

Financial Overview

In the first half of 2006, China's economy experienced steady and swift growth as evidenced by a 10.9% surge in GDP. In order to prevent the economy from getting overheated and to curb excess credit extension, the PRC government introduced a series of macroeconomic adjustment and control measures including lifting the benchmark lending rates, issuing designated PBOC bills and raising the statutory deposit reserve rate. Faced with new market conditions and opportunities, whilst continuing to strengthen risk control capacity, the Group achieved rapid growth in both assets and liabilities as well as steady growth in profit before tax by focusing on business expansion and improving operational management.

INCOME STATEMENT ANALYSIS

In the first half of 2006, the Group's profit before tax amounted to RMB 32,814 million, representing an increase of RMB 1,071 million, or 3.4% over the same period last year. Due to the expiry of the tax exemption on 30 June 2005 in relation to the restructuring, net profit reduced by RMB 5,126 million to RMB 23,223 million.

Net interest income

In the first half of 2006, net interest income grew by RMB 8,582 million to RMB 65,285 million, up 15.1% from the same period last year.

The following table shows the Group's average balances of assets and liabilities, related interest income or expenses, and average annualised yields or costs during the respective periods.

	Six months ended 30 June 2006			Six months ended 30 June 2005		
	Average balance	Interest income/ expense	Average annualised yield/cost (%)	Average balance	Interest income/ expense	Average annualised yield/cost (%)
(In millions of RMB, except percentages)						
Assets						
Total loans and advances to customers	2,680,177	71,618	5.34	2,311,755	61,104	5.29
Investments in debt securities	1,597,707	22,716	2.84	1,176,728	17,178	2.92
Balances with the central banks	403,968	3,366	1.67	383,106	3,221	1.68
Amounts due from banks and non-bank financial institutions	154,559	2,776	3.59	105,930	1,152	2.18
Total interest-earning assets	4,836,411	100,476	4.15	3,977,519	82,655	4.16
Total allowances for impairment losses	(68,191)	—	—	(59,023)	—	—
Non-interest-earning assets	146,453	—	—	151,468	—	—
Total assets	4,914,673	100,476		4,069,964	82,655	
Liabilities						
Deposits from customers	4,278,608	31,968	1.49	3,650,669	23,869	1.31
Amounts due to banks and non-bank financial institutions	183,237	2,169	2.37	117,175	1,067	1.82
Subordinated bonds issued	39,909	930	4.66	39,898	932	4.67
Other interest-bearing liabilities	5,967	124	4.16	6,213	84	2.70
Total interest-bearing liabilities	4,507,721	35,191	1.56	3,813,955	25,952	1.36
Non-interest-bearing liabilities	89,014	—	—	67,881	—	—
Total liabilities	4,596,735	35,191		3,881,836	25,952	
Net interest income		65,285			56,703	
Net interest spread			2.59			2.80
Net interest margin			2.70			2.85

In the first half of the year, net interest spread and net interest margin were 2.59% and 2.70% respectively, 21 and 15 basis points lower than those of the same period last year, but comparable to the net interest spread of 2.62% and net interest margin of 2.72% in the second half of 2005.

Higher yields on corporate and personal loans were largely offset by the decrease in the yield on discounted bills and a greater portion of discounted bills in total loans and advances to customers, resulting in a rise of five basis points in the average yield on loans and advances to customers. Meanwhile, affected by the lower average yield on investments in debt securities, and a greater portion of investments in debt securities in the average balance of total interest-earning assets, the average yield on interest-earning assets was one basis point lower than that of the same period last year.

Due to the time lag effect of the rise in benchmark interest rates for time deposits and a greater portion of time deposits in total deposits from customers, the average cost of deposits from customers went up substantially, which contributed to an increase of 20 basis points in the average cost of interest-bearing liabilities.

The decrease of average yield on interest-earning assets and the increase of average cost of interest-bearing liabilities together resulted in a narrower net interest spread and a smaller net interest margin.

Interest income

Interest income amounted to RMB 100,476 million, representing an increase of RMB 17,821 million, or 21.6% compared with the same period last year. This was largely attributable to the growth in loans and advances to customers and investments in debt securities.

Interest income from loans and advances to customers

The following table shows the Group's average balance, interest income, and average annualised yields on each component of loans and advances to customers during the respective periods.

	Six months ended 30 June 2006			Six months ended 30 June 2005		
	Average balance	Interest income	Average annualised yield (%)	Average balance	Interest income	Average annualised yield (%)
	(In millions of RMB, except percentages)					
Corporate loans	1,894,568	54,362	5.74	1,697,369	46,483	5.48
Personal loans	480,597	13,453	5.60	419,185	11,380	5.43
Discounted bills	263,066	2,824	2.15	162,078	2,662	3.28
Overseas operations	41,946	979	4.67	33,123	579	3.50
Total loans and advances to customers	2,680,177	71,618	5.34	2,311,755	61,104	5.29

Interest income from loans and advances to customers rose by RMB 10,514 million to RMB 71,618 million, or 17.2% against the same period last year, mainly due to the rapid expansion of the lending business and the increase in average yield on loans. The increase in average yield on loans was mainly attributable to the following factors: Notable increases of 26 basis points and 17 basis points were recorded in the average yield on corporate and personal loans respectively as the People's Bank of China ("PBOC") raised the benchmark lending rates twice since October 2004 and cancelled preferential interest rates for personal residential mortgages, and the Bank enhanced its pricing abilities. At the same time, the average yield on discounted bills dropped significantly by 113 basis points, being negatively influenced by a decreased market interest rate for RMB-denominated discounted bills and an increased proportion of re-discounted bills with lower yields in the discounted bills business. Furthermore, the proportion of average discounted bills balance in total loans and advances average balance increased by 2.8 percentage points compared with the same period in 2005. These factors partially offset the impact of the rise in the yields on corporate and personal loans, resulting in an increase of five basis points in the overall average yield on total loans and advances.

Interest income from investments in debt securities

Interest income from investments in debt securities was RMB 22,716 million for the period, representing an increase of RMB 5,538 million, or 32.2% compared with the same period last year, which was mainly attributable to the rise in the amount of investments in debt securities. The yield on investments was 2.84% for the first half of 2006, representing an eight basis points decrease compared with the same period in 2005 but remained stable compared with the second half of 2005. The decrease in the yield on investments was largely due to an adjustment in the investment portfolio mix based on our judgment of the market interest rate trend. New investments in the first half of the year primarily included short-term bills and designated PBOC bills whose maturities and yields were lower than the average level of the pre-existing investment portfolio, leading to the decrease of yield on investments in debt securities compared with the first half of 2005.

Interest income from amounts due from banks and non-bank financial institutions

Interest income from amounts due from banks and non-bank financial institutions rose by RMB 1,624 million to RMB 2,776 million, or 141.0% compared with the same period last year, mainly due to the rise in the average balance of placements with banks outside Mainland China, and the increase of yield on foreign currency denominated assets as a result of the rise in interest rates. The yield on amounts due from banks and non-bank financial institutions was 3.59%, or 141 basis points higher compared with the same period last year.

Interest expense

Interest expense for the period reached RMB 35,191 million, representing a surge of RMB 9,239 million, or 35.6% against the same period last year.

Interest expense on deposits from customers remained the major part of interest expense, and increased by RMB 8,099 million, or 33.9%, to RMB 31,968 million. The increase was primarily caused by the rising average balance of deposits from customers and the higher average cost of deposits. The increase in the average cost of deposits from customers was largely due to the time lag effect of the rise in benchmark interest rates for time deposits by the PBOC in October 2004, and the increase in the proportion of time deposits in average total deposits from customers by 3.2 percentage points compared with the same period last year.

Interest expense on amounts due to banks and non-bank financial institutions amounted to RMB 2,169 million, an increase of RMB 1,102 million or 103.3% over the same period last year. The cost of amounts due to banks and non-bank financial institutions soared by 55 basis points to 2.37% compared with that of the first half of 2005, largely due to increased foreign currency borrowings in the inter-bank market as well as increased costs of foreign currency liabilities in line with the market rates. In addition, the PBOC lifted control over the interest rates of Renminbi-denominated deposits from banks and non-bank financial institutions in March 2005, which triggered a rise in the cost of Renminbi-denominated deposits from other financial institutions.

Net fee and commission income

	Six months ended 30 June 2006	Six months ended 30 June 2005
	(In millions of RMB)	
Fee and commission income		
Bank card fees	1,733	1,333
Agency fees for securities, foreign currency dealing and insurance services	1,623	880
Remittance, settlement and account management fee	1,289	776
Consultancy and advisory fees	843	528
Commission on trust business	674	432
Guarantee fees	277	166
Payment and collection services fees	122	100
Others	221	100
Sub-total	6,782	4,315
Fee and commission expense	(508)	(409)
Net fee and commission income	6,274	3,906

As the result of greater resources channelled to fee and commission based businesses, net fee and commission income amounted to RMB 6,274 million, representing an increase of RMB 2,368 million, or 60.6% against the same period last year.

Bank card fees recorded a rise of RMB 400 million or 30.0%, largely due to a substantial increase in spending through bank cards and transactions with ATMs.

Agency fees for securities, foreign currency dealing and insurance services rose by RMB 743 million, or 84.4%, mainly due to considerable growth of the securities agency business and the personal insurance sales business. In the first half of the year, leveraging on business opportunities arising from the turnaround of the domestic capital market, the Bank stepped up marketing activities in respect of agency services for funds and government bonds as well as underwriting for short-term financial notes, and achieved tremendous growth of these businesses, among which the Bank acted as lead underwriter of short-term financial notes amounting to RMB 43,500 million; provided agency services for funds issuance totalling RMB 23,685 million, nearly seven times increase compared with the same period last year.

Remittance, settlement and account management fees surged by RMB 513 million, or 66.1%, mainly as a result of a significant increase in income from both individual settlement business and trade-related foreign currency exchange and settlement. Increased income from individual settlement business was largely brought about by the charging of maintenance fees on customer deposit accounts with small balances since the second half of 2005. Increased income from trade-related foreign currency exchange and settlement was largely brought about by rapid growth in transaction volume of foreign currency settlements following the reform of the RMB exchange rate regime.

Net foreign exchange loss

In the first half of 2006, the Group recorded a net foreign exchange loss of RMB 2,421 million, which was mainly resulted from appreciation in value of Renminbi. Such foreign exchange loss comprised (i) the net foreign exchange loss of RMB 1,019 million on foreign currency assets arising from the capital injection of US\$22,500 million after adjusting for the hedging effect through the use of foreign currency options (the gross foreign exchange loss before hedging was RMB 1,748 million); (ii) the net foreign exchange loss of RMB 1,072 million related to foreign exchange swap contracts; and (iii) the net loss of RMB 330 million arising from other foreign currency exposures and transactions.

The above foreign exchange loss has been compensated by the additional interest income arising from the foreign currency assets which are mainly denominated in US dollars. The market yields on assets denominated in US dollars were higher than the market yields on assets denominated in Renminbi.

General and administrative expenses

	Six months ended 30 June 2006	Six months ended 30 June 2005
	(In millions of RMB, except percentages)	
Staff costs	14,753	11,098
Property and equipment expense	5,271	4,861
Business tax and surcharges	4,172	3,581
Other general and administrative expenses	5,320	4,953
Total general and administrative expenses	29,516	24,493
Cost-to-income ratio	41.65%	38.93%

In the first half of 2006, the Group continued to strengthen cost control. Whilst the cost-to-income ratio was 41.65%, 2.72 percentage points higher than that for the same period last year, it was 3.48 percentage points lower than that for the full year of 2005, demonstrating that cost levels were still maintained at a relatively low level.

General and administrative expenses amounted to RMB 29,516 million, representing an increase of RMB 5,023 million or 20.5% compared with the same period last year. Endeavoured to evenly pace expenditures during the year, the Bank continued to implement the same policies of raising staff basic salaries and welfare that were introduced in the second half of 2005, and increased expenditure for staff social welfare, leading to an increase in staff costs compared with the same period last year. To take advantage of market opportunities for business growth, the Bank launched marketing activities earlier in the year, and with an aim of enhancing its long-term competitiveness, the Bank continued to invest in branch transformation and information technology, resulting in higher expenses compared with the same period last year.

Provisions for impairment losses

	Six months ended 30 June 2006	Six months ended 30 June 2005
	(In millions of RMB)	
Loans and advances to customers	8,318	6,064
Available-for-sale securities	27	331
Property and equipment	37	177
Others	152	114
Total provisions for impairment losses	8,534	6,686

In the first half of 2006, total provisions for impairment losses reached RMB 8,534 million, representing an increase of RMB 1,848 million or 27.6% over the same period last year. The provision for impairment losses on loans and advances to customers was RMB 8,318 million, representing an increase of RMB 2,254 million against the same period last year. The increase was mainly due to the increase of non-performing loans (“NPLs”), change in the structure of non-performing loans and considerable increase in loan growth during the first half of 2006 compared with the same period last year. The provision for other impairment losses was further reduced as the Bank strengthened its management and accelerated disposal of non-credit assets.

Income tax

The charge for income tax for the first half of 2006 amounted to RMB 9,591 million, representing an increase of RMB 6,197 million compared with the same period in 2005. In addition to higher taxable income, the increase was due to the combined effect of two factors. On one hand, the income tax exemption in relation to the restructuring expired on 30 June 2005, resulting in an increase in income tax expense. As part of the Bank’s restructuring, income taxes of RMB 7,848 million were exempted for the six months ended 30 June 2005. On the other hand, the tax authorities raised the Bank’s tax deduction limit for salary expenses at the end of 2005. The policy reduced the income tax liability arising from non-tax-deductible staff costs from RMB 2,061 million in the first half of 2005 to RMB 68 million in the first half of 2006.

The effective tax rate for the first half of 2006 was 29.2%, lower than the statutory tax rate of 33.0%. This was mainly attributable to the fact that interest income derived from government bonds is not taxable. The effective tax rate was about the same as that of 2005 excluding the tax exemption effect in relation to the restructuring.

BALANCE SHEET ANALYSIS

Assets

As at 30 June 2006, total assets stood at RMB 5,166,242 million, representing an increase of RMB 580,500 million, or 12.7% compared with 31 December 2005. The balances of net loans and advances to customers and investments increased by 14.6% and 25.0% respectively.

The following table shows the composition of the Group's total assets as at the balance sheet dates:

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Gross loans and advances to customers	2,815,368		2,458,398	
Allowances for impairment losses	(70,441)		(63,085)	
Net loans and advances to customers	2,744,927	53.1	2,395,313	52.2
Investments	1,767,664	34.2	1,413,871	30.8
Cash and balances with central banks	446,043	8.6	480,136	10.5
Amounts due from banks and non-bank financial institutions	97,075	1.9	190,108	4.2
Other assets ¹	110,533	2.2	106,314	2.3
Total assets	5,166,242	100.0	4,585,742	100.0

1. Consist of property and equipment, deferred tax assets and other assets.

Loans and advances to customers

As at 30 June 2006, gross loans and advances to customers amounted to RMB 2,815,368 million, representing an increase of RMB 356,970 million, or 14.5% compared with the end of 2005.

	As at 30 June 2006		As at 31 December 2005	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(In millions of RMB, except percentages)			
Corporate loans	1,989,027	70.7	1,775,791	72.2
Personal loans	520,340	18.5	453,889	18.5
Discounted bills	257,035	9.1	194,122	7.9
Overseas operations	48,966	1.7	34,596	1.4
Gross loans and advances to customers	<u>2,815,368</u>	<u>100.0</u>	<u>2,458,398</u>	<u>100.0</u>

Corporate loans remained the largest component of the loan portfolio. As at 30 June 2006, corporate loans reached RMB 1,989,027 million, an increase of RMB 213,236 million, or 12.0% against the end of 2005.

With the commencement of the Eleventh Five Year Plan this year, there was an increased number of new large scale projects which led to an increased demand for medium to long term loans. The Bank's expertise in this area met the requirements of the borrowers, and up to 44.4% of new lending in the first half of 2006 was related to infrastructure loans. Property development loans increased by RMB 41,360 million, or 21.7% over the year-end of 2005, which was attributable to the Bank's active contacts with prime property developers at the planning stages of projects, as well as to the successful cross-selling activities in respect of corporate and personal banking. New lending was mainly extended to housing projects and customers who have a credit rating of A or above.

The following table sets forth the components of the corporate loans by product type:

	As at 30 June 2006		As at 31 December 2005	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(In millions of RMB, except percentages)			
Working capital loans	988,725	49.7	908,688	51.2
Fixed assets loans				
Infrastructure loans	645,529	32.4	550,851	31.0
Real estate development loans	232,337	11.7	190,977	10.8
Technical improvement loans	95,155	4.8	98,153	5.5
Corporate mortgage loans	3,143	0.2	2,434	0.1
Subtotal	976,164	49.1	842,415	47.4
Others ¹	24,138	1.2	24,688	1.4
Total Corporate loans	1,989,027	100.0	1,775,791	100.0

1. Primarily consist of factoring, overdrafts, trade finance facilities and on-lending loans.

As at 30 June 2006, personal loans amounted to RMB 520,340 million, up by RMB 66,451 million, or 14.6% against the end of 2005. The accelerated integration and innovation of products and services, in addition to greater marketing targeting at prime customers and promotional forces, led to enhanced competitiveness and increased market share of the Bank. Residential mortgage loans rose by RMB 43,656 million, or 12.5% compared with the end of 2005, which took lead in the PRC banks. The growth in personal credit lines offset the fall in automobile loans, generating an increase of RMB 6,955 million in personal consumption loans, or 11.6% compared with the end of 2005. Other loans increased by 34.8% compared with the end of 2005, largely due to the rapid growth of individual commercial property mortgage loans and personal business loans.

The following table sets forth the components of the personal loans by product type:

	As at 30 June 2006		As at 31 December 2005	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
(In millions of RMB, except percentages)				
Residential mortgage loans	391,875	75.3	348,219	76.7
Personal consumption loans	67,105	12.9	60,150	13.3
Others ¹	61,360	11.8	45,520	10.0
Total personal loans	520,340	100.0	453,889	100.0

1. Primarily consist of individual commercial property loans, personal business loans, credit card overdrafts and education loans.

As at 30 June 2006, the discounted bills balance reached RMB 257,035 million, representing an increase of RMB 62,913 million, or 32.4% against the end of 2005. The fast expansion was brought about by robust market demand and associated low credit risk. However, as the market competition was fierce and the yield on discounting kept falling, the Bank has taken initiatives to curb the expansion of the business toward the end of the first half of 2006.

Investments

The following table shows the composition of investments as at the balance sheet dates:

	As at 30 June 2006		As at 31 December 2005	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
(In millions of RMB, except percentages)				
Debt investments	1,243,113	70.3	958,470	67.8
Receivables	515,481	29.2	443,729	31.4
Equity investments	9,070	0.5	11,672	0.8
Total investments	1,767,664	100.0	1,413,871	100.0

In the first half of 2006, a strong rise was recorded in Renminbi-denominated deposits resulting in excess operating funds. Following the changes in domestic and overseas capital markets, the Bank made a timely adjustment to its investment strategy and mix to strike a sound balance between risk and return. The Bank increased its presence in the money markets by increasing investments in debt securities, particularly in PBOC bills, which was reflected in the substantial increase of RMB 284,643 million, or 29.7% in debt investments against the end of 2005. The Bank's subscription of RMB 70,000 million designated PBOC bills led to the rise in receivables.

Liabilities

As at 30 June 2006, total liabilities amounted to RMB 4,861,005 million, representing an increase of RMB 562,940 million, or 13.1% against the end of 2005.

The following table shows the composition of the total liabilities as at the balance sheet dates:

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Deposits from customers	4,491,566	92.4	4,006,046	93.3
Amounts due to banks and non-bank financial institutions	224,313	4.6	164,524	3.8
Subordinated bonds issued	39,912	0.8	39,907	0.9
Other liabilities ¹	105,214	2.2	87,588	2.0
Total liabilities	4,861,005	100.0	4,298,065	100.0

1. Consist of amounts due to central banks, certificates of deposit issued, current tax liabilities, deferred tax liabilities, and other liabilities and provisions.

Deposits from customers

The following table sets forth the components of the deposits from customers by product type:

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Corporate deposits				
Demand deposits	1,645,523	36.7	1,474,483	36.7
Time deposits	706,159	15.7	619,564	15.5
Subtotal	2,351,682	52.4	2,094,047	52.2
Personal deposits				
Demand deposits	769,713	17.1	708,608	17.7
Time deposits	1,349,572	30.0	1,188,813	29.7
Subtotal	2,119,285	47.1	1,897,421	47.4
Overseas operations	20,599	0.5	14,578	0.4
Total deposits from customers	4,491,566	100.0	4,006,046	100.0

Fast and stable growth in China's economy, continued improvement of the enterprises' performance and strong growth in public disposable income led to the increase in the balance of deposits. As at 30 June 2006, deposits from customers amounted to RMB 4,491,566 million, representing an increase of RMB 485,520 million, or 12.1% compared with the end of 2005. Following the rise in PBOC benchmark rates for time deposits in October 2004 and corporate customers being allowed to place time deposits with maturity over one year, the proportion of average balance of time deposits in total deposits from customers for the first half of 2006 increased compared with the same period in 2005, but the proportion of time deposits as at 30 June 2006 remained stable compared with that as at the end of 2005.

Shareholders' equity

	As at 30 June 2006	As at 31 December 2005
	(In millions of RMB)	
Share capital	224,689	224,689
Capital reserve	42,091	42,091
General reserve	10,341	10,332
Retained earnings	24,627	4,783
Other reserves ¹	3,391	5,684
Total equity attributable to shareholders of the Bank	305,139	287,579

1. Consist of statutory surplus reserve, statutory public welfare fund, investment revaluation reserve and exchange reserve.

As at 30 June 2006, total equity attributable to shareholders of the Bank amounted to RMB 305,139 million, representing an increase of RMB 17,560 million against the end of 2005. Pursuant to the PRC Company Law revised in 2005, since 1 January 2006 no further appropriation to the statutory public welfare fund is required and the pre-existing balance of the fund was transferred to the statutory surplus reserve.

LOAN QUALITY ANALYSIS

Distribution of loans by grading

The following table sets forth, as at the dates indicated, the distribution of the loans by five-category loan classification under which non-performing loans include substandard, doubtful and loss loans.

	As at 30 June 2006		As at 31 December 2005	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Normal	2,444,110	86.8	2,072,969	84.4
Special mention	272,562	9.7	290,960	11.8
Substandard	37,749	1.3	42,456	1.7
Doubtful	52,683	1.9	45,457	1.8
Loss	8,264	0.3	6,556	0.3
Gross loans and advances to customers	2,815,368	100.0	2,458,398	100.0
Non-performing loans	98,696		94,469	
Non-performing loan ratio	3.51%		3.84%	

The first half of 2006 saw a sustained expansion of the credit business, and the credit asset quality achieved steady improvement as a result of optimised credit business structures and strengthened risk management. The NPL ratio fell to 3.51% as at 30 June 2006 from 3.84% at the end of 2005. Continued attention on and strengthened management of special mention loans has led to the reduction of the proportion of the special mention loans in total loans to 9.7% as at 30 June 2006 from 11.8% at the end of 2005. Reduction in the substandard loan ratio was also achieved, while the doubtful and loss loans ratios remain stable compared with the end of 2005. Affected by the macroeconomic control measures and changes in market condition, some customers encountered difficulties in their operations, leading to increased NPLs; and the operating conditions of certain NPL customers failed to turn around, resulting in the rise of doubtful and loss loans.

Distribution of loans and NPLs by product type

The following table sets forth, as at the dates indicated, the loans and NPLs by product type:

	As at 30 June 2006			As at 31 December 2005		
	Loans and advances	NPLs	% of NPLs to loans ¹	Loans and advances	NPLs	% of NPLs to loans ¹
(In millions of RMB, except percentages)						
Corporate loans						
Working capital loans	988,725	63,215	6.4	908,688	62,755	6.9
Fixed asset loans	976,164	23,125	2.4	842,415	20,560	2.4
Others ²	24,138	2,484	10.3	24,688	2,339	9.5
Subtotal	<u>1,989,027</u>	<u>88,824</u>	4.5	<u>1,775,791</u>	<u>85,654</u>	4.8
Personal loans						
Residential mortgage loans	391,875	4,941	1.3	348,219	4,605	1.3
Personal consumption loans	67,105	2,711	4.0	60,150	2,221	3.7
Others ³	61,360	2,134	3.5	45,520	1,842	4.0
Subtotal	<u>520,340</u>	<u>9,786</u>	1.9	<u>453,889</u>	<u>8,668</u>	1.9
Discounted bills	<u>257,035</u>	—	—	<u>194,122</u>	—	—
Overseas operations	<u>48,966</u>	<u>86</u>	0.2	<u>34,596</u>	<u>147</u>	0.4
Total	<u>2,815,368</u>	<u>98,696</u>	3.51	<u>2,458,398</u>	<u>94,469</u>	3.84

1. Calculated by dividing non-performing loans in each category by gross loans in that category.

2. Primarily consist of factoring, overdrafts, trade financing and on-lending loans.

3. Primarily consist of individual commercial property mortgage loans, personal business loans, credit card overdrafts and education loans.

As at 30 June 2006, compared with the end of last year corporate loans increased by RMB 213,236 million, and the NPL ratio dropped by 0.3 percentage points with the amount of NPLs increasing by RMB 3,170 million. Personal loans increased by RMB 66,451 million compared with the end of last year, and the NPL ratio remained at 1.9% with NPLs increasing by RMB 1,118 million. The increase in personal NPLs was mainly due to higher rates of defaults on personal loans prompted by two consecutive lending rates rises since October 2004 and cancellation of the preferential interest rates for personal residential mortgages.

Distribution of corporate loans and NPLs by industry

	As at 30 June 2006				As at 31 December 2005			
	Loans and advances	% of total	NPLs	% of NPLs to loans ¹	Loans and advances	% of total	NPLs	% of NPLs to loans ¹
(In millions of RMB, except percentages)								
Corporate loans								
Manufacturing	485,817	17.3	27,637	5.7	433,104	17.6	25,967	6.0
Transportation, storage and postal services	311,565	11.1	5,233	1.7	278,532	11.3	5,512	2.0
Property development	302,878	10.8	18,642	6.2	256,396	10.4	17,611	6.9
Production and supply of electric power, gas and water	291,148	10.3	8,450	2.9	265,647	10.8	7,918	3.0
Construction	98,257	3.5	4,151	4.2	86,855	3.5	4,443	5.1
Water, environment and public utility	84,552	3.0	1,411	1.7	75,959	3.1	1,320	1.7
Education	74,677	2.7	975	1.3	63,395	2.6	644	1.0
Wholesale and retail	72,704	2.6	8,272	11.4	63,179	2.6	7,926	12.5
Mining	57,221	2.0	808	1.4	49,332	2.0	717	1.5
Telecommunications, computer services and software	48,376	1.7	1,625	3.4	60,304	2.5	1,494	2.5
Others ²	161,832	5.7	11,620	7.2	143,088	5.8	12,102	8.5
Subtotal	1,989,027	70.7	88,824	4.5	1,775,791	72.2	85,654	4.8
Personal loans	520,340	18.5	9,786	1.9	453,889	18.5	8,668	1.9
Discounted bills	257,035	9.1	—	—	194,122	7.9	—	—
Overseas operations	48,966	1.7	86	0.2	34,596	1.4	147	0.4
Total	2,815,368	100.0	98,696	3.51	2,458,398	100.0	94,469	3.84

1. Calculated by dividing non-performing loans in each category by gross loans in that category.
2. Primarily consist of leasing and commercial service; healthcare, social security and social welfare; culture, sports and entertainment; government agencies and non-government organisations.

In the first half of 2006, the NPL ratios for the industries which took up the highest proportions of the corporate lending business were all reduced: manufacturing; transportation, storage and postal services; property development; and production and supply of electric power, gas and water.

The Bank has put in place industry ratings and early warning systems, which would identify those industries with excess capacity and potential risks and allow the Bank to make timely adjustments to its credit approval criteria. New loans were mainly extended to customers with high credit ratings, good prospects, and stable repayment sources. The Bank also has specialised departments and expertise to track the development of various industries and give forward-looking guidance on credit business development for different industries.

CAPITAL ADEQUACY RATIO

As at 30 June 2006, the Bank's capital adequacy ratio was 13.15% and the core capital adequacy ratio was 10.77%, representing reductions of 42 and 31 basis points respectively compared with the end of 2005, mainly caused by the rapid expansion of assets. Core capital rose by RMB 20,930 million to RMB 305,139 million, largely derived from retained earnings for the first half of the year. Risk weighted assets increased by RMB 265,270 million to RMB 2,824,226 million as at 30 June 2006. Please refer to the "Unaudited Supplementary Financial Information—Capital Adequacy Ratio" for details of the capital adequacy ratios and the related components of the Bank.