

To build an exemplary global
financial services group

A dolphin is captured mid-leap from the surface of the ocean. The dolphin's body is arched, and it is surrounded by a splash of white water. Concentric, semi-transparent circular ripples emanate from the point of the dolphin's exit from the water, creating a ripple effect across the entire blue sea. The background is a clear, light blue sky.

Our

VISION



Chairman's Statement



Jiang Chaoliang
Chairman of the
Board of Directors

With the benefit of favorable macro-economic and financial conditions, 2006 saw the Group's significant growth in its various core businesses. Both the return on average assets and return on average equity rose from 0.72% and 13.68% in 2005 to 0.78% and 14.15% in 2006 respectively.

We attribute our achievements to the continuing support of the regulators, our shareholders, our customers as well as the community in large. The share price of the Bank gained by 168%, rising from the opening price of HK\$3.525 at the beginning of the year to the closing of HK\$9.44 at the end of the year. All investors have thus benefited from the successful operation and management of the Bank. At the same time, our country and people have also shared the contribution we made to the society.

Strategic Transformation

Finance is the foundation of the modern economy. Changes in the modern economy therefore lead to changes in the operation of the finance industry. The market winner will be the one who is able to respond quickly to the changes and to capitalize on the new opportunities. After 30 years of market and economic reform, one noticeable change in the Chinese economy and society is the gradual expansion of the middle class. Meanwhile, the capital and monetary markets have become more matured after more than 10 years of development. A new era of disintermediation for commercial banks

has arrived causing banks to seek new sources of revenue.

Accordingly, we have placed more emphasis on business transformation in developing our strategic plan. Our objective is to become a first-class retail bank in China and we have invested additional resources and management time in developing our retail business. At the same time, we have sought new income streams in expanding our non-fund business as well as full financial service which were complimentary to the development of the retail business. While maintaining the growth of our traditional asset and liability driven income, we have strived to be creative in offering our customers new products and services.

We are pleased to see that our 2006 strategic business transformation plan has been effectively implemented. Our sales team for personal finance business has gradually been expanded. We have expedited the development of our fee-based business; thereby capturing new market share by new products and services. The credit product for small enterprises "Zhanye Tong" (展業通) is widely

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accepted by customers, while investment banking opportunities such as the underwriting of short-term corporate bonds and the financial advisory service are also opening new profit opportunities for us.

Corporate Governance

The Bank's objective has always been to enhance corporate governance and create more value for our shareholders. In the process of deepening our structural reform, we complied strictly with the regulatory requirements, modeled on the best international practice, and improved continuously our corporate structure and system. An investor relationship management framework and an information disclosure system have been established. Such a framework and system will strengthen the communication channel between the Bank and the capital markets as well as with investors worldwide. We continue to lead the industry in information transparency. In 2006, the senior management of the Bank and I carried out extensive communications forums with investors and analysts worldwide. Their comments and suggestions were highly beneficial to us.

High asset quality constitutes a prerequisite for the sustainable development of commercial banks. Comprehensive risk management and internal control are preconditions for good asset quality. In 2006, by modeling on the "Enterprise Risk Management — Integrated Framework" and "Internal Control — Integrated Framework" published by the COSO committee of the United States, and the "New Basle Capital Accord", we endeavored to improve our risk management and internal control systems, platforms and techniques. Our risk management system and tools have been effectively refined and our efforts have been held in high regard by the regulatory authorities as well as the market.

To my greatest joy, the 4-year data centralizing project was successfully completed in 2006. The project is a milestone in our efforts to continuously enhance management by integrating information from different departments for the first time. Accordingly, our information and data have been significantly improved to gain more accuracy, timeliness and consistency, constituting a valuable resource for future business developments. In addition, we are pleased to see several key projects, including the internal grading system for corporate customers, pricing management and management accounting system are progressing steadily to achieve the set objectives.

Corporate Culture

There was an old saying in ancient China from Tai Shi Gong which says that there are two ways to regulate social behavior: by self-discipline and by law. Self-discipline prevents improper behavior from occurring whereas law punishes improper behavior when crimes are committed. The deterrence effect of law enforcement is apparent while that of self-discipline may not be seen easily. If we consider "self-discipline" as a cultural discipline then it would be accurate to reflect that in the compliance operations of commercial banks. Furthermore, in a modern economy, if an enterprise wishes to achieve long-term sustainable success, it has to seek value from its corporate culture. This is also the important reason why we always attach great significance to build our corporate culture in our strategic plans.

In 2006, we have developed and have fully put in place the frame-work of the 3-year corporate culture plan, with the aim of intensifying the process of building our own corporate culture. Preliminarily, we have now successfully nurtured and established our corporate culture with "accountability" and "innovation" as core values. Our employees have

established a shared vision of the current status and progress of our corporate culture, as well as the mission and objective for future of our Bank. Every level of management is also encouraged to elevate their management skills from "management by experience" and "management by system" to "management by culture". On this basis, we will make use of our corporate culture to enhance the Bank's operation and to continuously strengthen the cohesiveness of the employees. As a result, we wish every member of our team to grow and to develop jointly with us so as to reach their individual goals and their career aims.

Brand Building

Brand building cannot be separated from promotion. However, to sustain the long-term appeal of a brand, promotion alone would not be sufficient. Intimate service, outstanding performance, a legal and stable operation, and a corporate culture all contribute to brand image. From this point of view, brand building is an all-round and long-term process.

Accordingly, earlier this year we established and launched a 3-year development plan for brand building, and have achieved certain accomplishments. In the 2006 ranking of "500 most valuable corporate brands in China" released jointly by the World Brand Lab and World Executive Weekly, we ranked number one among brands in China's banking industry with a brand value of RMB30.263 billion. World famous rating institution, Standard & Poor's, continued to raise our rating in 2006. In 2006, we received a number of awards such as the "2006 Best Bank in China" by "Euromoney" magazine, and "Best Managed Company in China" by "FinanceAsia" magazine. According to the latest ranking of 1000 banks worldwide conducted by the British magazine "the Banker", our Tier One capital ranking rose from 105 in 2005 to 65 in 2006 and the asset ranking rose from 89 in 2005 to 73 in 2006. We are the only financial institution in China to make it to the ranks of "Asia Top 50" by the "Business Week" in 2006. In 2006, we were selected as the Financial Service Partner for World Expo 2010 Shanghai. This is our best opportunity to enhance our brand image worldwide.

Senior Management and Employees

High-quality personnel are hard to find. In the knowledge economy, high-quality personnel are essential to corporate development. We are pleased that our senior management is formed by a team of the elite from the financial and banking industry. They are resilient, sagacious, diligent and devoted industry veterans with years of experience in the financial industry. They have the competence to cope with all kinds of challenges brought by the ever-changing market. I believe such a united, pragmatic, professional and efficient team can build a solid foundation for our success.

In the summer of 2006, Mr. Zhang Jianguo tendered his resignation as Vice Chairman and President of the Bank due to personal reasons; Mr. Li Jun became his successor. During his term as the president of the Bank, Mr. Zhang Jianguo made a significant contribution to the Bank's transformation, operation and management. I am honored to have the chance to work with such an outstanding banker. Mr. Li Jun has served the Bank for years, and has a profound understanding of the Bank's history, culture, structure, operation and management. For the half year since his term started, he has shown notable integrity and demonstrated remarkable leadership. I strongly believe that he has the ability to lead our senior management to achieve a more thorough corporate reform and bring the Bank's operating results to new heights!

In 2006, apart from the above-mentioned senior management turnover, Ms. Laura Cha, who was well-known as an Iron Lady in the security market joined our board. Ms. Laura Cha is a specialist in corporate governance. During her term as vice chairman of China Securities Regulatory Commission, Ms. Laura Cha had supported the promulgation of various regulations and systems with a view to enhancing information disclosure and promoting corporate governance. Those regulations and systems have become formal practices in the China securities market. Our senior management is honored to have an opportunity to work with such a wise, determined and professional lady.

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It is well-known that the success of an organization is down to the efforts of all the individuals in that organization. Thousands of employees have all contributed to our accomplishment today. With their concerted efforts, our business has grown more and more prosperous. I wish to take this opportunity to express my sincere gratitude to all of them!

Cooperation with HSBC

We and HSBC have both held high expectations of our strategic cooperation since the strategic partnership formally established in August 2004. Through two years of hard work, we are delighted to see that cooperation has been getting better and better. Both of us have accomplished satisfying results in several business areas such as risk management, internal control, corporate business, international business and personal financial service business. Through various kinds of technical support, the integration of our intellectual assets has been further improved. Cooperation in the credit card business is especially notable and a well-known accepted retail co-brand has been established in the market. In 2006, we formulated our 2006–2008 business cooperation strategic plan which provides a solid base for our further cooperation in the future.

Like the old saying “those who are successful do not start out different, they achieve their success through learning from others who are successful and from what is around them”, both we and HSBC have benefited from our strategic cooperation over the past two years. Through cooperation, we have introduced international innovative operating concepts, management skills and tools which rapidly improved our core competitiveness. Meanwhile, our partner, HSBC, has also gained a better understanding of the Chinese market and its customers, and expanded its business in China. Our successful cooperation best illustrates the “win-win

situation” under the trend of economic globalization. In the future, we will continue to deepen our strategic cooperation, consolidate our advantages in our combined resources, complement our competitive advantages and realize our long term goal of profit growth and sustainable development.

2007 Outlook

2007 is the 20th anniversary of the Bank's reorganization. Twenty years went by in a flash. The Bank has experienced dramatic changes when compared with at the beginning of the reform. In the new year, the Bank will actively make use of available opportunities, confront challenges with confidence, and promote the building of a harmonious environment with a view to achieving the goal of becoming an first-class international public bank.

- We will further deepen our corporate reform, promote strategic transformation, rationalize our operating structure, complete the A-share listing at a suitable time within this year and allocate resources towards the building of a harmonious environment;
- We will continue to strive for sustainable development. While capitalizing our strength to grow our business, we will improve the efficiency in both resources allocation and the nature and quality of our business. We will thereby lay the economic foundation of a harmonious Bank of Communications.
- We will continue to be innovative in our strategic reforms: when improving our new incentive scheme, when exploring new ways of cooperating with HSBC, and when considering the building of a harmonious Bank of Communications.

As a century-old national financial brand in China, we have a profound understanding of our responsibilities and our mission. I believe, with the support of the community and efforts of our employees, we will realize our strategic objective and add a glorious chapter to the Bank's 100-year history book!

Chairman

A handwritten signature in black ink, appearing to be 'Jiang Chaoliang', written in a cursive style.

Jiang Chaoliang