

(a joint stock company incorporated in the People's Republic of China with limited liability) (Stock Code: 3988)

2006 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Bank of China Limited (the "Bank") is pleased to announce the unaudited results of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2006.

I. Company Profile

1. Place of Listing: A Shares: Shanghai Stock Exchange

H Shares: The Stock Exchange of Hong Kong Limited

2. Stock Name and Stock Code: A Shares: Bank of China, 601988

H Shares: Bank of China, 3988

3. Secretary to the Board: YEUNG Jason Chi Wai

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II. **Key Financial Data and Indicators**

The financial data and indicators of the Bank for the six months ended 30 June 2006 prepared under International Financial Reporting Standards ("IFRS") are set out below.

Major Accounting Data and Financial Indicators

Unit: RMB million

			Unit: RMB millio	n
	At 30 June 2006	At 31 December 2005	At 31 December 2004	Increase/Decrease from 1 January 2006 to 30 June 2006
Total assets	5,231,635	4,740,048	4,265,221	10.37%
Loans and advances to customers, net	2,317,625	2,152,112	2,072,919	7.69%
Total liabilities	4,846,553	4,484,529	4,037,314	8.07%
Due to customers	4,048,438	3,699,464	3,338,448	9.43%
Capital and reserves attributable to equity holders of the Bank	355,747	226,419	200,755	57.12%
Net asset per share	1.40	1.08	1.08	29.63%
	Half year ended 30 June 2006	Half year ended 30 June 2005	Year ended 31 December 2005	Increase/Decrease from first half of 2005 to first half of 2006
Operating profit	34,338	28,683	53,636	19.72%
Profit before income tax	34,709	28,731	53,811	20.81%
Profit for the period attributable to the equity holders of the Bank	19,477	15,181	25,921	28.30%
Earnings per share for profit attributable to the equity holders of the Bank during the period (RMB)	0.09	0.08	0.14	12.50%
Net cash inflow (outflow) from operating activities	(117, 589)	20,497	13,731	(637.69%)
	At 30 June 2006	At 31 December 2005	At 31 December 2004	Increase/Decrease from first half of 2005 to first half of 2006 (%)
Return on average total assets (annualized) ¹	0.89%	0.70%	0.66%	0.19
Return on average equity (annualized) ²	13.38%	12.14%	11.22%	1.24
Credit cost	0.47%	0.52%	1.11%	(0.05)
Identified impaired loans to gross loans ³	4.40%	4.90%	5.51%	(0.5)
Total allowance for impairment losses to identified impaired loans	83.18%	75.92%	63.16%	7.26
Capital Adequacy Ratio ⁴	12.40%	10.42%	10.04%	1.98
	Half year ended 30 June 2006	Half year ended 30 June 2005	Year ended 31 December 2005	Increase/Decrease from first half of 2005 to first half of 2006 (%)

Represents the profit of the year (including profit attributable to minority interests) as a percentage of the average balance of total assets as of the beginning and end of period.

Represents the profit attributable to equity holders of the Bank as a percentage of the average balance of total equity excluding minority interests as of the beginning and period.

Gross loans represent the total amount of loans and advances to customers before allowance for impairment losses.

Represents the consolidated ratios as of period end calculated in accordance with the China Banking Regulatory Commission (CBRC)

guidelines and based on PRC GAAP financial data.

Non-interest income to operating income ⁵	21.12%	20.47%	19.26%	0.65
Operating expenses to operating income (excluding business and other taxes)	38.41%	40.82%	43.41%	(2.41)
Net interest margin ⁶	2.27%	2.31%	2.33%	(0.04)

Net Interest Income

The Group achieved a net interest income of RMB54.823 billion in the first half of 2006, a year-on-year increase of RMB6.015 billion or 12.32%.

Unit: RMB million

	2006	2005
	January to June	January to June
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)
Net interest income	54,823	48,808

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 the six month periods ended 30 June 2006 and 2005 respectively.

The Group's interest income was RMB100.124 billion in the first half of 2006, a year-on-year increase of RMB22.508 billion or 29.00%. The growth is attributable to the size expansion as well as the increase of average interest rate of interest-earning assets. The average balance of the Group's interest-earning assets increased by 14.43% from RMB4,228.899 billion as at 30 June 2005 to RMB4,839.336 billion as at 30 June 2006. The average interest rate of interest-earning assets climbed from 3.67% in the first half of 2005 to 4.14% in the first half of 2006, an increase of 47 basis points.

⁵ Operating income consists of net interest income, net fees and commission income, net trading income, net gains (losses) on investment securities, other operating income and net gains on sale of shares in a subsidiary. 6 Calculated by dividing net interest income by average interest-earning assets.

Net Fee and Commission Income

Unit: RMB million

	Half year ended 30 June 2006	Half year ended 30 June 2005
Settlement and clearing fees	1,794	1,287
Agency commissions fees	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)
Net fee and commission income	6,841	4,518

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

Agency commission fees reached RMB2.201 billion, a year-on-year increase of RMB0.966 billion or 78.22%. The growth is mainly attributable to increased sales of products and services such as treasury bonds, investment funds and insurance.

Settlement and clearing fees stood at RMB1.794 billion as of 30 June 2006, a year-on-year increase of RMB0.507 billion or 39.39%. The growth is primarily attributable to the rapid growth of businesses such as factoring, L/C settlement and personal electronic remittance.

Bank card fees reached RMB1.365 billion as of 30 June 2006, a year-on-year increase of RMB0.316 billion or 30.12%. The growth is mainly attributable to the intensified efforts of the Group on promoting bank cards business in line with market changes and customer demand, which led to continuous increase in new card issuance, transaction volume and frequency of ATM transactions.

Net Trading Income

Unit: RMB million

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

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

In the first half of 2006, the domestic operations' spread income from foreign exchange dealings with customers was RMB2.728 billon, a year-on-year increase of RMB804 million or 41.79%. The increase is mainly attributable to the change in foreign exchange rate and moderate liberalization of personal limits that spurred the growth of personal foreign exchange transactions. During the same period, due to interest rate volatility, the Group suffered a loss from interest rate instruments of RMB1.008 billion, a year-on-year decrease of RMB653 million or 183.94%. Starting from 21 July 2005, the People's Bank of China (the central bank) adopted a managed floating exchange rate regime. As a result of RMB appreciation, the Group suffered a net loss of RMB3.5 billion on foreign currency exposure under the restricted foreign exchange capital account in the first half of 2006. At the same time, the foreign exchange option contract entered into between the Group and Central SAFE Investments Limited gave rise to evaluation gain of RMB300 million. Should the above factors be excluded, the Group's net trading income has increased by 34.42% year-on-year.

Net Gains on Investment Securities

Unit: RMB million

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

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

Impairment Losses on Loans and Advances

		Unit: RMB million
	Half year ended June	Half year ended June
	2006	2005
Impairment losses on loans and advances	(5,479)	(4,966)

In the first half of 2006, the impairment losses on loans and advances of the Group were RMB5.479 billion, a year-on-year increase of RMB0.513 billion.

Income Tax

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

Capital Adequacy Ratio

The Bank calculates and discloses the capital adequacy ratio in line with the *Management Measures on Capital Adequacy Ratio of Commercial Banks* (CBRC Decree [2004] No.2) promulgated by the China Banking Regulatory Commission (CBRC) on 23 February 2004. In 2005, the Group calculated market risk capital in line with the provisions of the *Circular of the General Office of China Banking Regulatory Commission on Issuing Market Risk Capital Calculation Sheet and Explanation for Commercial Banks* (YJF [2004] No.374) promulgated by the CBRC.

As of 30 June 2006, the Group's capital adequacy ratio increased by 1.98 percentage points to 12.40%, and core capital adequacy ratio also increased by 2.55 percentage points to 10.63%.

The Group's net capital amounted to RMB452.027 billion as of 30 June 2006, an increase of RMB125.790 billion over the previous year-end. The net core capital grew by RMB134.728 billion to RMB387.698 billion, and risk-weighted assets (excluding market risk) increased by RMB370.470 billion to RMB3,163.659 billion. The market risk assets of the Group were RMB38.549 billion, translating into risk assets of RMB481.868 billion.

2. Reconciliation between PRC GAAP and IFRS Financial Information

Unit: RMB million

	Net	Assets	Net profit		
	At 30 June 2006	At 31 December 2005	Half year ended 30 June 2006	Half year ended 30 June 2005	
PRC GAAP figures	357,641	233,842	19, 024	16,434	
Adjustments for accounting standard differences:					
Reversal of asset revaluation surplus and corresponding depreciation (1)	(7,794)	(7,999)	205	133	
Fair value measurement on investment properties (2)	3,199	2,816	438	1,059	
Equity securities classified as available- for-sale financial assets at fair value(3)	3,566	1,775	-	-	
Early retirement benefit obligation (4)	(4,911)	(5,097)	186	(1,749)	
Cost method to non-trading precious metals (5)	(757)	(637)	(120)	(83)	
Deferred tax impact (6)	4,222	992	(97)	(97)	
Minority interests effect and others	581	727	(159)	(516)	
Sub-total	(1,849)	(7,423)	453	(1,253)	
IFRS figures	355,747	226,419	19,477	15,181	

Notes:

(1) Reversal of revaluation surplus and corresponding depreciation

Under PRC GAAP, the Bank recorded an asset revaluation adjustment of RMB 10,432 million as of 31 December 2003, related principally to property and equipment, in connection with the Joint Stock Reform Plan. The revalued property and equipment will be amortised over their remaining useful lives. According to IAS 16 *Property, Plant and Equipment*, once an entity has chosen the cost model as its accounting policy, it shall apply the policy to an entire class of property, and shall not be permitted to measure these fixed assets at fair value. Hence, the asset revaluation surplus and corresponding depreciation recognized under PRC GAAP, should be reversed under IFRS.

(2) Fair value measurement on investment properties

Under PRC GAAP, investment properties as fixed assets are measured at cost after deducting accumulated depreciation and impairment losses. According to IAS 40 Investment Property, investment properties are measured at fair value at the balance sheet date by the Group.

(3) Equity securities classified as available-for-sale financial assets and measured at fair value

Under PRC GAAP, equity securities are accounted for at cost after deducting impairment losses. According to IAS 39 *Financial Instruments: Recognition and Measurement*, these securities have been classified as available-for-sale and are stated at fair value.

(4) Early retirement benefit obligation

According to MOF requirement, the early retirement benefit expenditures during the early retirement

period (from early retirement date to legal retirement date) to those employees who accepted an early retirement arrangement is recognized on a cash basis by the Group. According to IAS 19 *Employee Benefits*, the early retirement benefit at the balance sheet date should be recorded based on the present value of future payment obligation after adjusting for actuarial gain or loss and past servicing cost.

(5) Cost method applied on precious metals

According to accounting practice of PRC banking industry, all precious metals are initially recognized at cost and subsequently re-measured at fair value at the balance sheet date by the Bank. According to IAS 2 *Inventories*, precious metals that are not related to the Group's precious metals trading activities are carried at cost.

(6) Deferred tax impact

Under IFRS, deferred income tax is provided using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Under PRC GAAP, deferred income tax is provided using the liability method, on timing differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

The difference between PRC GAAP and IFRS in 2006 mainly represents the deferred income tax credited or charged directly to equity under IFRS relating to the fair value re-measurement of available-for-sale investments charged or credited directly to equity.

3. Loans and Advances

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

Loan Portfolio Concentrations by Geographic Region

Loan Portfolio Concentrations of the Group

Unit: RMB million

		At 30 June 2006	А	t 31 December 2005
	Balance	Proportion (%)	Balance	Proportion (%)
Domestic operations	1,972,848	82.01%	1,800,142	80.53%
Overseas operations	432,905	17.99%	435,123	19.47%
Total	2,405,753	100.00%	2,235,265	100.00%

Asset Quality of the Group

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

of RMB22.260 billion over the previous year-end, accounting for 10.88% of total loans and advances, a decrease of 1.83 percentage points.

Unit: RMB million

	At 30 J	lune 2006	At 31 December 2005		
	Balance	Proportion (%)	Balance	Proportion (%)	
Pass	2,043,177	84.93%	1,847,991	82.67%	
Special mention	261,788	10.88%	284,048	12.71%	
Substandard	42,082	1.75%	45,573	2.04%	
Doubtful	43,479	1.81%	44,550	1.99%	
Loss	15,227	0.63%	13,103	0.59%	
Total	2,405,753	100.00%	2,235,265	100.00%	
Total NPLs	100,788	4.19%	103,226	4.62%	

Impaired Loan Portfolio Concentrations of the Group by Region

Unit: RMB million

		At 30 June 2006		At 31 December 2005			
	Balance	Proportion (%) Impaired loan ratio		Balance Proportion (%)		Impaired loan ratio	
Domestic Operations	99,543	93.96%	5.05%	102,359	93.45%	5.69%	
Overseas Operations	6,401	6.04%	1.48%	7,171	6.55%	1.65%	
Total	105,944	100.00%	4.40%	109,530	100.00%	4.90%	

Notes: 1. According to the International Accounting Standard No. 39, if impairment evidence exists that the future cash flow of loans and advances decreases and the amount could be forecast, then the Bank identifies the impairment of the loans and advances, and identify losses as well.

2. Impaired loan ratio is calculated by dividing the balance of impaired loans with the balance of total loans and advances.

III. Changes in Share Capital and Shareholdings of Substantial Shareholders

1. Changes in share capital:

	1 Jan, 2006							30 June 2006
	Number of Shares	Allotment of shares	Bonus Shares	Shares transferred from the surplus reserve	Increase of share capital	Others		Number of shares
I. Unlisted shares								
i. Shares held by the state (promoter's shares)	174,128,718,217					-2,803,313,477	-2,803,313,477	171,325,404,740
ii. Shares held by the state					8,514,415,652	-8,514,415,652	-8,514,415,652	
iii. Shares held by domestic legal person								
iv. Shares held by foreign legal person	35,298,644,140					-35,298,644,140	-35,298,644,140	
v. Shares of legal person promoters								
vi. Shares held by staff								
vii. Preferred shares or other shares					6,493,506,000		6,493,506,000	6,493,506,000
Subtotal	209,427,362,357							177,818,910,740
II. Listed shares								
i. RMB- denominated ordinary shares								
ii. Domestically listed foreign shares								
iii. Overseas listed foreign shares					29,403,878,000	46,616,373,269	76,020,251,269	76,020,251,269
iv. Others								
Subtotal	0							76,020,251,269
III. Total	209,427,362,357							253,839,162,009
L								

^{1.} The number of shares in the column of "Preferred Shares or Other Shares" is the amount of the A Share offered by the Bank to the public from 12 to 29 June 2006, which were registered with the Shanghai Branch of China

Securities Depository and Clearing Corporation on 29 June 2006, and commenced trading on the Shanghai Stock Exchange on 5 July 2006.

2. The Bank invited the National Council for Social Security Fund (SSF) as a strategic investor on 13 March 2006, to which 8,514,415,652 ordinary shares were offered. 25,568,590,000 IPO H-shares were issued in May 2006. 35,298,644,140 non-listed foreign funded shares previously held by the bank's foreign strategic investors, 8,514,415,652 ordinary shares by the SSF, and 2,803,313,477 ordinary shares transferred by Central SAFE Investments Ltd., sponsor of the bank, to SSF, as required by the State, were converted to H Shares, and listed at the Stock Exchange of Hong Kong Limited on 1 June along with the H shares already offered to the public. The H Share over allotment option was exercised in full, involving 3,835,288,000 H shares on 9 June 2006. In June 2006, 6, 493, 506, 000 A shares were offered to the public. On 29 June 2006, the A shares offered to the public by the bank and 171,325,404,740 ordinary shares held by Central SAFE Investments Limited., sponsor of the Bank, were registered as A-shares. The A-Shares of the Bank were listed on the Shanghai Stock Exchange on 5 July 2006. As of 5 July 2006, the Bank has issued 177,818,910,740 A shares and 76,020,251,269 H shares, representing 253,839,162,009 ordinary shares in aggregate.

2. Number of shareholders and shareholdings

Total number of shareholders

As of the end of the reporting period, the Bank's shareholders (A-Share+ H-Share) numbered 1,060,828, including 457,146 holders of H-Share and 603,682 holders of A-Share.

Top Ten Shareholders (The number of shares held by H share shareholders are those recorded in the Registrar of Members as kept by the H Share Registrar of the Bank)

No.	Name of Shareholder	Type of Shareholder	Type of Share	Shareholding at the End of Report Period (As of 30 June 2006)	Proportion in Total Share Capital (%)	Shares Pledged or Frozen
1	Central SAFE Investments Limited	State owned	A Share	171,325,404,740	67.49%	
2	HKSCC Nominees Limited	Foreign	H Share	30,341,965,800	11.95%	
3	RBS China Investments S.à.r.l.	Foreign	H Share	20,942,736,236	8.25%	
4	Asia Financial Holdings Pte Ltd	Foreign	H Share	10,471,368,118	4.13%	
5	National Council for Social Security Fund, PRC	State owned	H Share	8,377,341,329	3.30%	
6	UBS AG	Foreign	H Share	3,377,860,684	1.33%	
7	Asia Development Bank	Foreign	H Share	506,679,102	0.20%	
8	The Bank of Tokyo- Mitsubishi UFJ Ltd	Foreign	H Share	473,052,000	0.19%	
9	Wingreat International Limited	Foreign	H Share	420,490,000	0.17%	
10	Best Sense Investments Limited	Foreign	H Share	236,526,000	0.09%	
10	Turbo Top Limited	Foreign	H Share	236,526,000	0.09%	

The Bank is not aware whether the shares of the above shareholders have been pledged or frozen, or the connected relations between the above shareholders.

Top Ten Shareholders Whose shares are not subject to Selling Restrictions (as at 5 July 2006, being the date of listing of A-Share, the shares held by HKSCC Nominees Limited is as at 30 June 2006)

No.	Name of Shareholder	Listed Trading Shares	Type of Share
1	HKSCC Nominees Limited	30,341,965,800	H Share
2	ICBC- GF Strategic Selection Balanced Securities Investment Fund	70,669,000	A Share
3	Shanghai Huiyin Investment Limited Corporation	70,000,000	A Share
4	ICBC- E Fund Value Selection Stock Securities Investment Fund	50,397,000	A Share
5	China Life Insurance (Group) Company – Traditional-General Insurance	38,765,000	A Share
6	China Life Insurance Company Limited- Dividend- Personal Dividend-005L-FH002 SH	29,076,000	A Share
7	China Life Insurance Company Limited- Dividend-Group Divident-005L-FH001 SH	23,982,000	A Share
8	China Pacific Life Insurance Co., Ltd-Dividend- Personal Dividend	23,357,300	A Share
9	China Life Insurance Company Limited- Traditional-General Insurance-005L-CT001 SH	23,260,000	A Share
10	Bank of Communications- Hua An Innovation	23,101,000	A Share
	nation of the connected relations and the erted action among the above shareholders	Except that some of the ab under the management of Bank is not aware of the co concerted action among the	the same corporation, the onnected relations and the

Substantial Interests in Share Capital

The registrar maintained by the Bank pursuant to section 336 of the Securities and Futures Ordinance (the "SFO") of the laws of Hong Kong recorded that, as at 30 June 2006, the following corporations had the following interests (as defined in the SFO) in the Bank set opposite their respective names

Name of Shareholders	Number of shares held	Type of shares	% of total issued A shares	% of total issued H shares	% of total issued share capital	Capacity
Central SAFE Investments Limited	171,325,404,740	A	96.35%	-	67.49%	Beneficial owner
The Royal Bank of Scotland Group PLC Note 1	20,944,789,236	Н	-	27.55%	8.25%	Attributable interests & beneficial owner
RBS CI Limited Note 1	20,942,736,236	Н	-	27.54%	8.25%	Attributable interests & beneficial owner
RBS China Investments S.à.r.l.	20,942,736,236	Н	-	27.54%	8.25%	Beneficial owner
Temasek Holdings (Private) Limited Note 2	11,792,559,118	Н	-	15.51%	4.65%	Attributable interests
National Council for Social Security Fund of the PRC	11,317,729,129	Н	-	14.89%	4.46%	Beneficial owner
UBS AG	3,892,847,114 132,154,877 (S)*	Н	-	5.12% 0.17%	1.53% 0.05%	Attributable interests, beneficial owner & person having a security interest in shares

^{* &}quot;S" denotes short positions

Notes:

- 1. The Royal Bank of Scotland Group PLC ("RBS Group") holds the entire issued share capital of RBS CI Limited, which in turn holds 51.61% of RBS China Investments S.à.r.I. ("RBS China"). Accordingly, RBS Group and RBS CI Limited are deemed to have the same interests in the Bank as RBS China for the purpose of the SFO.
- 2. Temasek Holdings (Private) Limited ("Temasek") holds the entire issued share capital of Fullerton Management Pte Ltd, which in turn holds the entire issued share capital of Asia Financial Holdings Pte Ltd. Accordingly, for the purpose of the SFO, Temasek and Fullerton Management Pte Ltd are deemed to have the same interests in the Bank as Asia Financial Holdings Pte Ltd, which has an interest in 11,785,825,118 shares of the Bank.

All the interests stated above represented long positions except stated otherwise. Save as disclosed above, as at 30 June 2006, no other interests or short positions were recorded in the registrar maintained by the Bank under section 336 of the SFO.

3. Alteration of Controlling Shareholders and Actual Controllers

Not applicable

IV Directors, Supervisors and Senior Management

The shareholdings of directors, supervisors and senior management personnel are as follows:

1. Directors' and Supervisors' Rights to Acquire Shares

On 5 July 2002, the following Directors were granted options by BOCHK (BVI) Limited ("BOC (BVI)"), the immediate holding company of BOCHK (Holdings) Limited, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) existing issued shares of BOCHK (Holdings) Limited at a price of HK\$8.50 per share. BOCHK (Holdings) Limited is a subsidiary of the Bank which is also listed on the Stock Exchange of Hong Kong Limited. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years. Twenty-five percent of the shares subject to such options will vest at the end of each year.

Particulars of the outstanding options granted to the Directors under the Pre-Listing Share Option Scheme as at 30 June 2006 are set out below:

				Number of share options					
		Exercise price	Exercisable	Granted on	Balances as at 1 January	_	Surrendered during the		Balances as at 30 June
	Date of grant	(HK\$)	Period	5 July 2002	2006	period	period	period	2006
HUA Qingshan	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	_	_	_	1,446,000
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	_	_	_	1,446,000

Save as disclosed above, at no time during the period under review was the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and Supervisors of the Bank and their respective spouses or children below the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

2. Directors and Supervisors' Interests in Shares, Underlying Shares and Debentures

Save as disclosed above, as of 30 June 2006, none of the Directors or Supervisors of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the registrar required to be kept by the Bank pursuant to section 352 of the SFO or as otherwise notified to the Bank and Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules of Stock Exchange of Hong Kong Limited.

V Management Discussion and Analysis

1. Financial Review

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

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

2. Business Overview

(1) Commercial Banking Business

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

Corporate Banking

Corporate Deposits and Loans: The Bank continued to strengthen marketing efforts to promote corporate deposits. RMB corporate deposits maintained its sustainable and rapid growth momentum which has persisted over the years. As at the end of June 2006, the balance of domestic RMB corporate deposits was RMB 1,142.1 billion, an increase of RMB146.7 billion or 14.7% from the prior year-end with a market share of 8.2% among all financial institutions⁷. The Bank actively expanded the key customer segment and applied differentiation policies in business management and service delivery, leveraged concerted marketing strengths between the Head Office and Branches in marketing for key projects and speeded up the development of quality asset business. As at the end of June 2006, the outstanding balance of domestic RMB corporate loans stood at RMB 1,236.7 billion, an increase of RMB 140.9 billion or 12.8% from the prior year-end, representing a market share of 6.7% among all financial institutions. While maintaining the stable growth of RMB corporate deposits, the Bank also strengthened its efforts in promoting foreign currency corporate deposits in a bid to sustain its leading position on the market. As of the end of June 2006, the balance of domestic foreign currency corporate deposits was USD 17.67 billion, an increase of USD1.29 billion from the prior year-end, with a market share among all financial institutions of 21.1%. Fully leveraging its strength in foreign exchange business, the Bank actively conducted product innovation and seized opportunities to develop its trade finance business, which promoted the growth in foreign currency corporate loans. By the end of the report period, the outstanding balance of domestic foreign currency corporate loans was USD41.44 billion, with a market share of 33.5%, representing an increase of USD1.26 billion, and a decrease of 0.4 percentage points from the prior year-end respectively. The balance of foreign currency corporate deposits of overseas operations was USD 26.9 billion, and outstanding balance of foreign currency corporate loans was USD 37.04 billion.

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

	30 June 2006	31 December 2005
RMB corporate deposits	1,143.1	995.9
Foreign currency corporate deposits	356.2	352.8
Total corporate deposits	1,499.3	1,348.7

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

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

	30 June 2006	31 December 2005
RMB corporate loans	1,239.2	1,097.9
Foreign currency corporate loans	625.1	614.4
Total corporate loans	1,864.3	1,712.3

Institutional Banking: Institutional banking business of the Bank refers to various asset, liability and fee-based services the Bank is engaged in by leveraging on its own resources, with a view to serving various financial institutions and generating comprehensive benefits. Institutional deposits grew rapidly in May-June 2006 as influenced by the stock market. At the end of June 2006, the balance of RMB deposits from financial institutions for domestic operations was RMB172.33 billion, an increase of RMB18.27 billion from the prior year-end. The balance of current and time foreign currency deposits from financial institutions for domestic operations was USD 9,870 million, a decrease of USD 180 million.

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

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

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

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

International settlement and trade finance: The Bank's international settlement and trade finance services include issuance of import letters of credit, collection and presentation of document under export letter of credit, import bill advance, export bill purchase, forfeiting, confirmation of letters of credit, letter of guarantee and

⁷ All financial institutions include: People's `Bank of China, policy banks, state-owned commercial banks, other commercial banks, urban commercial banks, rural commercial banks, urban credit cooperatives, rural cooperative banks, rural credit cooperatives, financial companies, trust and investment corporations, leasing companies, and savings and remittance bureaus.

factoring. In addition to traditional international settlement and trade finance services, the Bank also exclusively provides such services as processing trade account services, tax payment guarantee, etc, meeting customers' different settlement and financing needs.

During the first half of 2006, the total volume of international settlements reached USD420.49 billion, an increase of 12.6% year-on-year. Of the total amount, USD269.9 billion was carried out by the Bank's domestic operations, a year-on-year increase of 10.7%, and USD150.5 billion was by overseas operations, a year-on-year increase of 16.2%. Thanks to the steady growth of domestic economy, the volume of domestic trade finance surged sharply, with factoring business climbing 223%. The growth of international trade finance slowed down due to the pickup of interest rate in the international market. In the first half of 2006, the Group undertook total volume of international trade finance of USD29.17 billion, a year-on-year increase of 13.3%. Of the total amount, USD13.14 billion was undertaken by domestic operations, and USD19.91 billion was by overseas operations. The volume of letters of guarantee denominated in foreign currencies issued by domestic operations was USD4.77 billion, a year-on-year increase of 83.5%; and those denominated in RMB was RMB37.3 billion, a year-on-year increase of 109.5%. The volume of international factoring transactions undertaken by domestic operations was USD2.58 billion, representing an increase of 27.4% over the same period in last year; and the volume of domestic factoring transactions was RMB12.76 billion, reflecting a year-on-year increase of 192.3%.

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

Year	30 June 2006	30 June 2005
Business volume	420.49	373.39

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

Personal Banking

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

Savings Deposits: As at the end of June 2006, the balance of domestic RMB savings deposits was RMB1,573.8 billion, an increase of RMB157.44 billion over the prior year-end, representing a market share of 10.2%, an increase of 0.1 percentage point. The balance of domestic foreign currency savings deposits totaled USD31.69 billion, a decrease of USD 0.82 billion from the prior year-end, representing a market share of 49.8%, a decrease of 0.9 percentage point. Savings deposits at overseas operations amounted to USD 69.2 billion (including RMB 8.97 billion of RMB savings deposits), an increase of USD1.84 billion. The decrease of foreign currency savings deposits was mainly attributable to the reform of the RMB exchange rate regime, which buoyed the market's expectation of further RMB appreciation and weakened residents' desire to hold such deposits.

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

	At 30 June 2006	At 31 December 2005
RMB savings deposits	1,582.7	1,425.4
Foreign currency savings deposits	797.7	796.9
Total savings deposits	2,380.4	2,222.3

Personal Loans At the end of June 2006, the outstanding balance of domestic personal loans was RMB 404.7 billion, an increase of RMB 24.7 billion from the prior year-end. Of the total personal loans, the balance of residential mortgage loans was RMB 308.4 billion, an increase of RMB 21.6 billion. The balance of overseas personal loans was USD 17.1 billion, a decrease of USD 0.62 billion from the prior year-end.

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

Personal Loans of the Group by Categories as of June 2006

	Residential mortgage loans	Auto loans	Credit cards and others
30 June 2006	79.07%	4.50%	16.43%
31 December 2005	78.97%	5.35%	15.68%

Note: (1) Others include automobile consumer loan, personal investment loan and personal education loans.

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

Bank Cards

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

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

As at the end of June 2006, the domestic operations of BOC issued a total of 94,633,800 Great Wall RMB Debit Cards, 7.03 million BOC Great Wall Credit Cards, and 1.09 million BOC Credit Cards, an increase of 15.2%, 12.5% and 561% respectively over the same period of last year. The volume of foreign currency card settlements was RMB 10,482 million, a year-on-year increase of 16.6%. Transaction volume of Great Wall RMB cards reached RMB65.1 billion, an increase of 47.7%.

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

Goods and Services Purchased with Great Wall RMB Cards of domestic operations (Unit: RMB billion)

	30 June 2006	30 June 2005
Goods and services purchased with the cards	65.09	44.08

Treasury Business

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

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

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

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

Operations of BOC Hong Kong

Bank of China (Hong Kong) Limited ("BOC Hong Kong") is a subsidiary in Hong Kong with 65.87% stake held by the Bank. BOC Hong Kong is one of the major commercial banks and also one of the three note-issuing banks in Hong Kong. As at the end of June 2006, it had 302 branches, of which 287 operate in Hong Kong, 14 in Mainland and 1 overseas; and 454 ATMs. BOC Hong Kong provides retail customers and corporate customers with a full range of financial products and services through its wide service network. In the first half of 2006, BOC Hong Kong acquired 51% stake in BOC Group Life Assurance Ltd, thus further expanded its service scope and income

sources. In the first half of 2006, BOC Hong Kong contributed a total of RMB4.8 billion (excluding minority interests) to the Bank's after tax profit, a year-on-year increase of 4.8%.

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

BOC Hong Kong improved the structure of its deposit-taking business while maintaining its edges. As at the end of June 2006, the balance of deposits from customers amounted to HKD 650,994 million, an increase of 1.9% over the end of last year. Rise in interest rate, among other factors, suppressed demand for housing mortgage loans and market competition intensified, which led to a slight decrease of 0.2% in BOC Hong Kong's loan balance. In face of the adverse environment, BOC Hong Kong devoted great efforts to optimize credit portfolio and improve process management, and achieved a steady growth of loans to small and medium enterprises. The Bank also held the lead in the syndicated loan market, ranking second in the Hong Kong and Macau syndicated loan market and third in the Hong Kong and China syndicated loan market.

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

(2) Investment Banking

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

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

registered MPF membership of 0.46 million, and total assets under management exceeded HKD14 billion, accounting for approximately 8% of the market.

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

(3) Insurance Business

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

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

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

Sources of Gross Premium Income Unit: HKD million

	At 30 June 2006	At 31 December 2005	At 30 June 2005
Gross premium income by banking agency service	293	514	283
Gross premium income by broker agency service	355	752	402
Total	648	1,266	685

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

(4) Information Technology

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

. 3. Risk Management

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

(1) Risk Management Framework

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

(2) Credit Risk

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

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

Corporate Loans

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

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

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

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

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

Personal Loans

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

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

(3) Market Risk

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

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

Unit: USD million

At 30 June 2006				At 31 December 2005				
	At the period-end	<u>Average</u>	<u>High</u>	Low	Period-end	<u>Average</u>	<u>High</u>	Low
Interest rate risk	4.88	8.10	16.25	0.82	4.77	3.27	11.94	0.20
Exchange rate risk	2.64	3.67	14.12	0.78	0.39	2.7	18.69	0.34
Fluctuation risk	0.19	0.68	4.63	0.16	0.36	0.8	2.54	0.04
Total market risk	5.84	8.10	19.15	1.84	15.6	5.1	18.86	0.69

Interest Rate Risk Management

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

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

Exchange Rate Risk Management

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

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

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

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

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

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

(4) Liquidity Risk

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

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

The Bank's liquidity risk is managed on a consolidated basis at the Head Office. Liquidity management policy and measures are applied across the Bank from top to down. Liquidity management mainly includes two scenarios, namely normal business environment and emergent or extreme conditions. Under normal environment, the Bank regularly updates management policies and guidelines, liquidity indicator management, liquidity gap management, position management, management of fund flow between the Head Office and Branches, management of liquidity portfolios and financing guidelines, with the view to ensuring the normal operation of the Bank's asset and liability business and to adjusting the liquidity of the Bank to a proper level. In addition, the Bank also monitors warning indicators, set up emergency programs and conduct financing capability testing to discover and prevent risk in a timely manner.

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

At 30 June 2006	Local Currency	Foreign Currencies
Liquidity ratio	32.03%	45.88%
Loan-deposit ratio of domestic operations	56.47%	71.95%
Excess reserve ratio [★]	2.58%	17.07%

deposits and fund clearing of customers, and deposit reserve ratio is the proportion of deposit reserve required by the central bank in total balance of deposits.

Deposit reserve and deposit reserve ratio are composed of two parts. The deposit reserve ratio stipulated by the central bank is called statutory deposit reserve ratio, which stands at 7.5% at present, i.e. commercial banks must deposit 7.5% of deposits received with the central bank; the corresponding deposits is called statutory deposit reserve. The reserve beyond statutory deposit reserve is called excess reserve, and the proportion of excess reserve in total deposits is the excess reserve ratio.

The above liquidity ratio is calculated in accordance with the relevant provisions of the People's Bank of China and CBRC, and the financial data are based on the requirement of Accounting Standard for Business Enterprises and Financial Enterprise Accounting System.

(5) Internal Control and Operational Risk

Internal Control

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

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

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

Operational Risk

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

(6) Internal Audit

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

4. Capital Management

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

5. Outlook

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

6. Main Business by Industries and Products

(1) Main Business by Region

At 30 June 2006 Unit: RMB million

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

At 30 June 2005 Unit: RMB million

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

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

(2) Main Business by Business Line

At 30 June 2006 Unit: RMB million

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

At 30 June 2005 Unit: RMB million

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

With effect from 1 January 2006, the internal funding transfer pricing mechanism of the Bank was revised. The new pricing mechanism is based on the market deposit and lending rates, adjusted for pre-determined margins with reference to 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. Above segment information at 30 June 2006 is based on the new transfer pricing.

7. Operation of Major Subsidiary (applicable to the company with investment gains accounting for 10% of the net profit)

	Half year ended June 2006	Half year ended June 2005		
Name	BOC Hong Kong (Holdings) Limited			
Listing place and code	Hong Kong · HK2388			
Scope of business	BOC Hong Kong (Holdings) Limited is a holding company; its subsidiaries provide banking and relevant financial services in Hong Kong.			
Net profit	RMB7.515 billion	RMB7.109 billion		
Contribution of major subsidiary in the net profits of the listed company during the period	33.77%	40.00%		

8. Explanations on significant changes in main business and its structure compared with the previous year.

Not applicable

9. Explanations on significant changes in profitability of main business (gross margin percentage) compared with the previous year.

Not applicable

10. Analysis of reasons for significant changes in profit components compared with the previous year.

Not applicable.

11. Use of IPO Proceeds

(1) Use of IPO Proceeds

Fund raising in the current report period is as follow:

Pursuant to the Response of CBRC on BOC's Absorption of Investment and Shareholding by SSF (YJF [2006] No. 49), the Bank issued to SSF 8,514,415,652 ordinary shares on 13 March 2006, par value RMB 1 for each share, at a premium. SSF contributed RMB 10 billion in cash, with the capital contribution including an equity premium of RMB1, 481 million.

Pursuant to the Response of CBRC on BOC's Transformation to Overseas Offering and Listing of Shares (YJF [2006] No. 53) and the Response on Approving BOC's Issuance of Foreign Capital Stock Listed Abroad (ZJGHZ [2006] No.8), the Bank issued at a premium to foreign investors 29,403,878,000 foreign capital stocks listed abroad (H Share) on 1 June 2006 and 9 June 2006 respectively, par value RMB 1 for each share, which were publicly listed on the Stock Exchange of Hong Kong Limited, at an issue price of HK\$2.95 per share.

Pursuant to the Response of CBRC on BOC Issuing Stocks and Going Public (YJF [2006] No. 135) and the Circular on Approval of BOC Initial Public Offering (ZJFXZ [2006] No.20), the Bank issued at a premium to domestic investors 6,493,506,000 ordinary shares (A Share) on 29 June 2006, par value RMB 1 for each share, which were publicly listed on the Shanghai Stock Exchange, at an issue price of RMB3.08 per share.

Funds raised within the report period are mainly used to strengthen the Bank's capital base.

(2) Alteration

Not applicable.

12. Alteration of Business Plan from the Board of Directors

During the report period and except as publicly disclosed, there has been no material amendment to the Bank's business plan.

13. Warnings and Reasons for Predicted Loss or Significant Changes in Net Accumulated Profit from the Beginning of the Year to the End of Next Report Period

Except as publicly disclosed, the Bank does not believe that the net accumulative profit earned from the beginning of the year to the end of the next report period would result in a loss, nor would there be significant changes compared with the same period of last year.

14. Explanation of the Management on the "non-standard opinion" of the report period by the accounting firm

Not applicable.

15. Explanation of the Management on the changes and disposals of matters relating the "non-standard opinion" of the previous year by the auditors

Not applicable.

VI. Review of Significant Events

1. Sale and Disposal of Assets and Restructuring

Except as stated below, the Bank did not have material merger and acquisition, or sales of assets during the report period.

Followed are highlights of the current report period in purchases & sales of assets and mergers:

On 1 June 2006, BOCG Insurance, a wholly-owned subsidiary of the Group, sold a 51% stake of BOCG Life to BOC Hong Kong which the Bank holds a stake of 65.87%, at the purchase price of HKD 900 million by reference to the valuation of BOCG Life as of 31 December 2005. The Group effectively sold a 17.4% stake of BOCG Life to minorities of BOC Hong Kong, and achieved a gain of RMB 138 million.

Bank of China Group Investment Limited, a Hong Kong subsidiary of the Group, sold loans at a book value of RMB 63 million to an independent third party in May 2006, giving rise to an income of RMB 723 million, with net income at RMB 660 million.

2. Guarantee

During the report period, the Bank does not have assets business with other companies to custody, contract or lease their assets.

The guarantee business is one of our off-balance sheet items in the ordinary course of our businesses. We carry out external guarantee business in a prudent manner, and manage risk according to the five-category classification of loans to ensure the asset quality of our guarantee business.

During the report period, no cash assets of the Bank were entrusted to others for management.

3. 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 Central SAFE Investments Ltd..

(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 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 Central SAFE Investments Ltd. 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 was originally payable on demand. During 2005, the MOF modified the terms of this payable permitting it 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 and foreign Currency Swap transactions with the PBOC have been disclosed. 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 months 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 perio	d ended 30 June
	2006	2005
Purchases during the period Redemption/sales during the period	354,418 299,827	252,620 126,152
Interest rate range	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

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	

(3) Transactions with Central SAFE Investments Ltd.

Central SAFE Investments Ltd. became the 100% equity holder of the Bank from 30 December 2003. As of June 30 2006, Central SAFE Investments Ltd. Owned a 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 Central SAFE Investments Ltd. whereby the Bank acquired options to sell to Central SAFE Investments Ltd. 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 totalled RMB 4,469 million, which is payable by the Bank to Central SAFE Investments Ltd. 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 Central SAFE Investments Ltd..

Deposit placement from Central SAFE Investments Ltd.

	2006	2005
At 1 January	38,869	-
Deposits received during the period/year	156,679	42,972
Deposits 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 Central SAFE Investments Ltd. 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 Central SAFE Investments Ltd.

Central SAFE Investments Ltd. 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 per	iod ended 30 June
		2006	2005
	Purchases during the period	288	493
	Redemption/sales during the period	574	587
	Interest rate range	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 perio	od ended 30 June
	•	2006	2005
	Interest rate range	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 institution	s	
		For the six month peri	od ended 30 June
		2006	2005
	Interest rate range	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 perio	
		2006	2005
	Interest rate range	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

(v) Placements from banks and other financial institutions

	For the six month period ended 30 June			
	2006	2005		
Interest rate range	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 Central SAFE Investments Ltd., 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 credit 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 months 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 of 1 January	7,240	1,246
(Granted during the period/year	18	8,128
i	Repaid during the period/year	(6,095)	(989)
,	Write-off and other changes during the period/year	<u> </u>	(1,145)
(Outstanding balance as of 30 June/31 December	1,163	7,240
	Allowance for impairment losses as of 30 June/31 December	(190)	(119)
(ii) [Deposits	2006	2005
	Outstanding balance as of 1 January	856	1,227
	Received during the period/year Repaid and other changes during the period/year	3,250 (1,959)	3,879 (4,250)
	Outstanding balance as of 30 June/31 December	2,147	856
(iii) T	rading assets and investment securities		
		2006	2005
	Outstanding balance as of 1 January	188	-
	Purchases during the period/year	- (100)	1,307
	Redemption/sales during the period/year Fair value changes and others	(188)	(1,123) 4
	Outstanding balance at 30 June/31 December	-	188

(7) Interest rates

Interest rates disclosed in Note 3(2) to (6) vary across product groups and transactions depending on maturity and credit risk of the counter party 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. During the six months 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 Post-employment benefits	11 1	6	
Total	12	6	

4. Material Litigation and Arbitration

During the report period and except as disclosed herein, there was no material litigation and arbitration that might have significant adverse impact on the operation of the Bank.

The Bank has involved in certain litigation and arbitration cases in regular businesses. After consulting professional law institutions, the Management holds that these litigation and arbitration cases will not have significant adverse impacts on the operation of the Bank.

5. Analysis and explanation on other significant events and its influence and solutions.

Not applicable.

6. Undertakings and its performance of the previous non-tradable share holders made in stock splitting. Not applicable.

7. Explanation on the joint-stock reform arrangements of company that hasn't gone through joint-stock reform.

Not applicable.

Detailed Explanation on reasons for not timely performing the undertaking of joint-stock reform by company that hasn't gone through joint-stock reform.

Not applicable.

8. Purchases, Sale or Redemption of the Bank's Shares

The Bank issued to SSF 8,514,415,652 ordinary shares on 13 March 2006 at a premium.

The Bank issued 25,568,590,000 IPO H shares in the Stock Exchange of Hong Kong Limited on 1 June 2006; with the over-allotment option exercised on 9 June, 3,835,288,000 H-Shares were issued.

The Bank issued 6,493,506,000 new A shares on 29 June 2006, and the Bank's A shares were listed and commenced trading on the Shanghai Stock Exchange on 5 July 2006.

Save for the above, neither the Bank nor any of its subsidiaries has purchased, sold or redeemed any of the Bank's shares.

9. Compliance with the Code on Corporate Governance Practices of the Listing Rules

The Bank endeavored to establish good corporate governance principles and practices and believed that upholding international standards of corporate governance is crucial to safeguarding the interests of shareholders. The Board of Directors and Board of Supervisors have been organized in line with relevant laws and regulations. The Board of Directors is accountable to the general meeting of shareholders and responsible for, among other things, approving the Bank's business strategy and operating plans, appointing senior management and establishing organization structure. With the Board of Directors at the core, the Bank has set up a number of Board committees, namely Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transaction Control Committee to perform functions designated by the Board of Directors. The Board of Supervisors is accountable to the

general meeting of shareholders and has the responsibility and power to, among other things, supervise the Board of Directors and senior management, inspect the Bank's financial activities and examine decisions made.

The Bank has conducted a gap analysis between the requirements of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited on the one hand and the Group's internal requirements and practices on the other hand. The Bank has been in full compliance with the code provisions and has substantially complied with the recommended best practices set out in the CG Code.

10. Audit Committee

The Audit Committee of the Bank is composed of non-executive directors, including two non-executive directors and three independent non-executive directors. Independent non-executive director Mr. Patrick de Saint-Aignan is the Chairman; and Zhu Yan, Huang Haibo, Anthony Francis Neoh and Peter Cooke are members of the Committee.

The Committee assisted the Board of Directors in supervising the Group's oversight of financial reporting, internal control, internal audit and external audit etc.

The Audit Committee has reviewed the interim results of the Bank. The Bank's external auditors of the Bank have carried out a review of the interim financial statements in accordance with International Standards on Review Engagements No. 2410 but not audit in accordance with International Audit Standards. The Audit Committee has discussed matters such as the accounting standards and the auditing practice, internal control and financial statements adopted in the interim report.

11. Compliance with No. 34 of the International Accounting Standards

The Interim report as at the end of the first half of 2006 is in compliance with the requirements of Interim Financial Report, No. 34 of the International Accounting Standards.

VII Interim Report

1. Auditors' opinion

The financial report is unaudited.

2. Consolidated Financial Statements

The condensed financial statements are based on the same accounting policies as were adopted in preparing for the 2005 annual report.

BANK OF CHINA LIMITED CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

(Amount in millions of Renminbi, unless otherwise stated)

For the six month period ended 30 June

Interest income 100,124 77,616 Interest expense (45,301) (28,808) Net interest income 54,823 48,808 Fee and commission income 8,166 5,915 Fee and commission expense (1,325) (1,397) Net fee and commission income 6,841 4,518 Net trading income 557 2,795 Net gains on investment securities 64 20 Other operating income 7,218 5,229 Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: 2,774 2,593 Equity holders of the Bank 19,477 15,181 Minority interest 2,2251 17,774		2006 (unaudited)	2005 (unaudited)
Net interest income 54,823 48,808 Fee and commission income 8,166 5,915 Fee and commission expense (1,325) (1,397) Net fee and commission income 6,841 4,518 Net trading income 557 2,795 Net gains on investment securities 64 20 Other operating income 7,218 5,229 Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi) per ordinary share) 17,774 2,593	Interest income	100,124	77,616
Fee and commission income 8,166 5,915 Fee and commission expense (1,325) (1,397) Net fee and commission income 6,841 4,518 Net gains on investment securities 64 20 Other operating income 7,218 5,229 Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminibi per ordinary share) 17,774	Interest expense	(45,301)	(28,808)
Fee and commission expense (1,397) Net fee and commission income 6,841 4,518 Net trading income 557 2,795 Net gains on investment securities 64 20 Other operating income 7,218 5,229 Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: 2,774 2,593 Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminibi per ordinary share)	Net interest income	54,823	48,808
Net fee and commission income 6,841 4,518 Net trading income 557 2,795 Net gains on investment securities 64 20 Other operating income 7,218 5,229 Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Fee and commission income	8,166	5,915
Net trading income 557 2,795 Net gains on investment securities 64 20 Other operating income 7,218 5,229 Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share) 10,477 15,181	Fee and commission expense	(1,325)	(1,397)
Net gains on investment securities 64 20 Other operating income 7,218 5,229 Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share) 17,774	Net fee and commission income	6,841	4,518
Other operating income 7,218 5,229 Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 accurate the Bank during the period (Renminbi per ordinary share) 17,774	Net trading income	557	2,795
Impairment losses on loans and advances (5,479) (4,966) Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share) 19,477 15,181	Net gains on investment securities	64	20
Other operating expenses (29,686) (27,721) Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: 24,774 2,593 Equity holders of the Bank Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share) 10,477 15,181	Other operating income	7,218	5,229
Operating profit 34,338 28,683 Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 4,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share) 1,774 1,774	Impairment losses on loans and advances	(5,479)	(4,966)
Share of results of associates 371 48 Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Other operating expenses	(29,686)	(27,721)
Profit before income tax 34,709 28,731 Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: 24,251 15,181 Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share) 10,477	Operating profit	34,338	28,683
Income tax expense (12,458) (10,957) Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Share of results of associates	371	48
Profit for the period 22,251 17,774 Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Profit before income tax	34,709	28,731
Attributable to: Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Income tax expense	(12,458)	(10,957)
Equity holders of the Bank 19,477 15,181 Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Profit for the period	22,251	17,774
Minority interest 2,774 2,593 22,251 17,774 Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Attributable to:		
Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Equity holders of the Bank	19,477	15,181
Earnings per share for profit attributable to the equity holders of the Bank during the period (Renminbi per ordinary share)	Minority interest	2,774	2,593
of the Bank during the period (Renminbi per ordinary share)		22,251	17,774
	of the Bank during the period		
		0.09	0.08

BANK OF CHINA LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2006

(Amount in millions of Renminbi, unless otherwise stated)

(As at 30 June	As at
	2006	31 December 2005
ASSETS	(unaudited)	(audited)
Cash and due from banks	36.785	41,082
Balances with central banks	340.651	316.941
Placements with banks and other financial institutions	293,140	332.099
Government certificates of indebtedness for bank notes issued	36,094	35,586
Precious metals	39,259	26,974
Trading assets and other financial instruments at fair value through profit or loss Derivative financial instruments	114,167	111,782
Loans and advances to customers, net	21,540	16,808
Investment securities	2,317,625	2,152,112
- available-for-sale	020 004	000 004
- held-to-maturity	929,894	602,221
- loans and receivables	569,126	607,459
Investment in associates	389,368	361,851
Property and equipment	5,675	5,061
Investment property	62,238	62,417
Deferred income tax assets	8,612	8,511
Other assets	23,431	20,504
-	44,030	38,640
Total assets	5,231,635	4,740,048

BANK OF CHINA LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2006

(Amount in millions of Renminbi, unless otherwise stated)

(Amount in millions of Renminbi, unless otherwise stated)		
	As at 30 June 2006 (unaudited)	As at 31 December 2005 (audited)
LIABILITIES	,	,
Due to banks	171,422	134,217
Due to central banks	30,495	30,055
Bank notes in circulation Certificates of deposits and placements from banks and	36,151	35,731
other financial institutions Derivative financial instruments and liabilities at fair value through profit or loss	190,880 101,172	212,626 91,174
Due to customers	4,048,438	3,699,464
Bonds issued	60,177	60,179
Special purpose borrowings	49,622	52,164
Current tax liabilities	20,637	23,459
Retirement benefit obligations	6,933	7,052
Deferred income tax liabilities	2,053	2,136
Other liabilities	128,573	136,272
Total liabilities	4,846,553	4,484,529
EQUITY		
Capital and reserves attributable to equity holders of the Bank		
Share capital	253,839	209,427
Capital reserve	66,613	(5,954)
Statutory reserves	8,095	5,987
General and regulatory reserves	9,398	5,109
Undistributed profits Reserve for fair value changes of available-for-sale	21,893	10,188
securities	(3,603)	1,899
Currency translation differences	(488)	(237)
	355,747	226,419
Minority interest	29,335	29,100
Total equity	385,082	255,519
Total equity and liabilities	5,231,635	4,740,048

BANK OF CHINA LIMITED

Balance at 30 June 2006

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006 (Amount in millions of Renminbi, unless otherwise stated)

253,839

66,613

8,095

	Unaudit								
=		Attributable	to equity holde	rs of the Bank					
	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available-for- sale securities	Currency translation differences	Minority interest	Total
Balance at 1 January 2006	209,427	(5,954)	5,987	5,109	10,188	1,899	(237)	29,100	255,519
Net profit	-	-	-	-	19,477	-	-	2,774	22,251
Issue of ordinary shares (net of issuance costs)	44,412	72,567	-	-	-	-	-	-	116,979
Appropriation to statutory reserves	-	-	2,108	-	(2,108)	-	-	-	-
Appropriation to general reserve and regulatory reserve	-	-	-	4,291	(4,291)	-	-	-	-
Net change in fair value of available- for-sale investments, net of tax	-	-	-	-	-	(5,502)	-	(284)	(5,786)
Dividends	-	-	-	-	(1,375)	-	-	(1,891)	(3,266)
Translation differences	-	-	-	-	-	-	(251)	(312)	(563)
Sale of shares in subsidiaries	-	-	-	(2)	2	-	-	(52)	(52)

9,398

21,893

(3,603)

29,335

385,082

(488)

BANK OF CHINA LIMITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005 (Amount in millions of Renminbi, unless otherwise stated)

					Unaudited				
_			Attributab	le to equity hole	ders of the Bank				
	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available-for- sale securities	Currency translation differences	Minority interest	Total
Balance at 1 January 2005	186,390	(10,432)	3,140	419	16,547	2,730	1,961	27,152	227,907
Net profit	-	-	-	-	15,181	-	-	2,593	17,774
Appropriation to statutory reserve Appropriation to general and regulatory	-	-	75	-	(75)	-	-	-	-
reserves	-	-	-	2,480	(2,480)	-	-	-	-
Exercise of subsidiary share options Net change in fair value of available-for-	-	-	-	-	-	-	-	5	5
sale investments, net of tax	-	-	-	-	-	2,999	-	2	3,001
Translation differences Dividends	-	-	-	-	-	-	(354)	19 (1,637)	(335) (1,637)
Balance at 30 June 2005	186,390	(10,432)	3,215	2,899	29,173	5,729	1,607	28,134	246,715
Issue of ordinary shares		2.224		_	-				07.004
(net of issuance costs)	23,037	3,964	-		10.740	-	-	2.044	27,001
Net profit	-	-	2,772	-	(2,772)	-	-	3,044	13,784
Appropriation to statutory reserve Appropriation to general and regulatory	-	-	2,112	-	, ,	-	-	-	-
reserves	-	-	-	2,210	(2,210)	-	-	-	-
Exercise of subsidiary share options Net change in fair value of available-for-	-	-	-	-	-	-	-	12	12
sale investments, net of tax Capital contribution from an equity	-	-	-	-	-	(1,576)	-	(112)	(1,688)
holder	-	500	-	-	-	-	-	-	500
Adoption of equity accounting for investment in associates					0.404	(2.254)			(CO)
Translation differences	-	-	-	-	2,194	(2,254)	(1,844)	(661)	(60) (2,505)
Dividends	- :	-	- :		(26.937)		(1,044)	(1,317)	(2,303)
Others		14	-		(20,837)			(1,317)	(20,234)
Balance at 31 December 2005	209,427	(5,954)	5.987	5.109	10.188	1.899	(237)	29,100	255,519

3. Notes to the financial Statements

(1) 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)	
Net interest income	54,823	48,808	

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.

(2) Net fee and commission income

(2) Net fee and commission income		
	For the six month period e	ended 30 June
	2006	2005
Settlement and clearing fees	1,794	1,287
Agency commissions fees	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)
Net fee and commission income	6,841	4,518
(3) 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)
	64	20

(4) Other operating income

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

(a) 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 HKD900 million in cash.

Other operating expenses

	For the six month period ended 30 June		
	2006	2005	
Staff costs	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	385	3	
Other expenses	277	501	
Total	29,686	27,721	

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

- (a) Contributions to defined contribution plans for the six month periods ended 30 June 2006 and 2005 include the effect of deductions of forfeited contributions of RMB12 million and RMB14 million, respectively. As at 30 June 2005 and 2005, deductions of forfeited contributions are not significant.
- (b) 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 pe	For the six month period ended 30 June	
	2006 2005		
Interest cost	159	126	
Net actuarial loss recognized in the period	188	2,186	
Total	347	2,312	

(6) 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	
	12,136	10,997	
Deferred income tax	322	(40)	
	12,458	10,957	

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 periods 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 periods 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% Effect of different tax rates in Overseas	11,454	9,482
Operations	(1,999)	(1,675)
Supplementary tax on overseas income paid in		
the PRC	1,688	865
Prior year tax expense adjustment (a)	(350)	(2)
Income not subject to tax	(1,263)	(708)
Expenses not deductible for tax purposes (b)	2,899	3,119
Others	29	(124)
Income tax expense	12,458	10,957

- (a) The prior year tax expense adjustment for the six month periods 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.
- (b) Non-deductible expenses primarily include staff salary costs in excess of those are 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 post the overseas listing, a "performance based salary deduction" method could be applied by the Group when calculating salary deductible amounts. The details related to the amount and implementation of the revised 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.

(7) 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 months period ended 30 June 2006 and 2005, and therefore there is no diluted earnings per share.

	For the six month period ended 30 June	
	2006	2005
Profit attributable to equity holders of the Bank Weighted average number of ordinary	19,477	15,181
shares in issue (in millions) Basic and diluted earnings per share	218,002	186,390 0. 08
(in RMB)	0.09	0. 00

The Bank does not declare any dividend for the first half of 2006.

(8) 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 flow 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 3	0 June 2006		As at 31 Dec	cember 2005
	Contractual / notional			Contractua l/ notional	Fair	value
	amount		value	amount		
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards (1) Currency options	800,207	8,412	(5,040)	563,397	6,991	(4,813)
purchased (2)	209,712	4,348	-	176,643	3,781	-
Currency options written	59,026		(708)	19,369		(374)
		12,760	(5,748)		10,772	(5,187)
Interest rate derivatives						
Interest rate swaps Cross-currency interest	402,830	6,194	(7,333)	361,332	3,132	(5,246)
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)
		8,304	(12,374)		5,043	(9,626)
Equity derivatives	11,223	166	(227)	15,442	14	(7)
Precious metals derivatives	10,686	310	(412)	21,008	979	(932)
Total derivative financial instruements assets		21 540	(10 764)		16 909	(15.750)
/(liabilities)		21,540	(18,761)		16,808	(15,752)

- (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 ("Central SAFE Investments Ltd.") whereby the Bank acquired options to sell to Central SAFE Investments Ltd. 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, and is payable by the Bank to Central SAFE Investments Ltd. in 12 equal monthly installments at the beginning of each calendar month during the year ending 31 December 2007.

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.

(9) Contingent liabilities and commitments

(i) 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 RMB1,878 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.

(ii) Assets pledged

Assets pledged as collateral for repurchase 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 Repo 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 J	As at 31 Decemb
	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 of 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 of 30 June 2006 and 31 December 2005, respectively.

(iii) Capital commitments

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

(iv) 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

(v) 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.

(vi) Credit commitments

	As at 30 June	As at 31 Decemb
-	2006	2005
Credit commitments (a)		
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
Total	1,024,19	895,762

(a) 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.

(vii)	Credit risk weighted amounts of off balance sheet exposures			
		As at 30 June	As at 31 Decembe	
		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.

- (i) There is no alteration of accounting policies or estimates, or correction of accounting errors within the report period.
- (ii) The consolidation range for the Bank's financial statements didn't undergo any significant changes within the reporting period.

VII. Publication of Interim Results Announcement and Interim Report

This results announcement is simultaneously available on the websites of the Stock Exchange of Hong Kong Limited (the "Stock Exchange of Hong Kong") at www.hkex.com.hk and that of the Bank at www.boc.cn. This results announcement is a summary of the 2006 Interim Report prepared in accordance with the International Financial Reporting Standards, which is also simultaneously published on the websites of the Stock Exchange of Hong Kong and that of the Bank for information of shareholders and investors. The 2006 Interim Report (prepared in accordance with the Chinese Generally Accepted Accounting Principles) is also simultaneously available on the websites of the Shanghai Stock Exchange at www.sse.com.cn and that of the Bank at www.boc.cn. Investors should refer to the full interim report for details. The Bank's interim report (prepared in accordance with the International Financial Reporting Standards) is expected to be dispatched to its H shareholders in mid to late September 2006.

By Order of the Board Jason C.W. Yeung Company Secretary

Hong Kong, 29 August 2006

As at the date of this announcement, the Directors of the Bank are: XIAO Gang, LI Lihui, ZHANG Jinghua*, YU Erniu*, ZHU Yan*, ZHANG Xinze*, HONG Zhihua*, HUANG Haibo*, Sir Frederick Anderson GOODWIN*, SEAH Lim Huat Peter*, HUA Qingshan, LI Zaohang, Anthony Francis NEOH*, William Peter COOKE*, Patrick de SAINT-AIGNAN* and Alberto TOGNI*.

- * Non-executive directors
- # Independent non-executive directors

[&]quot;Please also refer to the published version of this announcement in the South China Morning Post"