 billion, an increase of RMB24.7 billion from the prior year-end. Of the total personal loans, the balance of residential mortgage loans was RMB308.4 billion, an increase of RMB21.6 billion. The balance of overseas personal loans was USD17.1 billion, a decrease of USD620 million from the prior year-end.

In the first half of 2006, the Bank strengthened marketing efforts of personal residential mortgage loans through its direct-sale model under a unified brand, i.e. “Ideal Home”, and launched two competitive new products, namely “Yi Ju Bao” first-hand residential mortgage loans and “An Ju Bao” second-hand residential mortgage loans. It also promoted strategic cooperation with leading real estate developers in China. As at end of June 2006, the Bank has a network of over 7,000 domestic outlets offering consumer loans through direct-sale model, accounting for more than 60% of all its outlets in the country.

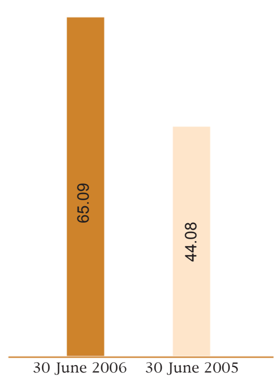
Wealth Management In the first half of 2006, the Bank launched “BOC Global Wealth Management Service” in the wealth management centers of domestic operations. Over 250 wealth management centers are capable of offering services of unified standard to the Bank's VIP customers. The Bank also launched a series of foreign exchange wealth management products which are linked to the performance of exchange rate, oil and gold, and RMB structured wealth management products which are linked to the performance of exchange rate and gold. A Boc Wealth management advisory team was established comprising over 20 experts from the Global Markets Department and Personal Banking Department of the Head Office, BOC Hong Kong, BOCI and BOCI China, to promote the "BOC Wealth Management" brand among customers. The Bank has also built a stronger wealth management team with over 2,300 wealth management managers at various domestic branches, of whom nearly 900 are Certified Financial Planners.

Bank Cards

The Bank provides customers with such bank card services as single and dual-currency debit cards, quasi-credit cards, credit cards and foreign currency card settlement services.

In the first half of 2006, the Bank steadily pushed forward the establishment of the credit card business unit in cooperation with The Royal Bank of Scotland Group PLC (RBS Group). It also strengthened the operation and risk management of bank card business, actively promoted per card transaction volume and usage frequency and steadily increased bank card business income. The Bank's domestic operations realized total bank card fees of RMB960 million, a year-on-year increase of 51.4%.

Goods and Services Purchased with Great Wall RMB Cards of Domestic Operations
Unit: (RMB billion)



As at the end of June 2006, the Bank's domestic operations issued a total of 94.6 million Great Wall RMB Debit Cards, 7.03 million BOC Great Wall Credit Cards, and 1.09 million BOC Credit Cards, an increase of 15.2%, 12.5% and 561% respectively over the same period of last year. The volume of foreign currency card settlements was RMB10,482 million, a year-on-year increase of 16.6%. Transaction volume of Great Wall RMB cards reached RMB65.1 billion, an increase of 47.7%.

In the first half of 2006, the Bank continued to enhance bank card product innovation, and launched a variety of bank cards including BOC City Card (a standard RMB credit card featured by installment), BOC Jiuguang JCB Co-Branded Credit Card, BOC Beida Credit Card, and BOC Golden Eagle Co-Branded Card. It also jointly launched the Great Wall Jiashi Fund Co-Branded Card, Great Wall Zhongsheng Co-Branded Card and some other cards with a number of large enterprises and public institutions. These products were well accepted by the market.

Treasury Business

The Bank is engaged in treasury business including investments and transactions on its own account, and meanwhile provides treasury products and services for corporate and personal customers. It takes a leading position among domestic commercial banks in foreign exchange treasury services.

The Bank's investment covers fields such as foreign currency bonds, money market, derivatives and asset management; its trading business includes foreign exchange transactions, foreign exchange swaps, foreign exchange settlement and sale, foreign exchange options, foreign currency bonds and derivatives, RMB bonds and precious metals. The Bank has a league of experienced traders and risk managers supporting its treasury business, ensuring that it earns profit with risks controlled within acceptable level.

The development and quotation of new products is one of the Bank's major competitive edges. In recent years, the People's Bank of China has launched a number of new initiatives, including market maker system, tier-1 foreign exchange trader, OTC, forward, spot, interest rate swap, and inter-bank RMB foreign exchange swap. These initiatives have seen pace of marketization of RMB exchange rate regime quickened notably. Subsequently, the People's Bank of China, CBRC and the State Administration of Foreign Exchange jointly promulgated the *Interim Administrative Measures for Commercial Banks to Provide Overseas Financial Management Services*, and the Bank became one of the first banks approved to offer overseas wealth management services and obtained the biggest quota. Leveraging on its treasury business, the Bank gradually promoted the innovation of treasury products and attracted high-end customers by developing and offering customized products and services. In the first half of 2006, the Bank made great efforts to exploit treasury products and services in the face of fierce market competition. Apart from RMB interest rate swap and long-term forward exchange settlement and sales services, it also launched RMB structured wealth management products, including "Game" retail wealth management products, and "Olympics" wealth management series products. To meet the wealth management needs of corporate customers, the Bank also launched such products as "Four-Season Forward" and "Credit Garden". Its Huijubao personal foreign exchange wealth management series products have been named for the second consecutive year as "Best Wealth Management Brand in China" by a domestic professional financial and economic website www.hexun.com.

Gold bullion trading is one of the major treasury businesses of the Bank. As at 30 June 2006, the Bank held a 37% market share and ranked first on Shanghai Gold Exchange, the sole gold exchange in China.

Operations of BOC Hong Kong

Bank of China (Hong Kong) Limited ("BOC Hong Kong") is a subsidiary in Hong Kong with 65.87% stake held by the Bank. BOC Hong Kong is one of the major commercial banks and also one of the three note-issuing banks in Hong Kong. As at the end of June 2006, it had 302 branches, of which 287 operate in Hong Kong, 14 in Mainland and 1 overseas, and 454 ATMs. BOC Hong Kong provides retail customers and corporate customers with a full range of financial products and services through its wide service network. In the first half of 2006, BOC Hong Kong acquired 51% stake in BOC Group Life Assurance Limited, thus further expanded its service scope and income sources. In the first half of 2006, BOC Hong Kong contributed a total of RMB4.8 billion (excluding minority interests) to the Bank's after tax profit, a year-on-year increase of 4.8%.

During the period, braced by the strong external economies and robust Chinese economy, the Hong Kong economy continued to register rapid growth. More employment opportunities were created, citizens' income was increased, and investment market became more active. The favorable economic environment has seen BOC Hong Kong's profit increased steadily with net interest margin expanded and non-interest income grew markedly compared with the same period of last year. Its investment agency business achieved remarkable results, and cost-income ratio remained at a low level in the market.

BOC Hong Kong improved the structure of its deposit-taking business while maintaining its edges. As at the end of June 2006, the balance of deposits from customers amounted to HKD650.99 billion, an increase of 1.9% over the end of last year. Rise in interest rate, among other factors, suppressed demand for housing mortgage loans and market competition intensified, which led to a slight decrease of 0.2% in BOC Hong Kong's loan balance. In face of the adverse environment, BOC Hong Kong devoted great efforts to optimize credit portfolio and improve process management, and achieved a steady growth of loans to small and medium enterprises. It also held the lead in the syndicated loan market, ranking second in the Hong Kong and Macau syndicated loan market and third in the Hong Kong and China syndicated loan market.

In the first half of 2006, BOC Hong Kong continued to lead in Hong Kong's personal RMB business market, achieving good performance in all fields. RMB Deposits rose slightly by 0.1%; its RMB credit card business takes a dominant market share, with total business volume rising 60.3%. As at the end of June, BOC Hong Kong had a total of 236 ATMs which offer RMB cash withdrawal services. In March 2006, BOC Hong Kong formally launched RMB clearing system, providing a superior clearing platform and a strong foundation for the further development of RMB business in Hong Kong. The launch of RMB-denominated personal checking services has offered customers a new consumption option with more flexibility and convenience. Leveraging the synergy with the parent bank, BOC Hong Kong remains driven in developing high-quality products and services with the aim of generating sustainable superior return on capital and maximum value for shareholders.

Investment Banking

BOC International Holdings Limited ("BOCI") is a wholly owned subsidiary registered in Hong Kong, and has 30 affiliates and subsidiaries around the world. It is a full-service investment bank with a full-fledged investment banking team and an independent international placement network.

In the first half of 2006, BOCI realized total profit of HKD1.109 billion, an increase of 446% year-on-year. During the period, it participated in six IPO projects in the capacity of exclusive/joint lead underwriter, and held a 28.5% share of the stock underwriting market in Hong Kong in terms of funds raised. It topped the list of IPO underwriters in terms of total funds raised and number of IPO projects. BOCI provides a wide range of asset management services through BOCI Prudential Asset Management Ltd ("BOCI Prudential"). At the end of June 2006, total assets under management by BOCI Prudential reached HKD26.85 billion, an increase of HKD1.5 billion or 5.9% from the prior year-end. With respect to Mandatory Provident Fund business in Hong Kong, BOCI Prudential has a registered MPF membership of 0.46 million, and total assets under management exceeded HKD14 billion, accounting for approximately 8% of the market.

BOC International (China) Limited ("BOCI China"), incorporated in March 2002, was the first Sino-foreign joint venture securities company with comprehensive A-share brokerage license. As at 30 June, 2006, BOCI China ranked first among all Chinese securities companies in terms of total underwriting amounts. It also participated in underwriting the 15th issue of financial bonds of China Development Bank, and ranked first among all the underwriters in terms of the underwriting amount. In the same period, it claimed second place among Chinese securities companies in terms of volume of bond delivery.

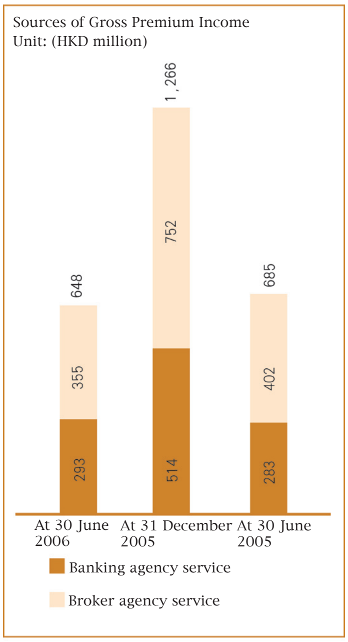
Insurance Business

The Bank offers insurance services including life insurance and non-life insurance. Non-life insurance business is wholly owned and operated by the Bank, and life insurance business is owned and operated jointly with the Bank's subsidiary BOC Hong Kong.

Bank of China Group Insurance Company Limited ("BOCG Insurance") and BOC Group Life Assurance Company Limited ("BOCG Life") are responsible for the operation of the Group's insurance business.

In the first half of 2006, the insurance business of the Group achieved gross premium income of HKD648 million, translating into RMB389 million in total profit, up 189% year-on-year. Main business resources include banking agency business and broker agency business.

In 2006, BOCG Insurance penetrated into more specialized liability insurance market, including directors liability insurance and professional liability insurance. At the same time, following the "User-Pay" principle advocated by the government in the medical system reforms, the bank launched a series of tailored medical insurance programs. To expand overseas business, BOCG Insurance acquired a 32% stake in Luen Fung Hang Insurance Co., Ltd in the first half of 2006 in a move to penetrate into the insurance market of Macau. In order to further consolidate the interaction of commercial banking, investment banking and insurance business, BOCG Insurance disposed of 51% of its equity interests in BOCG Life to BOC Hong Kong (holdings) Limited, thus opened a new chapter for the development of life insurance business of BOCG Life.



Information Technology

The Bank realizes that IT construction is crucial to its future development. In the first half of 2006, the Bank continued to direct IT efforts with supporting business development and ensuring secure operation as priority. Progress was achieved for significant IT projects including construction of the management information system, new online banking platform, and centralized international settlement and trade finance system. Meanwhile, the infrastructure construction of a new information center and a disaster recovery center has been initiated. The Bank is also systematically implementing the IT Blueprint; fundamental tasks including system training, gap analysis and stress testing have been launched. Effective implementation of IT Blueprint is critical to the Bank's reform, development and innovation. It will help the Bank realize centralized processing of operational information of its branches to intensify internal control, risk prevention and timely supervision by the internal audit, and formulate a customer-centered management model based on business lines, thereby creating a powerful IT platform for sharpening the Bank's competitive edge.

Risk Management

Risk management is an important part of the Bank's management framework, which is the precondition to its robust, sustainable and healthy development. In the first half of this year, the Bank further enhanced its risk management capability, improved credit asset structure and quality to pursue sustainable and healthy development of its credit business.

The risk management framework of the Bank comprises the Board of Directors and the Risk Policy Committee under the Board, the Internal Control Committee, the Anti-Money Laundering Committee, the Asset-Liability Management Committee and Assets Disposal Committee under the Management, the Risk Management Department, the Credit Administration Department, the Asset & Liability Management Department and Legal and Compliance Department. The Bank uses vertical management model to manage the risks of domestic and overseas branches, and adopts window management model for business departments. It also monitors and controls the risk management of subsidiaries through participation in their respective Board of Directors or Risk Committee.

Credit Risk

Credit risk is the risk that a customer or counterparty may be unable or unwilling to meet a debt obligation to the Bank when required. The Bank's credit risks are mainly from loans, trade finance and treasury business.

The Bank's credit risk management process can be divided into three major stages: 1) credit origination and assessment; 2) credit review and approval; and 3) loan granting and post-lending management.

Corporate Loans For corporate credit facilities, we continue to adopt the "three-in-one" credit decision-making mechanism. The three components of this mechanism are an independent due diligence investigation, an independent risk review, a strict approval process by authorized approvers and follow-up evaluation.

In the first half of 2006, the Bank continued its reform efforts in establishing centralized credit review and approval mechanism, which is being implemented step by step. It adjusted the credit approval authority limits and authority management model for overseas operations, and enhanced the risk control over the total credit exposures to customers. To promote the sustainable and healthy development of credit business to small enterprises, the Bank further clarified customer entry thresholds and launched pilot branches.

The Bank adopts a two-dimensional rating system that relates the customers' credit rating logically with the classification of credit asset. The results of customer credit rating are important basis for credit authority management, customer entry and exit management, credit approval, credit pricing, and classification of credit assets. The Bank plans to start the testing and subsequent adoption of the probability-of-default-based customer credit rating model in the second half year. As at 30 June, 2006, the balance of domestic loans to A-rating customers accounted for 43.7% of the total, an increase of 1.8% over the end of last year.

During the first half of 2006, the Bank established customer risk evaluation standards for large-amount credits, and formulated corresponding management measures to improve the management of credit risks of the Bank. According to China's macro-adjustment policies and the development of the real estate market, the Bank strengthened risk supervision over industrial risk and management of credits to the sector, and achieved steady improvement in the quality of real estate loans.

Five-tier loan classification approach, which was introduced in 1999, is an important part of the Bank's ongoing credit monitoring. In the first half year, the Bank continued to manage the special mention loans by subdividing them into high, medium and low risks categories. Such classification results have become more objective, and the balance and proportion of such loans kept decreasing.

Personal Loans In the first half of 2006, the Bank completed the centralization of approval authority for personal loans to tier-1 branches other than personal pledged loans and education loans. Meanwhile, it strengthened risk supervision of personal loans, including overall monitoring by regions and products, and key monitoring and risk reporting of high-risk real estate projects, distributors and customers.

The Bank reclaims on the debtors of non-performing loans mainly by means of negotiation, legal proceedings, debt restructuring and write-off. The foreclosed assets will be disposed of in an open and transparent manner, generally through auction, invitation for bid and submission of tenders and negotiated transfer.

Market Risk

Market risk is the risk of loss to the Bank's on-balance-sheet and off-balance-sheet operations that may result from changes in interest rates, exchange rates, stock prices and commodity prices. Market risk exists in both trading and non-trading businesses. The Bank manages market risk by setting up risk limits, which are determined by reference to different risk factors such as interest rates, exchange rates, commodity and stock prices, etc. A variety of risk measurement techniques, such as sensitivity limits, were used in formulation of specific management measures.

VAR (Value at risk) is a kind of statistic methodology which is applied in evaluating the potential losses of risk positions caused by fluctuation of interest rates, exchange rates, and commodity and stock prices at designated confidence level during a specific period. The table below shows the result of VAR analysis for the foreign currency trading portfolios of the Bank's domestic business (excluding relatively large-amount investment accounts or bank accounts of the Bank) as of 30 June 2006.

Unit: USD million

	At 30 June 2006				At 31 December 2005			
	Period-end	Average	High	Low	Period-end	Average	High	Low
Interest rate risk	4.88	8.10	16.25	0.82	4.77	3.27	11.94	0.20
Exchange rate risk	2.64	3.67	14.12	0.78	0.39	2.70	18.69	0.34
Volatility risk	0.19	0.68	4.63	0.16	0.36	0.80	2.54	0.04
Total market risk	5.84	8.10	19.15	1.84	15.60	5.10	18.86	0.69

Interest Rate Risk Management Interest rate risk is the risk of loss to interest income or the value of assets due to the volatility of interest rates. We manage the interest rate risk of the banking book primarily through gap analysis, and use the gap analysis data to perform stress-testing, on the basis of which we adjust the re-pricing period structure of assets and liability. Meanwhile, we closely follow the trend of local and foreign currency interest rates, and adjust the interest rates of local and foreign currency deposits and loans in a timely manner to manage interest rate risk.

In respect of treasury products, the Bank adopts such indicators as VAR, duration and Price Value of a Basis Point (PVBP) to measure interest rate risk, and utilizes stress-testing and scenario analysis to monitor risks. The Bank also set up a series of risk limits, which are closely monitored and managed. The Bank has established a globalized treasury product internal control platform with an advanced market risk management infrastructure to effectively monitor the market risk of treasury products offered by its main branches.

Exchange Rate Risk Management The Bank's management of exchange rate risks covers trading accounts and non-trading accounts. Non-trading exchange rate risk mainly arises from the currency mismatches in assets and liabilities, foreign exchange capital, investments in overseas subsidiaries, and foreign currency profit or loss. The Bank seeks to reduce the exchange rate risk arising from currency mismatches in assets and liabilities by matching the source and use of funds on a currency-by-currency basis. In addition, we also manage and control exchange risk through settlement or hedging transactions.

However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as RMB is not a freely convertible currency. According to the current applicable foreign currency policies of the PRC government, the conversion of foreign currency is subject to application and approval by the relevant PRC government authorities. The Bank has taken following measures to reduce its foreign exchange exposure:

In 2005, the Bank entered into a foreign currency option agreement with Central SAFE Investments Limited having a notional amount of USD18 billion to economically hedge a portion of its net on-balance sheet foreign currency position.

During the six month period ended 30 June 2006, the Bank executed certain foreign exchange transactions to reduce its net foreign currency position by USD3.3 billion.

Subsequent to the balance sheet date in August 2006, the Bank further effected certain foreign exchange transactions, further reducing its net foreign currency position by USD14.2 billion.

The risk of trading accounts mainly comes from the foreign exchange transactions the Bank is engaged in. The Bank took a variety of measures according to its risk tolerance and operating capability to effectively reduce the possible losses caused by uncertain market factors, including total exposure control, structural management, limit management, and valuation techniques.

Liquidity Risk

Liquidity risk refers to the risk of funding availability at an appropriate cost when required to meet.

The objective of the Bank's liquidity management is to ensure that the Bank have adequate liquidity at all times to satisfy payment of deposits and other debts due and the development of asset-based business, and is able to raise enough funds at reasonable prices within a certain period in the case of business opportunities or emergencies.

The Bank's liquidity risk is managed on a consolidated basis at the Head Office. Liquidity management policy and measures are applied across the Bank from top to down. Liquidity management mainly includes two scenarios, namely normal business environment and emergent or extreme conditions. Under normal environment, the Bank regularly updates internal liquidity management guidelines and liquidity ratios, proactively manage its cash positions and inter-branch fund transfers, and establishes liquidity portfolio and financing guidelines, with the view to ensuring the normal operation of the Bank's asset and liability business and to adjusting the liquidity of the Bank to a proper level.

In addition, the Bank also monitors warning indicators, set up emergency programs and conduct financing capability testing to discover and prevent risk in a timely manner.

In the first half of 2006, the Group's asset and liability business registered healthy and steady development and liquidity was managed effectively. As at 30 June 2006, all indicators relating the Bank's liquidity status have met the regulatory requirements as table below:

At 30 June 2006	RMB(%)	Foreign Currencies(%)
Liquidity ratio	32.03	45.88
Loan-deposit ratio of domestic operations	56.47	71.95
Excess reserve ratio*	2.58	17.07

* Deposit reserve refers to the deposits with the Central Bank for the purpose of ensuring the withdrawal of deposits and fund clearing by customers, and deposit reserve ratio is the proportion of deposit reserve required by the Central Bank in total balance of deposits.
Deposit reserve and deposit reserve ratio are composed of two parts. The deposit reserve ratio stipulated by the Central Bank is called statutory deposit reserve ratio, which stands at 7.5% at present, i.e. commercial banks must deposit 7.5% of deposits received with the Central Bank; the corresponding deposits is called statutory deposit reserve. The reserve beyond statutory deposit reserve is called excess reserve, and the proportion of excess reserve in total deposits is the excess reserve ratio.
The above liquidity ratio is calculated in accordance with the relevant provisions of the People's Bank of China and CBRC， and the financial data are based on the Accounting Standard for Business Enterprises and the Accounting System for Financial Institutions.

Internal Control and Operational Risk

Internal Control The Bank is committed to continuously improve its internal control system by establishing three defense lines composed of function management, compliance control and internal audit. By clarifying the responsibilities of all business units, the Bank seeks to ensure effective risk prevention and optimum resource allotment from the management framework perspective.

The principal objective of developing internal control function is to establish a compliance culture and construct a comprehensive, dynamic, proactive and verifiable internal control system, which is based on a sound internal control infrastructure and rules and regulations, supported by advanced information technology, guided by an effective incentive and accountability system, provides checks and balance, and emphasizes refined process control.

As required by the Guidelines on Internal Control of Commercial Banks promulgated by the People's Bank of China, the Bank continuously reinforced internal control measures and improved internal control mechanism and environment in different business and management lines, including corporate banking, treasury services, personal banking business, e-banking, bank card, and human resources. Meanwhile, it also established key indicator monitoring system to conduct key monitoring and periodic reporting of such indicators as including rotation, function in an acting capacity, and business errors.

Operational Risk Operational risk refers to the risk of losses caused by substandard or problematic internal procedures, human or system errors or external events. In the first half of 2006, the Bank cooperated with RBS in respect of the operational risk management framework. The two parties carried out a preliminary study of operational risk management framework based on the Bank's conditions. Work processes were developed covering operational risk and control review, key risk indicators, reporting of significant events, etc. Pilot project relating operational risk and control assessment and key risk indicators was also activated.

Internal Audit

In order to fully leverage the function of internal audit in our corporate governance structure, in the first half of 2006, the Bank appointed an independent external consulting agency to conduct an overall evaluation of its internal controls by referring to international internal audit industry best practices. Based on the evaluation results and regulatory requirements, the Bank started improving the organizational structure of internal audits, management techniques, reporting lines and practical standards, and devoted great efforts to build a new vertical, independent and effective internal audit system steered by the Board of Directors and the Audit Committee. In the mean time, the Bank continuously improved the depth of its audits, focused on improvement in high-risk and weak areas and significantly enhanced the effectiveness of internal controls. Under the internal audit plan which mainly comprises regular audits while supplemented by special audits and individual case investigations, all levels of internal audit departments, at home and abroad, had deepened the audits while giving consideration to coverage. In the first half of 2006, the Bank conducted regular internal audits on 6 overseas institutions, 9 tier-1 branches, 115 tier-2 branches, 689 urban sub-branches and 957 county-level sub-branches, and meanwhile completed 1,172 special internal audits (including 850 economic responsibility audits), and 31 case investigations.

Capital Management

The objective of the Bank's capital management is to effectively plan various types of capital to ensure that its capital is in line with the requirements of external regulations, credit rating, risk compensation and shareholder's return. It also endeavors to optimize financial ratios, improve the equity value and maximize shareholder's value on a risk-controlled basis by making full use of capital instruments and management measures. During the report period, the Bank's capital level is in line with all statutory requirements.

Outlook

In the second half of the year, we expect the Chinese economy will maintain its rapid growth momentum, thus providing a favorable macro environment for the operation of the Bank. Presented with new circumstances and new missions, the Bank will further study its strategy and strive to maintain stable and rapid growth for its various businesses, so as to ensure that the targets set at the beginning of the year can be fulfilled. In addition, the Bank will also continue its reforms, bearing in mind the requirements of the capital market. With respect to business development, the Bank will focus on developing its intermediary business, speed up development of its personal banking business, and further optimize its business structure and income mix. The Bank will also steadily develop its asset business with quality customers, maintain an appropriate pace of business development, proactively manage its liabilities, lower fund costs and improve service quality. In terms of risk management, the Bank will strengthen comprehensive risk management, refine its internal control systems, and establish three lines of defense comprising function management, compliance control and internal audit. The Bank also plans to take its organizational reforms and process integration to further depth, and also accelerate the implementation of the IT Blueprint. The reforms in HR management will continue, and more effort will be devoted to improving management capability and staff quality.