

President's Statement



Zhang Jianguo President



2005 was a year of historic significance for Bank of Communications. With the support and assistance of the shareholders and all circles of society, the Bank successfully achieved the milestone objective of the further joint-stock-system reform and became the first international public commercial bank in mainland China, with healthy business growth, smooth advancement of strategic transformation, positive transformation in systems and mechanisms, continuously enhanced management and remarkably improved profitability.

As of the end of 2005, the Group's total assets reached RMB 1,423.4 billion, increasing by 24.43% as compared with the beginning of the year. The balance of clients' deposit was 1,220.8 billion, up 18.53% as compared with the beginning of the year. The balance of clients' loans was RMB 771.4 billion, increasing by 20.52% as compared with the beginning of the year. Impaired loan rate was 2.80%, representing a decline of 0.20 percentage points as compared with the beginning of the year. NPL rate based on 5-category classification system was 2.37%, decreasing by 0.54 percentage points as compared with the beginning of the year. The Group realized a net profit of RMB 9.249 billion, increasing by 476.62% as compared with the previous year.

Having grasped opportunities and advanced in defiance of difficulties, the Bank achieved pleasing results as demonstrated in the following seven aspects.

Firstly, steady business growth and continued expansion of market share. Having brought the Bank adequate capital and escalated its company image, the listing in Hong Kong offered an opportunity for development, which the Bank grasped. With a firm resolve to expand the business size, improve the business quality and building the business brand, the Bank continued to extend and intensify the marketing for the clients. As a result, the capability in business growth and client service was remarkably strengthened and the market share of major business items rose steadily. In 2005 the market share of RMB deposit and loan of the domestic branches rose by 0.21 and 0.35 percentage points as compared with the previous year.

Secondly, continued optimization of business structure began to show the effects of strategic transformation. The Bank managed to improve its client structure by resolutely executing the macro-control policies of the central government and regulators' requirement concerning risk prevention.

President's Statement (Continued)

On the basis of 10-category classification system, the balance of loans extended to category 1-5 clients increased by 5.26 percentage points as compared with the beginning of the year. On the other hand, the balance of loans to category 6-7 clients declined by 5.43 percentage points over the beginning of the year. And the balance of loans extended to category 8-10 clients declined by 0.77 percentage points compared with the level at the beginning of the year. The strategic transformation began to show effects. The retail business income and net fee and commission income accounted for 11.70% and 6.00% respectively of the total income. Innovative business yielded good results. Offshore business reached a volume of USD 688 million. Short-term financing bond underwriting was launched with a good beginning, with a total issuance amount of RMB 13.75 billion, representing a market share of 10%. The bank had made breakthroughs in annuity business, signing annuity custody contracts with 13 companies, annuity account management contracts with 9 companies and intention of cooperation with 34 companies. Bank of Communications & Schroders Fund Management Co. Ltd. officially opened business and successfully issued the first fund. Seoul branch successfully opened business.

Thirdly, continued strengthening of financial foundation and remarkably improved profitability. Adhered to the principles of intensive operation with priority being given to profitability, we managed to increase the proportion of profit-generating assets and highly-yielding assets and to control the cost and expense effectively. As a result, the cost/income ratio continued to decline and the profitability improved remarkably. Capital Adequacy Ratio was 11.20% and Tier-1 CAR 8.78%, rising by 1.48 and 2.01 percentage points respectively as compared with the previous year. Provision coverage was 58.39%, up 14.38 percentage points as compared with the beginning of the year. ROA and ROE reached 0.65% and 11.13% respectively, up 0.51 and 8.05 percentage points as compared with the previous year, and the Return on Average Assets and Return on Average Shareholders' Equity reached 0.72% and 13.68% respectively.

Fourthly, further improved internal control and enhanced risk management. The Bank had preliminarily built up an independent, effective and authoritative risk warding and internal control system by enhancing the risk management awareness and importing risk management process and tools, resulting in the effective control of credit risks, market risks and operational risks. Advanced risk management technologies and tools such as Risk Filter, Watch List, Risk Alarm, Loan-by-loan Provision, Migration Analysis, Risk Orientation Auditing and Consecutive Auditing were commonly used. As a result, the impaired loan ratio continued to decline. As of the end of 2005 the Bank's impaired loan rate was 2.80%, which was 0.20 percentage points lower than the previous year.

Fifthly, continued execution of internal reforms and further enhanced regulation build-up. The organizational integration of various administrative functions at head office level was completed and their responsibilities re-defined. Following the principles of independence, specialization and authoritativeness in credit approving, we had set up 5 regional credit approving centers and 6 regional audit departments, which had started operating. We imported the concept of economic capital and improved the performance assessment system. The Bank's operation and management had stepped into the track of scientific development.

Sixthly, continued IT build-up and significantly enhanced product innovation. Phase One of Data Centralization Project was successfully put into operation in June 2005. Phase Two had been tested in 2 batches of branches and had been rolled out successfully in the first batch. Management Accounting System, Economic Capital Management System, Internal Rating System, Comprehensive Information Management System were periodically completed as scheduled. Thanks to the development of information technology, which provided product innovation with inexhaustible driving force, we launched market-proven products such as Credit Assets Buy-out, Dual-interest Account, Delibao (a wealth management product) linked with HSBC's SPOMS system and RMB-FX Swap.

Seventhly, closer cooperation with HSBC. The two banks set up a 3-tier communication mechanism at summit, leading and working level and established multi-level regular meeting system and responsibility tracking system for agreed matters. Technical Service and Assistance project were executed in an all-round way. It helped import advanced ideology of management, technologies and tools. Trainings of varied forms also proved effective. Business cooperation displayed remarkable results. By leveraging the respective advantages in management and distribution channels, the two banks achieved a total issuance of the credit cards of over 650,000 within only 6 months.

The achievement of the Bank's reform and development received extensive recognition, remarkably escalating its company image and brand value. Rating agencies including Standard & Poor's and Fitch consecutively raised the Bank's rating. The number of rewards that the Bank received from authoritative international organizations and financial medias hit the new-high in the Bank's history.

We owe all these achievements to the care and guidance of the Central Government and relevant authorities and to the support of our shareholders and all circles of society. On behalf of the senior management of Bank of Communications, I would like to express the heart-felt acknowledgement to our shareholders and all circles of society for the support to the Bank's reform and development!

2006 is the first year for the country to implement "**The Eleventh Five-Year Plan**", a year for the all-round open-up of the financial industry and continued deepening of financial reforms, as well as a critical year for the Bank to expedite strategic transformation from a brand-new starting point. Our operation will be facing the opportunities brought up by the continuous growth of macro economy and improvement of the financial environment as well as the challenges caused by the more uncertainties of the external environment and by the more vehement competition from the peers. Guided by the scientific development concept, we will adhere to the target of building a first-class international public bank. With the sustained growth of ROA and ROE as the core of our work, we will continue with the efforts to achieve the rapid and healthy business growth with strategic transformation as the fulcrum and business innovation as the lever. First, we will use economic capital to restrain and spur business growth so as to achieve maximized values. Second, we will strengthen retail business management to improve the quality of retail service. Third, we will accelerate the fee-based business. Fourth, we will expedite the follow-up reforms. Fifth, we will further strengthen product management to enhance product and technology innovation and to improve our core competitiveness. Sixth, we will support SME clients more strongly. Seventh, we will intensify human resources management reforms.

With the support from the shareholders and all circles of society, we are confident to grasp the opportunities firmly and face the challenges calmly. We believe that our reforms will be sustained and intensified by better operational results in the future, thus further achievement in strategic transformation, escalation of market position and breakthrough in brand construction. We believe that we will surely accomplish all the targets and achieve satisfactory results in the first year of the "**The Eleventh Five-Year Plan**" and the first complete fiscal year after the Bank's IPO.

President



Zhang Jianguo