

# Notes to The Condensed Consolidated Financial Statements

For The Six Month Period Ended 30 June 2006

(Amount in millions of Renminbi, unless otherwise stated)

## I. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard No. 34 *Interim Financial Reporting* (“IAS 34”) and should be read in conjunction with the 2005 annual financial statements.

The principal accounting policies adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the Group’s accounts for the year ended 31 December 2005.

During 2005, the International Accounting Standards Board issued an amendment to International Accounting Standard No. 21 *Effects of Changes in Foreign Exchange Rates* (“IAS 21”), which was effective for the year beginning 1 January 2006. This amendment finalized treatment for the net investment in a foreign entity. The Group has assessed the impact of this amendment, and concluded that its adoption did not have any material effect on its results of operations or financial position nor result in a change in the Group’s accounting policies.

In August 2005, the International Accounting Standards Board issued International Financial Reporting Standard No. 7 *Financial Instruments: Disclosures* (“IFRS 7”), which is effective for accounting periods commencing on or after 1 January 2007. IFRS 7 requires more detailed qualitative and quantitative disclosures primarily related to fair value information and risk management accordingly the adoption of this standard will have no effect on the Group’s results of operations or financial position.

The preparation of the unaudited condensed consolidated financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are consistent with those disclosed in our annual financial statements for the year ended 31 December 2005.

# Notes to The Condensed Consolidated Financial Statements

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For The Six Month Period Ended 30 June 2006

(Amount in millions of Renminbi, unless otherwise stated)

## II. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Segment information

The Group's businesses operate in three principal geographical areas: the Chinese Mainland, Hong Kong and Macau, and other overseas locations. Significant other overseas locations include New York, London, Singapore and Tokyo. Within Hong Kong and Macau, BOC Hong Kong (Holdings) Limited ("BOCHK Holdings") and its intermediate holding companies (collectively, referred to as "BOC Hong Kong Group"), account for the majority of the Group's operating activities.

The geographical analysis of revenues, segment results, segment assets, segment liabilities and capital expenditure reflects the process through which the Group's operating activities are managed. In accordance with the Group's organizational structure and its internal financial reporting process, the Group has determined that geographical segments should be presented as its primary segment.

Interest and fee income, total assets, total liabilities, credit commitments and capital expenditure have generally been based on the country in which the branch or subsidiary is located.

Period ended 30 June 2006	Hong Kong & Macau					Elimination	Total
	Chinese Mainland	BOC Hong Kong Group	Others	Sub-total	Other overseas locations		
Interest income	76,715	20,075	2,276	22,351	3,426	(2,368)	100,124
Interest expense	(31,368)	(12,235)	(1,489)	(13,724)	(2,581)	2,372	(45,301)
<b>Net interest income</b>	<b>45,347</b>	<b>7,840</b>	<b>787</b>	<b>8,627</b>	<b>845</b>	<b>4</b>	<b>54,823</b>
Fee and commission income	4,617	2,335	1,296	3,631	433	(515)	8,166
Fee and commission expense	(392)	(611)	(306)	(917)	(46)	30	(1,325)
<b>Net fee and commission income</b>	<b>4,225</b>	<b>1,724</b>	<b>990</b>	<b>2,714</b>	<b>387</b>	<b>(485)</b>	<b>6,841</b>
Net trading income	(229)	677	336	1,013	(227)	-	557
Net gains/(losses) on investment securities	115	(9)	(40)	(49)	(2)	-	64
Other operating income	822	4,270	2,110	6,380	33	(17)	7,218
Impairment (losses)/write back on loans and advances	(6,473)	664	212	876	118	-	(5,479)
Other operating expenses	(21,722)	(6,182)	(1,112)	(7,294)	(702)	32	(29,686)
<b>Operating profit</b>	<b>22,085</b>	<b>8,984</b>	<b>3,283</b>	<b>12,267</b>	<b>452</b>	<b>(466)</b>	<b>34,338</b>
Share of results of associates	-	-	455	455	-	(84)	371
<b>Profit before income tax</b>	<b>22,085</b>	<b>8,984</b>	<b>3,738</b>	<b>12,722</b>	<b>452</b>	<b>(550)</b>	<b>34,709</b>
Income tax expense	(10,809)	(1,469)	(241)	(1,710)	(142)	203	(12,458)
<b>Profit for the period</b>	<b>11,276</b>	<b>7,515</b>	<b>3,497</b>	<b>11,012</b>	<b>310</b>	<b>(347)</b>	<b>22,251</b>
<b>As at 30 June 2006</b>							
Segment assets	4,198,973	878,599	114,651	993,250	199,286	(165,549)	5,225,960
Investments in associates	1	59	5,615	5,674	-	-	5,675
Total assets	4,198,974	878,658	120,266	998,924	199,286	(165,549)	5,231,635
Segment liabilities	(3,921,380)	(799,301)	(99,539)	(898,840)	(191,882)	165,549	(4,846,553)
Other segment items:							
Credit commitments	827,712	173,457	18,334	191,791	57,397	(52,704)	1,024,196
<b>Period ended 30 June 2006</b>							
Depreciation and amortization	2,424	275	90	365	51	-	2,840
Capital expenditure	1,800	296	15	311	79	-	2,190

# Notes to The Condensed Consolidated Financial Statements

For The Six Month Period Ended 30 June 2006

(Amount in millions of Renminbi, unless otherwise stated)

## 1. Segment information (continued)

Period ended 30 June 2005	Hong Kong & Macau					Elimination	Total
	Chinese Mainland	BOC Hong Kong Group	Others	Sub-total	Other overseas locations		
Interest income	64,068	10,940	1,432	12,372	2,429	(1,253)	77,616
Interest expense	(23,449)	(4,477)	(550)	(5,027)	(1,585)	1,253	(28,808)
<b>Net interest income</b>	<b>40,619</b>	<b>6,463</b>	<b>882</b>	<b>7,345</b>	<b>844</b>	-	<b>48,808</b>
Fee and commission income	3,177	2,034	290	2,324	430	(16)	5,915
Fee and commission expense	(648)	(537)	(191)	(728)	(37)	16	(1,397)
<b>Net fee and commission income</b>	<b>2,529</b>	<b>1,497</b>	<b>99</b>	<b>1,596</b>	<b>393</b>	-	<b>4,518</b>
Net trading income/(expense)	2,156	520	134	654	(15)	-	2,795
Net gains/(losses) on investment securities	-	18	(15)	3	17	-	20
Other operating income	975	1,361	2,799	4,160	94	-	5,229
Impairment (losses)/write back on loans and advances	(6,818)	1,376	266	1,642	210	-	(4,966)
Other operating expenses	(21,420)	(2,820)	(2,890)	(5,710)	(591)	-	(27,721)
<b>Operating profit</b>	<b>18,041</b>	<b>8,415</b>	<b>1,275</b>	<b>9,690</b>	<b>952</b>	-	<b>28,683</b>
Share of results of associates	4	(2)	46	44	-	-	48
<b>Profit before income tax</b>	<b>18,045</b>	<b>8,413</b>	<b>1,321</b>	<b>9,734</b>	<b>952</b>	-	<b>28,731</b>
Income tax expense	(9,488)	(1,304)	(5)	(1,309)	(160)	-	(10,957)
<b>Profit for the period</b>	<b>8,557</b>	<b>7,109</b>	<b>1,316</b>	<b>8,425</b>	<b>792</b>	-	<b>17,774</b>
<b>As at 31 December 2005</b>							
Segment assets	3,736,929	848,767	116,045	964,812	186,995	(153,749)	4,734,987
Investments in associates	1	64	4,996	5,060	-	-	5,061
<b>Total assets</b>	<b>3,736,930</b>	<b>848,831</b>	<b>121,041</b>	<b>969,872</b>	<b>186,995</b>	<b>(153,749)</b>	<b>4,740,048</b>
Segment liabilities	3,586,428	770,166	102,829	872,995	178,855	(153,749)	4,484,529
Other segment items:							
Credit commitments	699,066	168,203	14,131	182,334	52,434	(38,072)	895,762
<b>Period ended 30 June 2005</b>							
Depreciation and amortization	2,756	265	60	325	54	-	3,135
Capital expenditure	1,485	176	34	210	71	-	1,766

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Business segments comprise the Group's secondary segment reporting format. The Group provides services through six main business segments: corporate banking, retail banking, treasury operations, investment banking, insurance and other operations. Segment revenue, segment results, segment assets and capital expenditure presented in business segments include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through Treasury operations as part of the asset and liability management process. The pricing of these transactions is based on management's assessment of its average cost of funding and the growth in interest bearing assets and liabilities. The effects of these transactions are eliminated on consolidation.

Corporate banking - providing services to corporate customers including current accounts, deposits, overdrafts, lending, trade related products and other credit facilities, foreign currency and derivative products.

Retail banking - providing services to personal customers including current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and wealth management.

Treasury operations - consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset-liability management, including foreign currency translation gains and losses. The results of this segment include the inter-segment funding income and expenses resulting from variations in the growth of interest bearing assets and liabilities and foreign currency translation gains and losses.

Investment banking - consisting of debt and equity underwriting, financial advisory services, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance - underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitute a separately reportable segment or can be allocated on a reasonable basis.

# Notes to The Condensed Consolidated Financial Statements

For The Six Month Period Ended 30 June 2006

(Amount in millions of Renminbi, unless otherwise stated)

## 1. Segment information (continued)

Period ended 30 June 2006	Corporate banking	Retail banking	Treasury operation	Investment banking	Insurance	Others	Elimination	Total
Interest income	45,488	42,693	38,537	289	269	191	(27,343)	100,124
Interest expenses	(18,727)	(25,610)	(27,175)	(270)	(19)	(847)	27,347	(45,301)
Net interest income/(expense)	26,761	17,083	11,362	19	250	(656)	4	54,823
Fee and commission income	3,325	3,845	458	1,143	1	113	(719)	8,166
Fee and commission expense	(179)	(678)	(108)	(205)	(278)	(104)	227	(1,325)
Net fee and commission income/(expense)	3,146	3,167	350	938	(277)	9	(492)	6,841
Net trading income/(expense)	1,813	976	(2,033)	231	(428)	(3)	1	557
Net gains/(losses) on investment securities	-	-	101	-	-	(37)	-	64
Other operating income	29	93	34	6	4,558	3,158	(660)	7,218
Impairment losses on loans and advances	(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
Share of results of associates	-	-	-	149	-	306	(84)	371
Profit before income tax	17,487	8,551	5,905	1,109	389	1,818	(550)	34,709
Income tax expense								(12,458)
Profit for the period								22,251
As at 30 June 2006								
Segment assets	1,811,161	636,140	2,689,385	17,189	16,864	79,484	(24,263)	5,225,960
Investments in associates	-	-	-	814	248	4,613	-	5,675
Total assets	1,811,161	636,140	2,689,385	18,003	17,112	84,097	(24,263)	5,231,635
Period ended 30 June 2006								
Capital expenditure	416	782	31	6	2	953	-	2,190

Period ended 30 June 2005	Corporate banking	Retail banking	Treasury operation	Investment banking	Insurance	Others	Elimination	Total
Interest income	39,651	31,600	24,679	243	183	129	(18,869)	77,616
Interest expenses	(13,806)	(15,474)	(17,683)	(180)	-	(534)	18,869	(28,808)
<b>Net interest income/(expense)</b>	<b>25,845</b>	<b>16,126</b>	<b>6,996</b>	<b>63</b>	<b>183</b>	<b>(405)</b>	<b>-</b>	<b>48,808</b>
Fee and commission income	2,660	2,587	484	275	1	90	(182)	5,915
Fee and commission expense	(138)	(785)	(269)	(104)	(255)	(28)	182	(1,397)
<b>Net fee and commission income/(expense)</b>	<b>2,522</b>	<b>1,802</b>	<b>215</b>	<b>171</b>	<b>(254)</b>	<b>62</b>	<b>-</b>	<b>4,518</b>
Net trading income/(expense)	1,584	755	424	90	(48)	(10)	-	2,795
Net gains on investment securities	-	1	18	-	-	1	-	20
Other operating income	73	156	3	29	2,696	2,560	(288)	5,229
Impairment (losses)/write back on loans and advances	(5,494)	571	-	(4)	-	(39)	-	(4,966)
Other operating expenses	(9,813)	(11,379)	(3,516)	(192)	(2,443)	(666)	288	(27,721)
<b>Operating profit</b>	<b>14,717</b>	<b>8,032</b>	<b>4,140</b>	<b>157</b>	<b>134</b>	<b>1,503</b>	<b>-</b>	<b>28,683</b>
Share of results of associates	-	-	-	46	-	2	-	48
<b>Profit before income tax</b>	<b>14,717</b>	<b>8,032</b>	<b>4,140</b>	<b>203</b>	<b>134</b>	<b>1,505</b>	<b>-</b>	<b>28,731</b>
Income tax expense								(10,957)
<b>Profit for the period</b>								<b>17,774</b>
<b>As at 31 December 2005</b>								
Segment assets	1,655,351	599,263	2,397,839	14,418	12,316	74,224	(18,424)	4,734,987
Investments in associates	-	-	-	668	-	4,393	-	5,061
<b>Total assets</b>	<b>1,655,351</b>	<b>599,263</b>	<b>2,397,839</b>	<b>15,086</b>	<b>12,316</b>	<b>78,617</b>	<b>(18,424)</b>	<b>4,740,048</b>
<b>Period ended 30 June 2005</b>								
Capital expenditure	342	665	32	4	25	698	-	1,766

# Notes to The Condensed Consolidated Financial Statements

For The Six Month Period Ended 30 June 2006

(Amount in millions of Renminbi, unless otherwise stated)

## 1. Segment information (continued)

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 the 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 effect of the change in basis of pricing between business segments for the period ended 30 June 2005 is summarized below.

Period ended 30 June 2005	Corporate banking	Retail banking	Treasury operation	Investment banking	Insurance	Others	Total
Net interest income as reported previously	25,354	17,923	5,690	63	183	(405)	48,808
Effect of change - increase / (decrease)	491	(1,797)	1,306	-	-	-	-
<b>Net interest income as revised</b>	<b>25,845</b>	<b>16,126</b>	<b>6,996</b>	<b>63</b>	<b>183</b>	<b>(405)</b>	<b>48,808</b>
Operating profit as reported previously	14,226	9,829	2,834	157	134	1,503	28,683
Effect of change - increase / (decrease)	491	(1,797)	1,306	-	-	-	-
<b>Operating profit as revised</b>	<b>14,717</b>	<b>8,032</b>	<b>4,140</b>	<b>157</b>	<b>134</b>	<b>1,503</b>	<b>28,683</b>
Profit before income tax as reported previously	14,226	9,829	2,834	203	134	1,505	28,731
Effect of change - increase / (decrease)	491	(1,797)	1,306	-	-	-	-
<b>Profit before income tax as revised</b>	<b>14,717</b>	<b>8,032</b>	<b>4,140</b>	<b>203</b>	<b>134</b>	<b>1,505</b>	<b>28,731</b>

## 2. Net interest income

	For the six month period ended 30 June	
	2006	2005
Interest income		
Loans and advances to customers	60,707	52,120
Investment securities	30,652	19,909
Due from banks and other financial institutions	8,765	5,587
Sub-total	100,124	77,616
Interest expense		
Due to customers	(38,887)	(23,815)
Due to banks and other financial institutions	(4,122)	(2,827)
Other borrowed funds	(2,292)	(2,166)
Sub-total	(45,301)	(28,808)
<b>Net interest income</b>	<b>54,823</b>	<b>48,808</b>



Included in interest income is RMB 269 million and RMB 185 million with respect to the accretion of the discount on allowance for identified impaired loans for six month period ended 30 June 2006 and 2005 respectively.

### 3. Net fee and commission income

	For the six month period ended 30 June	
	2006	2005
Settlement and clearing fees	1,794	1,287
Agency commissions	2,201	1,235
Credit commitment fees	1,438	1,308
Bank card fees	1,365	1,049
Custodian and other fiduciary service fees	248	235
Others	1,120	801
Fee and commission income	8,166	5,915
Fee and commission expense	(1,325)	(1,397)
<b>Net fee and commission income</b>	<b>6,841</b>	<b>4,518</b>

### 4. Net trading income

	For the six month period ended 30 June	
	2006	2005
Net gains from foreign exchange and foreign exchange products	1,243	3,155
Net gains from precious metal transactions	136	85
Net losses from interest rate instruments	(1,008)	(355)
Net gains/(losses) from trading equity securities	180	(113)
Others	6	23
<b>Total</b>	<b>557</b>	<b>2,795</b>

### 5. Net gains on investment securities

	For the six month period ended 30 June	
	2006	2005
De-recognition of available-for-sale securities	97	40
Provision for impairment losses	(33)	(20)
<b>Total</b>	<b>64</b>	<b>20</b>

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## 6. Other operating income

	For the six month period ended 30 June	
	2006	2005
Changes in fair value of investment properties	606	996
Insurance premiums arising from		
- Long term insurance contracts	3,600	1,891
- General insurance contracts	686	733
Net gains on disposal of shares in a subsidiary (1)	138	-
Gains on disposal of property and equipment and other assets	70	517
Dividend income	18	27
Others	2,100	1,065
<b>Total</b>	<b>7,218</b>	<b>5,229</b>

- (1) On 1 June 2006, Bank of China Group Insurance Company Limited, a wholly owned subsidiary of the Group disposed of 51% of its equity interest in BOC Group Life Assurance Company Limited to BOC Hong Kong (Holdings) Limited, a 65.87% owned listed subsidiary of the Group for a consideration of HKD 900 million in cash.

## 7. Other operating expenses

	For the six month period ended 30 June	
	2006	2005
Staff costs (Note II.8)	13,093	13,403
General operating and administrative expenses	5,861	5,114
Depreciation and amortization	2,840	3,135
Business and other taxes	2,987	2,670
Insurance claims and expenses arising from		
- Long term insurance contracts	3,099	1,836
- General insurance contracts	324	332
Operating lease rentals	820	727
Provision for litigation losses (Note II.30)	385	3
Other expenses	277	501
<b>Total</b>	<b>29,686</b>	<b>27,721</b>

## 8. Staff costs

	For the six month period ended 30 June	
	2006	2005
Salaries and benefits	9,748	9,020
Defined contribution plans (1)	1,495	659
Retirement benefits (2)	347	2,312
Housing funds	626	427
Social security costs	415	362
Others	462	623
<b>Total</b>	<b>13,093</b>	<b>13,403</b>

- (1) Contributions to defined contribution plans for the six month period ended 30 June 2006 and 2005 include the effect of deductions of forfeited contributions of RMB 12 million and RMB 14 million, respectively. The amounts of unutilized forfeited contributions available for further deduction are not material as of 30 June 2006 and 2005 respectively.
- (2) Included within retirement benefits are components of net periodic benefit cost related to the Bank's defined benefits payable to certain retired and early retired employees as below:

	For the six month period ended 30 June	
	2006	2005
Interest cost	159	126
Net actuarial loss recognized in the period	188	2,186
<b>Total</b>	<b>347</b>	<b>2,312</b>

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## 9. Income tax expense

	For the six month period ended 30 June	
	2006	2005
Current income tax		
Mainland China income tax	10,594	9,601
Hong Kong profits tax	1,330	1,211
Overseas taxation	212	185
	<b>12,136</b>	<b>10,997</b>
Deferred income tax (Note II.26)	322	(40)
	<b>12,458</b>	<b>10,957</b>

The provision for Mainland China income tax is calculated based on the statutory rate of 33% of the assessable income of the Bank and each of the subsidiaries established in Mainland China as determined in accordance with the relevant PRC income tax rules and regulations for each of the six month period ended 30 June 2006 and 2005.

The Group's operations in Hong Kong are subject to Hong Kong profits tax at the rate of 17.5% on the estimated assessable income for each of the six month period ended 30 June 2006 and 2005.

Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic domestic tax rate of the Bank as follows:

	For the six month period ended 30 June	
	2006	2005
Profit before income tax	34,709	28,732
Tax calculated at 33%	11,454	9,482
Effect of different tax rates in Overseas Operations	(1,999)	(1,675)
Supplementary tax on overseas income paid in the PRC	1,688	865
Prior year tax expense adjustment (1)	(350)	(2)
Income not subject to tax	(1,263)	(708)
Expenses not deductible for tax purposes (2)	2,899	3,118
Others	29	(123)
Income tax expense	<b>12,458</b>	<b>10,957</b>

- (1) The prior year tax expense adjustment for the six month period ended 30 June 2006 primarily consisted of a tax deduction of the Group's realized loss amounting to RMB 860 million arising from the disposal of certain domestic equity investment in prior years. The approval from the Ministry of Finance and the PRC State Administration of Tax for the tax deduction was obtained on 22 March 2006.
- (2) Non-deductible expenses primarily include staff salary costs in excess of those permitted to be deducted under the relevant PRC tax regulations. The Group is currently in the process of applying for a revision to the statutory salary deductible threshold for its domestic employees from the PRC State Administration of Taxation("SAT"). In accordance with Guoshuihan[2006] No.484, "Response Letter on the Bank of China Limited salary deduction matter" issued by SAT on 19 May 2006, it was agreed in principle that, after the overseas listing of the Bank, the salary costs that are deductible for income tax purposes will be based on the performance of the Bank. The details related to the implementation of such deductibility threshold have however not yet been determined and are subject to further approval of relevant PRC government authorities and as a result, the effect of this has not been reflected in tax expense. The Group will continue to follow up with the relevant PRC government authorities regarding the detailed implementation plans of this approval in accordance with the relevant regulations and guidance.

## 10. Earnings per share (Basic & diluted)

Basic earnings per share have been computed by dividing the profit attributable to the equity holders of the Bank for the six month period ended 30 June 2006 by the weighted average number of ordinary shares in issue during the period.

The Group had no dilutive potential ordinary shares for the six month period ended 30 June 2006 and 2005.

	For the six month period ended 30 June	
	2006	2005
Profit attributable to equity holders of the Bank	19,477	15,181
Weighted average number of ordinary shares in issue (in millions)	218,002	186,390
Basic and diluted earnings per share (in RMB)	0.09	0.08

## 11. Cash and due from banks

	As at 30 June	As at 31 December
	2006	2005
Cash	29,811	28,644
Due from banks	6,974	12,438
Total	36,785	41,082

# Notes to The Condensed Consolidated Financial Statements

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## 12. Balances with central banks

	As at 30 June	As at 31 December
	2006	2005
Mandatory reserves	226,583	202,030
Other deposits	114,068	114,911
<b>Total</b>	<b>340,651</b>	<b>316,941</b>

The Group places mandatory reserve funds with the People's Bank Of China ("PBOC") and the central banks of other countries or regions where it has operations. As at 30 June 2006, mandatory reserve funds placed with the PBOC were calculated at 7.5% (2005: 7.5%) and 3% (2005: 3%) of eligible RMB deposits and foreign currency deposits from customers of domestic branches of the Bank respectively. The amounts of mandatory reserve funds placed with the central banks of other countries are determined by local jurisdiction.

The mandatory reserve funds are not available for use in the Group's day to day operations.

## 13. Placements with banks and other financial institutions

	As at 30 June	As at 31 December
	2006	2005
Placements with domestic banks	53,862	52,439
Placements with other domestic financial institutions	50,605	26,302
Placements with overseas banks and other financial institutions	189,217	253,904
	<b>293,684</b>	<b>332,645</b>
Allowance for impairment losses	(544)	(546)
	<b>293,140</b>	<b>332,099</b>
Impaired placements	544	546
Percentage of impaired placements to total placements with banks and other financial institutions	0.19%	0.16%

#### 14. Trading assets and other financial instruments at fair value through profit or loss

	As at 30 June	As at 31 December
	2006	2005
Trading debt securities		
Government	27,761	19,116
Public sector and quasi-government	3,088	2,095
Financial institution	23,600	30,599
Corporate	3,794	4,179
	<b>58,243</b>	<b>55,989</b>
Other debt securities at fair value through profit or loss (designated at initial recognition)		
Government	9,267	10,704
Public sector and quasi government	11,218	12,974
Financial institution	26,667	19,979
Corporate	5,207	7,625
	<b>52,359</b>	<b>51,282</b>
Trading equity securities	3,565	4,511
	<b>114,167</b>	<b>111,782</b>
Analyzed as follows:		
Listed	80,695	90,543
Unlisted	33,472	21,239
	<b>114,167</b>	<b>111,782</b>

# Notes to The Condensed Consolidated Financial Statements

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For The Six Month Period Ended 30 June 2006

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## 15. Derivative financial instruments

The Group enters into a number of foreign exchange rate and interest rate related derivative financial instruments for trading and risk management purposes. These are discussed in our annual financial statements for the period ended 31 December 2005 together with discussions of the use of derivative financial instruments in managing the Group's exposure to market and currency risk.

The fair values of derivatives that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models. To the extent practical, models use only observable data, such as interest rate and foreign exchange rates, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in such observable data and assumptions about these factors could affect reported fair values of financial instruments.

The contractual/notional amounts and fair values of derivative financial instruments held by the Group are disclosed below. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognized on the balance sheets but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.



	As at 30 June 2006			As at 31 December 2005		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
<b>Exchange rate derivatives</b>						
Currency forwards (1)	800,207	8,412	(5,040)	563,397	6,991	(4,813)
Currency options purchased (2)	209,712	4,348	-	176,643	3,781	-
Currency options written	59,026	-	(708)	19,369	-	(374)
		<b>12,760</b>	<b>(5,748)</b>		<b>10,772</b>	<b>(5,187)</b>
<b>Interest rate derivatives</b>						
Interest rate swaps	402,830	6,194	(7,333)	361,332	3,132	(5,246)
Cross-currency interest rate swaps	38,209	1,943	(3,980)	39,427	1,735	(4,131)
Interest rate options purchased	33,967	146	-	11,584	148	-
Interest rate options written	115,561	-	(1,058)	98,994	-	(215)
Interest rate futures	17,552	21	(3)	14,939	28	(34)
		<b>8,304</b>	<b>(12,374)</b>		<b>5,043</b>	<b>(9,626)</b>
Equity derivatives	11,223	166	(227)	15,442	14	(7)
Precious metals derivatives	10,686	310	(412)	21,008	979	(932)
<b>Total derivative financial instruments assets/(liabilities) (Note II.20)</b>		<b>21,540</b>	<b>(18,761)</b>		<b>16,808</b>	<b>(15,752)</b>

- (1) Since 2005, the PBOC selected certain domestic banks, including the Bank, to conduct Foreign Exchange Swap transactions. Under these agreements, the PBOC sold USD to the Bank in spot transactions for RMB and agreed to buy back the USD after one year at agreed exchange rates, which reflect the interest rate differentials between USD and RMB at the respective inception date of the transactions.
- (2) On 5 January 2005, the Bank entered into a Foreign Currency Option Agreement with Central SAFE Investment Limited ("Huijin") whereby the Bank acquired options to sell to Huijin USD, totaling USD 18 billion, of no more than USD1, 500 million at the beginning of each calendar month during the year ending 31 December 2007 at a fixed exchange rate of USD1 to RMB 8.2769. The related option premium amounted to RMB 4,469 million, is payable by the Bank to Huijin in 12 equal monthly installments at the beginning of each calendar month during the year ending 31 December 2007.

# Notes to The Condensed Consolidated Financial Statements

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## 15. Derivative financial instruments (continued)

### Credit risk weighted amounts

	As at 30 June	As at 31 December
	2006	2005
Derivatives		
Exchange rate contracts	4,816	3,744
Interest rate contracts	4,378	3,543
Other derivative contracts	32	45
	9,226	7,332

### Replacement costs

	As at 30 June	As at 31 December
	2006	2005
Derivatives		
Exchange rate contracts	12,760	10,772
Interest rate contracts	8,304	5,043
Other derivative contracts	476	993
	21,540	16,808

The credit risk weighted amounts are calculated with reference to the guidelines issued by the China Banking Regulatory Commission ("CBRC") and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts as of the balance sheet date.

The credit risk weighted amounts and replacement costs stated above have not taken the effects of netting arrangements into account.

## 16. Loans and advances to customers, net

	As at 30 June		As at 31 December	
	2006		2005	
Corporate loans and advances	1,864,298		1,712,262	
Personal loans and advances	541,455		523,003	
	2,405,753		2,235,265	
Allowance for impairment losses	(88,128)		(83,153)	
<b>Loans and advances to customers, net</b>	<b>2,317,625</b>		<b>2,152,112</b>	

The Group reviews its loan portfolios to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the consolidated income statements, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Geographical concentrations of risk for loans and advances to customers (gross) of the Group are as follows:

	As at 30 June		As at 31 December	
	2006		2005	
	%		%	
Chinese Mainland	1,972,848	82	1,800,142	81
Hong Kong and Macau	374,584	16	379,071	17
Other overseas locations	58,321	2	56,052	2
<b>Gross amounts of loans and advances before allowance for impairment losses</b>	<b>2,405,753</b>	<b>100</b>	<b>2,235,265</b>	<b>100</b>

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(Amount in millions of Renminbi, unless otherwise stated)

## 16. Loans and advances to customers, net (continued)

Gross loans and advances to customers analyzed by customer type:

	As at 30 June	As at 31 December
	2006	2005
Chinese Mainland		
Corporate entities	1,327,327	1,224,873
Individuals	404,695	379,958
Trade bills	240,826	195,311
	1,972,848	1,800,142
Hong Kong, Macau and other overseas		
Corporate entities	267,258	262,363
Individuals	136,760	143,045
Trade bills	28,887	29,715
	432,905	435,123
Gross amounts of loans and advances before allowance for impairment losses	2,405,753	2,235,265

The economic sector concentration of risk for loans and advances to customers (gross) based on the Group's internal classification system are as follows:

	As at 30 June		As at 31 December	
		2006		2005
Chinese Mainland		%		%
<b>Corporate loans</b>				
Manufacturing	544,049	23	491,117	22
Commerce and services	276,491	12	255,460	12
Real estate	104,121	4	96,390	4
Energy, mineral and agriculture	233,357	10	210,281	10
Transportation and logistics	173,417	7	165,396	8
Public utilities	104,827	4	91,924	4
Construction	32,940	1	30,089	1
Financial services	96,439	4	77,237	3
Others	2,512	-	2,290	-
<b>Corporate loan total</b>	<b>1,568,153</b>	<b>65</b>	<b>1,420,184</b>	<b>64</b>
<b>Personal loans</b>				
Mortgage loans	308,387	13	286,829	13
Credit card advances	2,212	-	1,929	-
Others	94,096	4	91,200	4
<b>Personal loan total</b>	<b>404,695</b>	<b>17</b>	<b>379,958</b>	<b>17</b>
<b>Total for Chinese Mainland</b>	<b>1,972,848</b>	<b>82</b>	<b>1,800,142</b>	<b>81</b>
<b>Hong Kong and Macau</b>				
<b>Corporate loans</b>				
Manufacturing	38,822	2	34,285	2
Commerce and services	34,225	1	35,137	2
Real estate	88,671	4	86,419	3
Energy, mineral and agriculture	11,545	-	12,429	1
Transportation and logistics	22,004	1	21,783	1
Construction	4,380	-	4,874	-
Financial services	13,496	1	14,367	1
Others	25,699	1	27,613	1
<b>Corporate loan total</b>	<b>238,842</b>	<b>10</b>	<b>236,907</b>	<b>11</b>
<b>Personal loans</b>				
Mortgage loans	118,914	5	125,514	6
Credit card advances	4,674	-	4,856	-
Others	12,154	1	11,794	-
<b>Personal loan total</b>	<b>135,742</b>	<b>6</b>	<b>142,164</b>	<b>6</b>
<b>Total for Hong Kong and Macau</b>	<b>374,584</b>	<b>16</b>	<b>379,071</b>	<b>17</b>
<b>Other overseas locations</b>	<b>58,321</b>	<b>2</b>	<b>56,052</b>	<b>2</b>
<b>Gross amounts of loans and advances before allowance for impairment losses</b>	<b>2,405,753</b>	<b>100</b>	<b>2,235,265</b>	<b>100</b>

# Notes to The Condensed Consolidated Financial Statements

For The Six Month Period Ended 30 June 2006

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## 16. Loans and advances to customers, net (continued)

	Loans and advances for which an impairment allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Sub-total	Total	Identified impaired loans and advances as a % of gross total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
<b>At 30 June 2006</b>							
Gross loans and advances	2,299,809	22,277	83,667	105,944	2,405,753	4.4%	
Allowance for impairment losses	(27,234)	(11,874)	(49,020)	(60,894)	(88,128)		
Net loans and advances	2,272,575	10,403	34,647	45,050	2,317,625		
<b>At 31 December 2005</b>							
Gross loans and advances	2,125,735	26,288	83,242	109,530	2,235,265	4.9%	
Allowance for impairment losses	(25,406)	(12,009)	(45,738)	(57,747)	(83,153)		
Net loans and advances	2,100,329	14,279	37,504	51,783	2,152,112		

(1) Loans and advances for which an impairment allowance is collectively assessed consist of loans and advances which have not been identified as impaired, i.e. primarily loans graded pass and special mention.

(2) Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been assessed as bearing an impairment loss. These include loans for which objective evidence of impairment has been identified and are assessed either:

- individually (including mainly significant corporate loans and advances which are graded substandard, doubtful or loss over a certain amount); or
- collectively, i.e. portfolios of insignificant homogenous loans, which include insignificant corporate loans and advances and all personal loans which are graded substandard, doubtful or loss.

## 17. Investment securities

	As at 30 June	As at 31 December
	2006	2005
<b>Debt securities available-for-sale (at fair value)</b>		
Government	309,350	229,064
Public sector and quasi government	247,158	106,840
Financial institution	228,024	170,038
Corporate	134,643	87,068
	<b>919,175</b>	<b>593,010</b>
Equity securities (at fair value)	10,719	9,211
<b>Total securities available-for-sale</b>	<b>929,894</b>	<b>602,221</b>
<b>Debt securities held-to-maturity (at amortized cost):</b>		
Government	224,065	231,156
Public sector and quasi government	119,604	135,002
Financial institution	192,294	203,724
Corporate	33,163	37,577
	<b>569,126</b>	<b>607,459</b>
Allowance for impairment losses	-	-
<b>Total securities held-to-maturity</b>	<b>569,126</b>	<b>607,459</b>
<b>Debt securities classified as loans and receivables (at amortized cost):</b>		
China Orient Bond	160,000	160,000
PBOC Special Bills	91,612	91,530
Special Purpose Treasury Bond	42,500	42,500
Short term bills and notes		
Public sector and quasi government	15,260	6,096
Financial institution	67,676	49,993
Corporate	1,825	-
Certificate Treasury Bonds and others	10,647	11,888
	<b>389,520</b>	<b>362,007</b>
Allowance for impairment losses	(152)	(156)
<b>Total securities classified as loans and receivables</b>	<b>389,368</b>	<b>361,851</b>
<b>Total</b>	<b>1,888,388</b>	<b>1,571,531</b>
<b>Analyzed as follows:</b>		
Listed	779,858	679,470
Unlisted	1,108,530	892,061
	<b>1,888,388</b>	<b>1,571,531</b>

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## 17. Investment securities (continued)

The market values of the above listed held-to-maturity securities are set out below:

	As at 30 June 2006		As at 31 December 2005	
	Carrying value	Market value	Carrying value	Market value
Investment securities held-to-maturity				
Listed	321,213	321,029	332,841	334,235

## 18. Certificates of deposit held

Certificates of deposits held are included within the following balance sheet captions:

	As at 30 June	As at 31 December
	2006	2005
Trading assets and other financial instruments at fair value through profit or loss	5,011	3,147
Investment securities		
-available-for-sale	8,705	4,540
-held-to-maturity	14,177	18,817
-loans and receivables	267	460
	28,160	26,964
Analyzed as follows:		
Listed	817	1,171
Unlisted	27,343	25,793
	28,160	26,964
Market value of listed certificates of deposits held	817	1,169



## 19. Due to central banks

	As at 30 June	As at 31 December
	2006	2005
Special foreign exchange deposits from PRC government agencies	30,080	28,873
Borrowings from central banks	33	520
Others	382	662
<b>Total</b>	<b>30,495</b>	<b>30,055</b>

## 20. Derivative financial instruments and liabilities at fair value through profit or loss

	As at 30 June	As at 31 December
	2006	2005
Derivative financial instruments liabilities (Note II.15)	18,761	15,752
Liabilities at fair value through profit or loss		
Structured deposits	75,092	70,069
Short positions in foreign currency debt securities	4,057	3,740
Short position in exchange fund bills	3,262	1,613
Subtotal	82,411	75,422
<b>Total</b>	<b>101,172</b>	<b>91,174</b>

## 21. Due to customers

	As at 30 June	As at 31 December
	2006	2005
Demand deposits		
Corporate customers	940,638	836,763
Individual customers	734,894	667,957
Others	168,780	128,392
	1,844,312	1,633,112
Time deposits		
Corporate customers	558,621	511,983
Individual customers	1,645,505	1,554,369
	2,204,126	2,066,352
<b>Total</b>	<b>4,048,438</b>	<b>3,699,464</b>

# Notes to The Condensed Consolidated Financial Statements

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## 22. Bonds issued

	Issue date	Maturity date	Interest rate	As at 30 June 2006	As at 31 December 2005
Bonds issued					
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	177	179
Subordinated bonds issued (1)					
2004 RMB Debt Securities					
First Tranche	7 July 2004	20 July 2014	4.87%	14,070	14,070
Second Tranche	22 October 2004	16 November 2014	4.94%	12,000	12,000
2005 RMB Debt Securities					
First Tranche	18 February 2005	4 March 2015	4.83%	15,930	15,930
Second Tranche	18 February 2005	4 March 2020	5.18%	9,000	9,000
Second Tranche	18 February 2005	4 March 2015	Floating rate		
				9,000	9,000
				60,000	60,000
				60,177	60,179

- (1) These RMB denominated bonds are subordinated to all other claims on the assets of the Bank, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds are qualified for inclusion as supplementary capital in accordance with the relevant CBRC guidelines.

## 23. Special purpose borrowings

	As at 30 June	As at 31 December
	2006	2005
Export credit loans	15,826	17,147
Foreign government loans	18,076	18,414
Other subsidized loans	15,720	16,603
<b>Total</b>	<b>49,622</b>	<b>52,164</b>

Special purpose borrowings are long-term borrowings in multiple currencies from foreign governments and/or banks in the form of export credit loans, foreign government loans and other subsidized loans. These special purpose loans are normally used to finance projects of special commercial purpose in the PRC and the Bank is obliged to repay these loans when they fall due.

As of 30 June 2006, the maturity of Special purpose borrowings ranges from 1 month to 37 years, with floating and fixed interest rates ranging from 0.2% to 9.2%, which are consistent with those related to similar development loans from these entities.

## 24. Other liabilities

Included in other liabilities are insurance liabilities as of 30 June 2006 and 31 December 2005 arising from insurance contracts analyzed as follows:

	As at 30 June	As at 31 December
	2006	2005
Long term insurance contracts	11,093	8,383
General insurance contracts	2,111	2,079
<b>Total insurance liabilities, net</b>	<b>13,204</b>	<b>10,462</b>

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## 25. Share appreciation rights plan and share option schemes

### (1) Share Appreciation Rights Plan

On 22 November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of the grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no share will be issued under the share appreciation rights plan.

No share appreciation rights were granted during the six month period ended 30 June 2006 and no rights were outstanding with respect to the Share Appreciation Rights Plan as of 30 June 2006 and 31 December 2005.

### (2) Share Option Scheme and Sharesave Plan

On 10 July 2002, the equity holders of BOCHK Holdings, approved and adopted two share option schemes, namely, the Share Option Scheme and the Sharesave Plan.

No options were granted during the six month period ended 30 June 2006 and no options were outstanding with respect to the Share Option Scheme or the Sharesave Plan as of 30 June 2006 and 31 December 2005.

### (3) BOCHK Holdings Pre-listing Share Option Scheme

On 5 July 2002, certain of the Bank's directors, senior management personnel and employees of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOCHK (BVI)"), the immediate holding company of BOCHK Holdings, pursuant to a Pre-listing Share Option Scheme to purchase from BOCHK (BVI) an aggregate of 31,132,600 previously issued and outstanding shares of BOCHK Holdings for HKD8.50 per share. These options, with a ten-year term, vest ratably over four years from 25 July 2002. No further options will be granted under the Pre-listing Share Option Scheme. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Details of the movement of share options outstanding are as follows:

	Directors and key management	Other employees	Others (i)	Total number of share options
At 1 January 2006	6,142,500	10,619,250	1,446,000	18,207,750
Transfer	239,000	(239,000)	-	-
Less: Share options exercised during the period	-	(1,994,050)	-	(1,994,050)
At 30 June 2006	6,381,500	8,386,200	1,446,000	16,213,700

	Directors and key management	Other employees	Others (i)	Total number of share options
At 1 January 2005	6,142,500	12,849,300	1,446,000	20,437,800
Less: Share options exercised during the year	-	(2,121,550)	-	(2,121,550)
Less: Share options lapsed during the year	-	(108,500)	-	(108,500)
At 31 December 2005	6,142,500	10,619,250	1,446,000	18,207,750

(i) These represent share options held by former directors or former employees of the BOCHK Holdings.

Regarding the share options exercised during the six month period ended 30 June 2006 and the year ended 31 December 2005, the weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD 15.88 (equivalent to RMB 16.42) and HKD 15.01 (equivalent to RMB 15.61), respectively.

## 26. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts:

	As at 30 June	As at 31 December
	2006	2005
Deferred income tax assets	23,431	20,504
Deferred income tax liabilities	(2,053)	(2,136)
	21,378	18,368

The movements of the deferred income tax account are as follows:

	2006	2005
At 1 January	18,368	19,215
Charged to consolidated income statements	(322)	(962)
Available-for-sale securities	3,306	94
Exchange differences	26	21
At 30 June/31 December	21,378	18,368

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## 26. Deferred income taxes (continued)

Deferred income tax assets and liabilities are attributable to the following items:

	As at 30 June	As at 31 December
	2006	2005
<b>Deferred income tax assets</b>		
Asset impairment provisions	18,012	17,744
Fair value changes of trading assets and other financial instruments at fair value through profit or loss, available-for-sale assets, and derivative financial instruments	7,405	3,204
Statutory asset revaluation surplus	2,572	2,640
Pension and other benefit costs	542	578
Other temporary differences	210	311
Sub-total	28,741	24,477
<b>Deferred income tax liabilities</b>		
Fair value changes of trading assets and other financial instruments at fair value through profit or loss, and derivative financial instruments	(4,319)	(3,643)
Depreciation of property and equipment	(461)	(442)
Fair value changes of investment property	(1,987)	(1,978)
Other temporary differences	(596)	(46)
Sub-total	(7,363)	(6,109)
	21,378	18,368

## 27. Share capital and capital reserve

	Number of ordinary shares	Ordinary shares of RMB 1 each	Capital reserve	Total
	(in millions)			
Balance at 1 January 2006	209,427	209,427	(5,954)	203,473
Issue of ordinary shares (net of issuance costs) (1)	44,412	44,412	72,567	116,979
Balance at 30 June 2006	253,839	253,839	66,613	320,452

	Number of ordinary shares  (in millions)	Ordinary shares of RMB 1 each	Capital reserve	Total
Balance at 1 January 2005	186,390	186,390	(10,432)	175,958
Issue of ordinary shares (net of issuance costs)(1)	23,037	23,037	3,964	27,001
Capital contribution from an equity holder	-	-	500	500
Others	-	-	14	14
Balance at 31 December 2005	209,427	209,427	(5,954)	203,473

As at 30 June 2006, the Bank's share capital is as follows:

	As at 30 June 2006
177,818,910,740 domestic listed A shares, par value RMB1.00 per share. (2)	177,819
76,020,251,269 overseas listed H shares, par value RMB1.00 per share. (2)	76,020
<b>Total</b>	<b>253,839</b>

- (1) On 13 March 2006, the Bank issued 8,514,415,652 ordinary shares to a new strategic investor at a cash consideration of RMB10 billion including share premium of RMB1.48 billion.

In June 2006, the Bank issued 29,403,878,000 H shares at a price of HKD2.95 per share, with share premium totaling RMB58.13 billion (net of share issuance costs of RMB2,435 million), through a global offering to Hong Kong and overseas investors ("Global Offering"). As part of the Global Offering, 46,616,373,269 shares held by the equity holders prior to the Global Offering were converted into H shares. As disclosed in 2005 annual financial statements, in connection with the subscription and purchase of shares by certain strategic investors, each investor entered into investor rights agreements with the Bank and Huijin. These investors' rights and obligations under their respective investor rights agreement included net asset protection, price protection and put option where Huijin has agreed to undertake to meet the settlement of these rights and obligations. The Bank has no obligation to Huijin with respect to the potential settlement of these rights and obligations. The related price protection and put option rights lapsed following the completion of the Global Offering by the Bank.

On 29 June 2006, the Bank issued 6,493,506,000 A shares with at a price of RMB3.08 per share, with share premium totaling RMB12.96 billion (net of share issuance costs of RMB549 million), through the A share initial public offering to the domestic investors. Upon the completion of A share initial public offering, 171,325,404,740 shares held by an equity holder prior to the A share initial public offering were converted into A shares.

- (2) All A shares and H shares rank pari passu with the same rights and benefits.

# Notes to The Condensed Consolidated Financial Statements

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## 28. Statutory reserves, General and regulatory reserve and Undistributed profits

	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
Balance at 1 January 2006	5,987	5,109	10,188	21,284
Net profit	-	-	19,477	19,477
Appropriation to statutory reserves (1)	2,108	-	(2,108)	-
Appropriation to general reserve and regulatory reserve (2)	-	4,291	(4,291)	-
Dividends (3)	-	-	(1,375)	(1,375)
Sale of shares in subsidiaries	-	(2)	2	-
Balance at 30 June 2006	8,095	9,398	21,893	39,386

	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
Balance at 1 January 2005	3,140	419	16,547	20,106
Net profit	-	-	25,921	25,921
Appropriation to statutory reserves (1)	2,847	-	(2,847)	-
Appropriation to general reserve and regulatory reserve (2)	-	4,690	(4,690)	-
Adoption of equity accounting for investment in associates	-	-	2,194	2,194
Dividends (3)	-	-	(26,937)	(26,937)
Balance at 31 December 2005	5,987	5,109	10,188	21,284

### (1) Statutory reserves

Under relevant PRC Laws, the Bank is required to transfer 10% of its net profit, as determined under PRC GAAP, to a non-distributable Statutory surplus reserve. Appropriation to the Statutory surplus reserve may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the Statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The Statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of Statutory surplus reserve after such capitalization is not less than 25% of the share capital.

In addition, some overseas branches and subsidiaries are required to transfer a certain percentage of their net profit to the Statutory surplus reserve as stipulated by local banking authorities.

In accordance with the approval of the Board of Directors on 29 August 2006, the Bank appropriated 10% of the net profit for the six month period ended 30 June 2006 as reported in the PRC financial statements to the Statutory surplus reserves, amounting to RMB 1,964 million.



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(2) General and regulatory reserves

Pursuant to Caijin [2005] No. 49 "Measures on General Provision for Bad and Doubtful Debts for Financial Institutions" issued by MOF on 17 May 2005, banks and certain other financial institutions in the PRC are required to maintain an adequate allowance for impairment losses against defined risk assets. In addition to the specific allowance for impairment losses, financial institutions are required to establish and maintain a general reserve within Equity holders' equity, through the appropriation of income to address unidentified potential impairment losses. According to Caijin [2005] No.49, the general reserve should not be less than 1% of the aggregate amount of risk assets as defined therein, before any allowance for impairment losses at the balance sheet date. The Bank intends to achieve the required reserve level within 3 years.

On 29 August 2006, the Board of Directors of the Bank approved the appropriation of RMB 4,291 million to the General reserves for the six month period end 30 June 2006.

The Regulatory reserve mainly refers to the reserve amount set aside by Bank of China (Hong Kong) Limited, a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 30 June 2006 and 31 December 2005, the reserve amount set aside by Bank of China (Hong Kong) Limited was RMB 2,467 million and RMB 2,475 million respectively.

(3) Dividends

A dividend of RMB 1,375 million in respect of 2005 profits was paid to the equity holders of the Bank on 15 May 2006. No dividend was declared and paid during the six month ended 30 June 2005.

The Board of Directors does not propose to declare any dividend for the first half of 2006.

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## 29. Financial risk management

### (1) Currency risk

The Group's net foreign currency positions as at 30 June 2006 and 31 December 2005 are analyzed below:

	Foreign Currency Position			
	As at 30 June 2006		As at 31 December 2005	
	In RMB' billion equivalent	In USD' billion equivalent	In RMB' billion equivalent	In USD' billion equivalent
Net on-balance sheet foreign currency position of the Group	602	76	485	60
Less:				
Net off-balance sheet foreign currency position of the Group	(232)	(29)	(171)	(21)
Net foreign currency position of the Group	370	47	314	39
Less:				
Foreign currency denominated net investments in foreign operations*	(106)	(14)	(106)	(13)
Net position (excluding structural position in foreign operations )	264	33	208	26

\* The foreign currency denominated net investments in foreign operations represents the net assets/liabilities of overseas subsidiaries, branches or associated undertakings, the functional currencies of which are currencies other than RMB. The results and financial position of these operations are translated into RMB, for reporting purposes with all exchange differences arising from the translation recognized under the "Currency Translation Differences" as a separate component of equity. These exchange differences therefore do not impact the consolidated profit or loss of the Group.

The Group manages its sources and uses of foreign currencies to minimize potential mismatches. 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 significant foreign currency positions, largely as a result of the foreign currency capital contributions from certain equity holders, the foreign currency surplus arising from the Bank's foreign currency operations and related accumulated profits and losses.

In 2005, the Bank entered into a foreign currency option agreement with Huijin having a notional amount of USD18 billion to economically hedge a portion of its net on-balance sheet foreign currency position (see Note II.15).

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 following table illustrates the potential impact to the income statement for a 1 per cent fluctuation in the foreign currency exchange rates against RMB based on the net position of the Group excluding the net structural position in foreign operations as set forth above:

	30 June 2006	31 December 2005
	Profit / (loss)	Profit / (loss)
1% appreciation/ depreciation in foreign currency exchange rates against RMB	+/- 2,640	+/- 2,080

The above sensitivity analysis in response to potential movements in the foreign currency exchange rates against RMB is for illustrative purposes and only represents simple scenarios applied to the Bank's net outstanding foreign currency position as at the respective date. Such analysis does not take into account the correlation effect of change in different foreign currencies, any further actions that may have been or could be taken by management after the balance sheet date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

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(Amount in millions of Renminbi, unless otherwise stated)

## 29. Financial risk management (continued)

### (1) Currency risk (continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk as at 30 June 2006 and 31 December 2005. Included in the table are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB, categorized by the original currency. Option products are included in the net off-balance sheet position using notional amounts.

	As at 30 June 2006							Total
	RMB	USD	HKD	EURO	JPY	GBP	Others	
<b>Assets</b>								
Cash and due from banks	19,366	5,300	5,462	1,697	2,018	554	2,388	36,785
Balances with central banks	297,893	13,280	3,351	463	23,734	-	1,930	340,651
Placements with banks and other financial institutions	100,532	56,124	92,627	16,440	2,740	5,202	19,475	293,140
Government certificates of indebtedness for bank notes issued	-	-	34,444	-	-	-	1,650	36,094
Precious metals	-	-	1,646	-	-	-	37,613	39,259
Trading assets and other financial instruments at fair value through profit or loss	28,558	44,204	18,632	10,886	6,720	76	5,091	114,167
Derivative financial instruments	-	14,656	5,632	443	318	233	258	21,540
Loans and advances to customers, net	1,571,860	351,110	312,432	38,037	24,695	4,379	15,112	2,317,625
Investment securities								
-available-for-sale	309,916	510,963	41,596	35,499	13,621	4,536	13,763	929,894
-held-to-maturity	267,857	211,185	67,791	5,142	210	1,753	15,188	569,126
-loans and receivables	311,152	5,648	56,260	-	-	284	16,024	389,368
Investments in associates	5,184	31	460	-	-	-	-	5,675
Property and equipment	45,906	230	12,817	138	1,129	501	1,517	62,238
Investment property	-	-	8,138	-	-	-	474	8,612
Deferred income tax assets	23,055	37	69	-	88	-	182	23,431
Other assets	13,676	14,897	11,011	1,245	700	222	2,279	44,030
<b>Total assets</b>	<b>2,994,955</b>	<b>1,227,665</b>	<b>672,368</b>	<b>109,990</b>	<b>75,973</b>	<b>17,740</b>	<b>132,944</b>	<b>5,231,635</b>

	As at 30 June 2006							
	RMB	USD	HKD	EURO	JPY	GBP	Others	Total
<b>Liabilities</b>								
Due to banks	96,973	23,677	4,185	2,369	9,499	307	34,412	171,422
Due to central banks	7	25,367	4,739	-	-	-	382	30,495
Bank notes in circulation	-	-	34,444	-	-	-	1,707	36,151
Certificates of deposits and placements from banks and other financial institutions	80,028	97,830	7,328	2,985	212	239	2,258	190,880
Derivative financial instruments and liabilities at fair value through profit or loss	-	77,290	22,176	1,031	143	263	269	101,172
Due to customers	2,876,575	443,064	526,682	41,220	40,386	25,453	95,058	4,048,438
Bonds issued	60,000	177	-	-	-	-	-	60,177
Special purpose borrowings	-	26,201	-	16,045	4,440	940	1,996	49,622
Current tax liabilities	17,855	253	1,823	23	-	-	683	20,637
Retirement benefit obligations	6,933	-	-	-	-	-	-	6,933
Deferred income tax liabilities	-	-	2,031	-	-	-	22	2,053
Other liabilities	73,274	21,662	29,599	1,441	1,082	731	784	128,573
<b>Total liabilities</b>	<b>3,211,645</b>	<b>715,521</b>	<b>633,007</b>	<b>65,114</b>	<b>55,762</b>	<b>27,933</b>	<b>137,571</b>	<b>4,846,553</b>
Net on-balance sheet position	(216,690)	512,144	39,361	44,876	20,211	(10,193)	(4,627)	385,082
Net off-balance sheet position	235,530	(264,170)	80,413	(49,256)	(31,475)	17,014	15,520	3,576
Credit commitments	478,011	325,303	141,771	46,965	19,286	4,101	8,759	1,024,196

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## 29. Financial risk management (continued)

### (1) Currency risk (continued)

	As at 31 December 2005							Total
	RMB	USD	HKD	EURO	JPY	GBP	Others	
<b>Assets</b>								
Cash and due from banks	17,632	12,507	5,016	1,688	1,422	540	2,277	41,082
Balances with central banks	274,107	13,503	10,655	852	15,826	-	1,998	316,941
Placements with banks and other financial institutions	71,563	124,632	95,603	13,023	474	5,573	21,231	332,099
Government certificates of indebtedness for bank notes issued	-	-	33,945	-	-	-	1,641	35,586
Precious metals	-	-	1,736	-	-	-	25,238	26,974
Trading assets and other financial instruments at fair value through profit or loss	29,051	41,333	15,592	12,061	8,260	143	5,342	111,782
Derivative financial instruments	-	11,493	4,552	149	548	57	9	16,808
Loans and advances to customers, net	1,411,382	346,718	315,727	34,443	24,866	4,192	14,784	2,152,112
<b>Investment securities</b>								
-available-for-sale	230,512	284,807	29,829	28,884	13,891	5,128	9,170	602,221
-held-to-maturity	271,612	232,005	78,267	7,376	921	1,777	15,501	607,459
-loans and receivables	305,762	8,230	31,166	1,723	-	-	14,970	361,851
Investments in associates	4,547	31	483	-	-	-	-	5,061
Property and equipment	46,004	289	12,850	135	1,121	480	1,538	62,417
Investment property	-	-	8,040	-	-	-	471	8,511
Deferred income tax assets	20,177	24	86	-	30	-	187	20,504
Other assets	14,520	11,251	9,757	1,025	618	247	1,222	38,640
<b>Total assets</b>	<b>2,696,869</b>	<b>1,086,823</b>	<b>653,304</b>	<b>101,359</b>	<b>67,977</b>	<b>18,137</b>	<b>115,579</b>	<b>4,740,048</b>

	As at 31 December 2005							
	RMB	USD	HKD	EURO	JPY	GBP	Others	Total
<b>Liabilities</b>								
Due to banks	67,518	22,498	8,351	2,319	7,571	236	25,724	134,217
Due to central banks	1,084	24,162	4,650	29	-	32	98	30,055
Bank notes in circulation	-	-	33,945	-	-	-	1,786	35,731
Certificates of deposits and placements from banks and other financial institutions	142,106	55,077	8,065	2,081	3,968	278	1,051	212,626
Derivative financial instruments and liabilities at fair value through profit or loss	-	70,625	19,552	420	384	117	76	91,174
Due to customers	2,531,878	438,881	527,118	46,854	37,565	26,634	90,534	3,699,464
Bonds issued	60,000	179	-	-	-	-	-	60,179
Special purpose borrowings	-	28,370	-	16,251	4,665	1,092	1,786	52,164
Current tax liabilities	21,728	191	946	15	-	10	569	23,459
Retirement benefit obligations	7,052	-	-	-	-	-	-	7,052
Deferred income tax liabilities	-	-	2,114	-	-	-	22	2,136
Other liabilities	95,714	17,028	19,571	1,510	1,139	518	792	136,272
<b>Total liabilities</b>	<b>2,927,080</b>	<b>657,011</b>	<b>624,312</b>	<b>69,479</b>	<b>55,292</b>	<b>28,917</b>	<b>122,438</b>	<b>4,484,529</b>
Net on-balance sheet position	(230,211)	429,812	28,992	31,880	12,685	(10,780)	(6,859)	255,519
Net off-balance sheet position	173,666	(229,776)	73,943	(29,586)	(16,344)	15,331	15,197	2,431
Credit commitments	394,938	295,280	137,425	30,874	21,185	2,049	14,011	895,762

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## 29. Financial risk management (continued)

### (2) Liquidity risk

The table below summarizes the assets and liabilities of the Group by relevant maturity groupings based on the remaining period at balance sheet date to the contract maturity date.

As at 30 June 2006	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 4-12 months	Between 1-5 years	Over 5 years	Total
<b>Assets</b>								
Cash and due from banks	-	36,785	-	-	-	-	-	36,785
Balances with central banks	-	113,038	226,583	1,030	-	-	-	340,651
Placements with banks and other financial institutions	-	41	201,708	65,568	25,668	155	-	293,140
Government certificates of indebtedness for bank notes issued	-	36,094	-	-	-	-	-	36,094
Precious metals	-	39,259	-	-	-	-	-	39,259
Trading assets and other financial instruments at fair value through profit or loss	-	203	9,059	3,415	15,861	49,270	36,359	114,167
Derivative financial instruments	-	5,635	1,761	736	3,420	5,830	4,158	21,540
Loans and advances to customers, net	39,994	31,396	123,054	269,922	820,925	544,030	488,304	2,317,625
<b>Investment securities</b>								
-available-for-sale	-	3,587	15,631	48,030	139,577	323,507	399,562	929,894
-held-to-maturity	-	-	20,993	82,754	167,299	213,201	84,879	569,126
-loans and receivables	-	-	18,525	38,520	41,506	247,065	43,752	389,368
Investments in associates	-	-	-	-	-	389	5,286	5,675
Property and equipment	-	-	-	-	-	-	62,238	62,238
Investment property	-	-	-	-	-	-	8,612	8,612
Deferred income tax assets	-	-	-	-	37	23,394	-	23,431
Other assets	306	4,895	12,144	5,626	16,482	3,119	1,458	44,030
<b>Total assets</b>	<b>40,300</b>	<b>270,933</b>	<b>629,458</b>	<b>515,601</b>	<b>1,230,775</b>	<b>1,409,960</b>	<b>1,134,608</b>	<b>5,231,635</b>



As at 30 June 2006	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 4-12 months	Between 1-5 years	Over 5 years	Total
<b>Liabilities</b>								
Due to banks	-	171,422	-	-	-	-	-	171,422
Due to central banks	-	7,905	6	5,036	17,548	-	-	30,495
Bank notes in circulation	-	36,151	-	-	-	-	-	36,151
Certificates of deposits and placements from banks and other financial institutions	-	1,734	96,698	38,479	32,962	21,007	-	190,880
Derivative financial instruments and liabilities at fair value through profit or loss	-	2,015	11,363	11,439	38,180	25,798	12,377	101,172
Due to customers	-	1,722,814	595,367	394,010	1,020,027	314,867	1,353	4,048,438
Bonds issued	-	-	-	-	-	-	60,177	60,177
Special purpose borrowings	-	-	874	736	5,368	20,088	22,556	49,622
Current tax liabilities	-	855	17	12	19,690	-	63	20,637
Retirement benefit obligations	-	-	76	150	655	2,842	3,210	6,933
Deferred income tax liabilities	-	-	-	-	1,696	357	-	2,053
Other liabilities	438	51,458	27,843	4,218	31,395	12,997	224	128,573
<b>Total liabilities</b>	<b>438</b>	<b>1,994,354</b>	<b>732,244</b>	<b>454,080</b>	<b>1,167,521</b>	<b>397,956</b>	<b>99,960</b>	<b>4,846,553</b>
<b>Net liquidity gap</b>	<b>39,862</b>	<b>(1,723,421)</b>	<b>(102,786)</b>	<b>61,521</b>	<b>63,254</b>	<b>1,012,004</b>	<b>1,034,648</b>	<b>385,082</b>

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## 29. Financial risk management (continued)

### (2) Liquidity risk (continues)

As at 31 December 2005	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 4-12 months	Between 1-5 years	Over 5 years	Total
<b>Assets</b>								
Cash and due from banks	-	41,082	-	-	-	-	-	41,082
Balances with central banks	-	113,872	202,030	1,019	20	-	-	316,941
Placements with banks and other financial institutions	-	-	220,629	92,650	18,707	113	-	332,099
Government certificates of indebtedness for bank notes issued	-	35,586	-	-	-	-	-	35,586
Precious metals	-	26,974	-	-	-	-	-	26,974
Trading assets and other financial instruments at fair value through profit or loss	-	-	6,301	3,113	15,287	56,028	31,053	111,782
Derivative financial instruments	-	3,890	2,042	753	1,583	5,347	3,193	16,808
Loans and advances to customers, net	40,150	28,363	107,549	220,426	795,450	506,258	453,916	2,152,112
Investment securities	-	-	-	-	-	-	-	-
-available-for-sale	-	292	6,926	17,622	128,532	255,548	193,301	602,221
-held-to-maturity	-	-	31,360	70,239	160,474	247,593	97,793	607,459
-loans and receivables	-	-	29,505	16,996	11,520	260,085	43,745	361,851
Investments in associates	-	-	-	-	-	407	4,654	5,061
Property and equipment	-	-	-	-	-	-	62,417	62,417
Investment property	-	-	-	-	-	-	8,511	8,511
Deferred income tax assets	-	-	-	-	2	20,502	-	20,504
Other assets	302	4,418	7,823	6,743	10,145	3,812	5,397	38,640
<b>Total assets</b>	<b>40,452</b>	<b>254,477</b>	<b>614,165</b>	<b>429,561</b>	<b>1,141,720</b>	<b>1,355,693</b>	<b>903,980</b>	<b>4,740,048</b>

As at 31 December 2005	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 4-12 months	Between 1-5 years	Over 5 years	Total
<b>Liabilities</b>								
Due to banks	-	134,217	-	-	-	-	-	134,217
Due to central banks	-	29,506	529	20	-	-	-	30,055
Bank notes in circulation	-	35,731	-	-	-	-	-	35,731
Certificates of deposits and placements from banks and other financial institutions	-	640	79,584	47,363	50,464	34,575	-	212,626
Derivative financial instruments and liabilities at fair value through profit or loss	-	1,805	9,124	9,301	22,996	38,091	9,857	91,174
Due to customers	-	1,615,637	521,284	441,468	840,668	278,098	2,309	3,699,464
Bonds issued	-	-	-	-	-	-	60,179	60,179
Special purpose borrowings	-	-	1,046	816	5,361	20,840	24,101	52,164
Current tax liabilities	-	13	-	-	23,446	-	-	23,459
Retirement benefit obligations	-	-	76	151	661	2,883	3,281	7,052
Deferred income tax liabilities	-	-	-	-	1,782	354	-	2,136
Other liabilities	-	74,494	14,906	5,585	28,384	12,170	733	136,272
<b>Total liabilities</b>	<b>-</b>	<b>1,892,043</b>	<b>626,549</b>	<b>504,704</b>	<b>973,762</b>	<b>387,011</b>	<b>100,460</b>	<b>4,484,529</b>
<b>Net liquidity gap</b>	<b>40,452</b>	<b>(1,637,566)</b>	<b>(12,384)</b>	<b>(75,143)</b>	<b>167,958</b>	<b>968,682</b>	<b>803,520</b>	<b>255,519</b>

### (3) Interest rate risk

The Group takes on exposures to the effects of changes in the prevailing level of market interest rates on its financial position and cash flows. Fluctuations in interest rates could therefore affect the Bank's financial conditions and results of operations in different ways. The general increase in interest rates in the RMB and USD markets for the six month period to 30 June 2006, amongst other things, has decreased the value of the Bank's fixed rate debt securities portfolio as at 30 June 2006. In particular, the net decrease in fair value changes of the Group's debt securities designated as available-for-sale securities is reflected through "Reserves for fair value changes of available-for-sale securities".

# Notes to The Condensed Consolidated Financial Statements

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(Amount in millions of Renminbi, unless otherwise stated)

## 30. Contingent liabilities and commitments

### (1) Legal proceedings

As at 30 June 2006, the Group was involved in certain lawsuits as defendants arising from its normal business operations. As at 30 June 2006 and 31 December 2005, provisions of RMB 1,878 million and RMB 1,516 million respectively, were made based on court judgments or the advice of counsel. Based on the advice of legal counsel professionals, management believes that the ultimate outcome of these lawsuits will not have a material impact on the financial position or result of operations of the Group.

### (2) Assets pledged

Assets pledged as collateral for repurchase agreements and short positions with other banks and financial institutions are set forth in the tables below. As at 30 June 2006 and 31 December 2005, the Group had such repurchase agreements and short positions amounting to RMB 78,597 million and RMB 62,108 million, respectively. All such agreements mature within twelve months from inception.

	As at 30 June	As at 31 December
	2006	2005
Precious metals	52	2,617
Bills	5,569	11,968
Debt securities	76,822	49,658
Total	82,443	64,243

The Group has accepted collateral that it is permitted to sell or re-pledge in connection with its reverse repo agreements. The fair value of the collateral accepted by the Group was RMB 87,405 million and RMB 69,789 million, as at 30 June 2006 and 31 December 2005, respectively. The Group had an obligation to return collateral that it has sold with a fair value of RMB 875 million and RMB 1,130 million, as at 30 June 2006 and 31 December 2005, respectively.

### (3) Capital commitments

	As at 30 June	As at 31 December
	2006	2005
Contracted but not provided for	2,152	1,893
Authorized but not contracted for	2,257	2,687
	4,409	4,580

### (4) Operating leases

According to the irrevocable operating lease contracts, the minimum rental payments that should be paid by the Group in the future are summarized as follows:

	As at 30 June	As at 31 December
	2006	2005
Within one year	1,401	1,371
One to two years	1,159	1,085
Two to three years	851	807
Above three years	2,566	2,546
	5,977	5,809

#### (5) Certificate Treasury Bond redemption commitments

The Bank is entrusted by the MOF to underwrite certain Certificate Treasury Bonds. The investors of Certificate Treasury Bonds have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificate Treasury Bonds plus unpaid interest.

The Bank's redemption commitments, representing the principal value of the bonds underwritten and sold by the Bank, amounted to RMB 84,056 million and RMB 80,965 million, as at 30 June 2006 and 31 December 2005, respectively. The original maturities of these bonds vary from 1 to 5 years. As the deposits base rate established by the PBOC is currently lower than the yields on all issues of Certificate Treasury Bonds, management expects the amount of redemption before the maturity dates of those bonds through the Bank will not be material.

The MOF will not provide funding for the early redemption of these Certificate Treasury Bonds on a back-to-back basis but will pay interest and repay the principal at maturity.

#### (6) Credit commitments

	As at 30 June	As at 31 December
	2006	2005
Credit commitments (i)		
with an original maturity of under one year	182,770	182,965
with an original maturity of one year or over	238,005	201,745
Acceptances	230,434	195,234
Letters of guarantee issued	255,779	212,987
Letters of credit issued	115,686	101,195
Others	1,522	1,636
<b>Total</b>	<b>1,024,196</b>	<b>895,762</b>

- (i) Credit commitments represent general credit facility limits for our corporate customers. These credit facilities may be drawn in the form of cash advances or the issuance of letters of credit, acceptances or letters of guarantee.

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For The Six Month Period Ended 30 June 2006

(Amount in millions of Renminbi, unless otherwise stated)

## 30. Contingent liabilities and commitments (continued)

### (7) Credit risk weighted amounts of off balance sheet exposures

	As at 30 June	As at 31 December
	2006	2005
Contingent liabilities and commitments	402,448	329,697

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

The credit risk weighted amounts stated above have not taken into account the effects of netting arrangements.

## 31. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity less than three months:

	As at 30 June	As at 30 June
	2006	2005
Cash and due from banks	35,445	39,030
Balances with central banks	113,039	130,427
Placements with banks and other financial institutions	210,079	221,350
Short term bills and notes	30,910	24,149
Total	389,473	414,956

## 32. Related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the State Council of the PRC Government through Huijin.

### (1) Financial restructuring arrangements with the MOF

As at 30 June 2006, the Group had a liability of RMB 13,021 million (31 December 2005: RMB 17,362 million) to the MOF in respect of the excess of the appraised value of the net assets of the Bank as at 31 December 2003 over the amount of the share capital of the Bank as at the date of the government directed financial restructuring which involved the sales of non-performing loans and policy related assets and various capital injections by the government through Huijin in the conversion of the Bank into a joint stock limited company during 2003 and 2004. This liability included in "other liabilities" is non-interest bearing and is to be paid in four annual installments before 31 December 2008.

## (2) Transactions with the MOF and the PBOC

The Group enters into banking transactions with the MOF and the PBOC in the normal course of business. These include purchase and redemption of investment securities issued by the MOF and the PBOC; maintenance of mandatory reserves, other deposits and amounts due to the PBOC; underwriting and distribution of Certificate Treasury Bonds issued by the MOF through the Group's branch network and earning commission income based on such bonds sold. Details of mandatory reserves and other deposits with the PBOC are set out in Note II.12. Foreign Currency Swap transactions with the PBOC are described in Note II.15. Details of balances due to the PBOC are set out in Note II.19. Details of other transactions and balances are set forth below.

### (i) Treasury bonds and PBOC bonds

The Group purchases and redeems bonds issued by the MOF and the PBOC. The volume of such transactions and related interest rate range for the six month ended 30 June 2006 and 2005 and the outstanding balances as of the respective period/year end dates are set out below:

	For the six month period ended 30 June	
	2006	2005
Purchases during the period	354,418	252,620
Redemption/sales during the period	299,827	126,152
Interest rate range (Note II.32(7)):	1.22%-9.00%	1.12%-7.75%
	2006	2005
Outstanding balance at 1 January	533,625	271,120
Outstanding balance at 30 June/31 December	584,002	533,625

### (ii) Transactions with the MOF in relation to the underwriting and distribution of Certificate Treasury Bonds

The Group underwrites Certificate Treasury Bonds issued by the MOF and undertakes the role of a distributor of these bonds through its branch network and earns commission income based on the amount of such bonds sold.

	For the six month period ended 30 June	
	2006	2005
Total distribution of Certificate Treasury Bonds in the period	18,200	15,600
Commission income earned in the period	179	122
	2006	2005
Outstanding balance at 1 January	10,185	8,717
Outstanding balance at 30 June/31 December	10,494	10,185

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For The Six Month Period Ended 30 June 2006

(Amount in millions of Renminbi, unless otherwise stated)

## 32. Related party transactions (continued)

### (3) Transactions with Huijin

Huijin became the equity holder of the Bank from 30 December 2003. As at 30 June 2006, Huijin owned 67.49% equity interest in the Bank following the completion of the Bank's Global Offering and A share initial public offering.

On 5 January 2005, the Bank entered into a Foreign Currency Option Agreement with Huijin whereby the Bank acquired options to sell to Huijin USD, totaling USD 18 billion, of no more than USD1,500 million at the beginning of each calendar month during the year ending 31 December 2007 at a fixed exchange rate of USD 1 to RMB 8.2769. The related option premium totalled RMB 4,469 million, which is payable by the Bank to Huijin in 12 equal monthly installments at the beginning of each calendar month during the year ending 31 December 2007.

On 15 May 2006, a dividend of RMB 1,375 million, relating to the year ended 31 December 2005, was paid to Huijin, in accordance with the approval by the equity holders at a post-adjudgment session of the Annual General Meeting on 30 April 2006.

Deposit placement from Huijin

	2006	2005
At 1 January	38,869	-
Deposits received during the period/year	156,679	42,972
Deposits matured/repaid during the period/year	(173,709)	(4,103)
At 30 June/31 December	21,839	38,869

The interest range in respect of the deposit placement from Huijin for the six month period ended 30 June 2006 varied from 0.72% to 4.59% depending on maturity and currency.

### (4) Transactions with other companies controlled by Huijin

Huijin also has controlling equity interests in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of its business. These include trading assets, investment securities and money market transactions.

The volume of such transactions and related interest rate range for the period ended 30 June 2006 and 2005 and the outstanding balances with these companies as of 30 June 2006 and 31 December 2005 are as follows:



(i) Trading assets and investment securities

	For the six month period ended 30 June	
	2006	2005
Purchases during the period	288	493
Redemption/sales during the period	574	587
Interest rate range (Note II.32 (7))	0.26%-5.90%	0.26%-5.90%
	2006	2005
Outstanding balance at 1 January	2,400	2,183
Outstanding balance at 30 June/31 December	2,113	2,400

(ii) Due from banks

	For the six month period ended 30 June	
	2006	2005
Interest rate range (Note II.32 (7))	0.002%-5.35%	0.002%-1.62%
	2006	2005
Outstanding balance at 1 January	88	94
Outstanding balance at 30 June/31 December	170	88

(iii) Placements with banks and other financial institutions

	For the six month period ended 30 June	
	2006	2005
Interest rate range (Note II.32 (7))	2.95%-5.75%	0.37%-4.38%
	2006	2005
Outstanding balance at 1 January	2,318	3,537
Outstanding balance at 30 June/31 December	3,925	2,318

(iv) Due to banks

	For the six month period ended 30 June	
	2006	2005
Interest rate range (Note II.32 (7))	0.002%-3.00%	0.002%-1.62%
	2006	2005
Outstanding balance at 1 January	2,076	1,895
Outstanding balance at 30 June/31 December	3,088	2,076

# Notes to The Condensed Consolidated Financial Statements

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(Amount in millions of Renminbi, unless otherwise stated)

## 32. Related party transactions (continued)

### (4) Transactions with other companies controlled by Huijin (continued)

#### (v) Placements from banks and other financial institutions

	For the six month period ended 30 June	
	2006	2005
Interest rate range (Note II.32 (7))	1.66%-5.25%	0.09%-2.25%
	2006	2005
Outstanding balance at 1 January	243	-
Outstanding balance at 30 June/31 December	893	243

### (5) Transactions with other state controlled entities

The Bank is subject to the control of the State Council of the PRC Government through Huijin, which also directly and indirectly controls a significant number of entities through its government authorities, agencies and affiliates. Accordingly, the Group has extensive transactions with other state controlled entities. Consistent with those disclosed in the Group's consolidated financial statements for the year ended 31 December 2005, the nature of these transactions for the six month periods ended 30 June 2006 and 2005, conducted in the ordinary course of business, includes, but are not limited to, the following:

- Lending, provision of credits and guarantees and deposit taking;
- Inter-bank balance taking and placing;
- Sale, purchase, underwriting and redemption of bonds issued by other state-controlled-entities;
- Rendering of foreign exchange, remittance, investment related services;
- Entrusted lending and provision of other custody services; and
- Purchasing of utilities, telecommunication and postal services.

Management is of the view that the nature and substance of the transactions with state controlled entities for the six month period ended 30 June 2006 are not substantially different from those disclosed in the 2005 annual financial statements.

### (6) Transactions with associates

The Group enters into banking transactions with associates in the normal course of business under commercial terms and at market rates. These include loans and advances, deposit taking and such other normal banking businesses. The outstanding balances with associates and related allowance for impairment losses as of the respective period/ year end dates, and the volume of transactions for the periods ended 30 June 2006 and 31 December 2005 are stated below. The related interest income and expense amounts are not considered significant.

(i) Loans and advances

	2006	2005
Outstanding balance as at 1 January	7,240	1,246
Granted during the period/year	18	8,128
Repaid during the period/year	(6,095)	(989)
Write-off and other changes during the period/year	-	(1,145)
Outstanding balance as at 30 June/31 December	1,163	7,240
Allowance for impairment losses as at 30 June/31 December	(190)	(119)

(ii) Deposits

	2006	2005
Outstanding balance as at 1 January	856	1,227
Received during the period/year	3,250	3,879
Repaid and other changes during the period/year	(1,959)	(4,250)
Outstanding balance as at 30 June/31 December	2,147	856

(iii) Trading assets and investment securities

	2006	2005
Outstanding balance as at 1 January	188	-
Purchases during the period/year	-	1,307
Redemption/sales during the period/year	(188)	(1,123)
Fair value changes and others	-	4
Outstanding balance at 30 June/31 December	-	188

(7) Interest rate

Interest rate disclosed in Note II.32(2) to (4) varies across product groups and transactions depending on maturity, credit risk of the counterparty and currency. In particular, given local market conditions, the spread of certain significant or long-dated transactions can vary across the market.

(8) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive officers.

The Group enters into banking transactions with key management personnel in the normal course of business.

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During the six month period ended 30 June 2006 and the year ended 31 December 2005, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the periods ended 30 June 2006 and 2005 is detailed as follows:

	For the six month period ended 30 June	
	2006	2005
Short-term employment benefits	11	6
Post-employment benefits	1	-
<b>Total</b>	<b>12</b>	<b>6</b>

## 33. Events after the balance sheet date

Subsequent to the balance sheet date in August 2006, the Bank entered into certain foreign currency transactions to reduce its net foreign currency position by USD 14.2 billion(see Note 11.29(1))