

President's Statement



Li Jun
President

Thanks to the trust and confidence placed by the Board in myself, I was appointed the President of Bank of Communications in September of 2006. Since my term started, I received much support from each member of the senior management. Every employee of the Group worked together hand-in-hand and contributed to the dynamic growth and development of the Bank.

In 2006, the senior management diligently executed the strategic development plans stipulated by the Board. The senior management maintained an objective development view, while capturing opportunities in China's rapidly-growing economy. We continued to advance our business operations, enhanced our development, improved our profitability and made considerable progress in all business segments. Scale of operation and profitability has been brought to new heights, resulting in a comprehensive and coordinated development in pace, organization structure, quality and efficiency. As of 31 December 2006, the Group's total assets, deposit balance and loan balance reached RMB1,719.483 billion, RMB1,420.331 billion, and RMB927.405 billion, respectively, representing an increase of 20.80%, 16.34%, and 20.23%, respectively, as compared with the beginning of the year. The Group realized a net profit of RMB12.274 billion, representing an increase of 32.71% compared to the previous year. Return on assets (ROA) and return on equity (ROE) reached 0.71% and 13.57%, respectively, representing an increase of 0.06 percentage points and 2.44 percentage points, respectively, as compared with the previous year. Return on average assets was 0.78% and return on average shareholders' equity reached 14.15%, representing an increase of 0.06 percentage points and 0.47 percentage points, respectively.

Corporate Business

Business in focus regions such as the Yangtze River Delta, the Pearl River Delta and the Bohai Rim Economic Zone in mainland China has been developing rapidly. The contribution from these three regions to Renminbi corporate loan and real loan of the Bank totaled over 80%. In view of the Chinese government's changes in its macro economic policies, the Bank proactively adjusted its credit policy and applied special measures to monitor, on a monthly basis, development of customers in the concerned industries such as those with overcapacity, the real estate industry, and the steel industry. The customer distribution by industries continued to optimize. The Bank refined its sales and marketing system for important corporate customers at headquarters' level and carried out sales and marketing activities to target these customers. This work enables the Bank to consistently improve its client structure. Under the 10-class credit rating system, loans to class 1 to class 5 high quality customers of the Bank accounted for 71.9% of the total customer loans outstanding as at the end of the year, representing an increase of 4.3 percentage points as compared with the beginning of the year. On the other hand, loans to class 8 to class 10 customers accounted for 2.20% of the total customer loans outstanding as at the end of the year, representing a decline of 0.20 percentage points compared to the beginning of the year. The Bank is devoted to maintaining product and service diversity. It launched new corporate products such as "Yingtong Zhanghu" (盈通賬戶) and "Yingqi Zhuanzhang" (銀期轉賬). The launch and promotion of "Zhanyetong" (展業通) spearheaded the development of financial services for small enterprises. As at the end of 2006, total loans outstanding to small enterprises amounted to RMB102.1 billion, representing an increase of RMB22.2 billion compared to the beginning of the year, and the proportion of which to the Bank's total assets also rose by 0.33 percentage points.

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Retail Business

Pursuant to the direction set out in the Bank's strategic transformation plan, the Bank strived to establish a strategic position for its retail business. Despite a highly competitive market, the Bank actively developed its market and the domestic market share in businesses such as RMB individual saving deposits and individual consumer loans gradually increased. The total number of Pacific Credit Cards and total spending thereof reached 1.94 million and RMB11.1 billion, respectively. The Bank successfully launched a up-market wealth management service brand "OTO Fortune" (沃德財富) and a mid-end wealth management service brand "Bocom Fortune" (交銀理財), both of which received good market responses.

In order to strengthen its retail business, the Bank established at its headquarters the Personal Financial Service (PFS) planning and marketing department, the PFS sales and service department, the PFS product management department, and PFS credit and risk department. These four new departments replaced the original personal financial business department. The new organizational structure emphasized professional operation and sales service function. At the branch level, the Bank refined its sales and marketing system and strengthened its sales force, resulting in significant improvements in the sales capacity of the retail business.

Treasury Operation

In 2006, the Bank made great efforts to overcome the negative impact caused by the rising stock market in China. Given the increase in the number of initial public offerings and the volatility of treasury positions, the Bank has strengthened its asset adjustment management and treasury operation to ensure liquidity and yield higher return from its treasury operation. The Bank proactively adjusted the structure of its treasury operation by increasing investments in high yield bonds and reducing low return assets. Profit from treasury operation reached RMB1.648 billion, thereby further improving its contribution to the Bank's profitability.

International Business

The Group's total transaction volume of international settlement reached USD115.3 billion, representing an increase of 24.7% compared to the previous year. This further propelled the international fee-based business of the Bank. The Bank successfully launched foreign exchange and remittance products and services such as "QDII Delibao" (QDII 得利寶), "Manjinbao" (滿金寶) and "Lianmingkuaihui" (聯名快滙). In its cooperation with HSBC, the Bank developed the "Tonghuijie" (通滙捷) business, which is the first server-based fast-remittance product in China. Development of the Bank's overseas branches and subsidiaries has been sound and the scale of business (assets) increased by 17.93%, while profit after tax exceeded USD100 million. The business of the Bank's subsidiaries such as BCOM Securities Company Limited and China Communications Insurance Company Limited also maintained a sustainable fast growing trend. BCOM Securities Company Limited obtained the sponsor's qualification for initial public offerings. The total quantity of funds managed by Bank of Communications Schroder Fund Management Co., Ltd. reached 23.1 billion units. The performance ranking of its managed funds within the industry also improved.

Fee-based Business

The Bank's efforts in the strategic development of the fee-based business over the years saw good results in 2006. Fee and commission income reached RMB3.476 billion for the year, representing an increase of 36.64% over last year. In addition to the traditional fee-based business, the Bank launched new custodian services for assets such as QDII, "Industry Fund" (產業基金), "Insurance Fund ABS" (保險資金 ABS) and "Share Trust" (股權信託), and became one of the commercial banks having and offering the most comprehensive range of assets custodian qualifications and products in mainland China. The Bank is also a market leader in corporate annuity business by the size and scale of the contracted customer base and account scale in China. The Bank continued to devote itself to the

development of e-banking, considered to be an important platform to improve service efficiency, promote innovation and increase sales. Using the brand "Finance Express" (金融快线), the Bank established an internet banking service system which mainly includes products such as remittance and account transfer, cash management, account management, fund supermarket and online foreign currency exchange. In 2006, its e-banking transaction volume totaled RMB7,210 billion, and achieved operating revenue of RMB416.07 million. Investment banking business such as underwriting of short-term financing bonds, financial advisory and consulting services has become a new source of profit for the Bank. In 2006, the revenue from underwriting, financial advisory and consulting services amounted to RMB88.44 million and RMB64.87 million, respectively, and represented an increase of two and thirteen times when compared with 2005, respectively.

Our operations and management performance in 2006 was remarkable. On behalf of the senior management of the Bank, I would like to express my sincere appreciation to shareholders and all circles of society who have entrusted the Group, and who have shown concern and support to the Group's reform and development, and to all the employees of the Group.

Looking forward to 2007, the Group's main market, China, will maintain a sustainable and favorable economic growth. The operating environment will continue to develop positively. The Group will continue to allocate more resources towards personal financial services, small enterprises service, fee-based business and other innovative business fields, to increase the pace of our strategic transformation. In order to strengthen our competitiveness and to realize the driving effect of innovation upon operational management and upon various projects, the Group will become more innovation-driven and will increase our efforts in innovation in business products and customer

services. The Bank will accelerate management integration and functional banking implementation, strengthen the management of our outlets and the building of delivery channels such as e-banking to improve service efficiency and service capability. In particular, we will be devoted to establish 24-hour cross time zone foreign exchange business operating system in order to provide round the clock foreign exchange services and foreign exchange settlement and clearance services for our customers. This will become the Bank's unique competitive edge in China. Quality service is the main reason why customers choose the Bank. We will carry out activities to diversify our service range and to enhance our customer service quality. More than 60,000 outstanding employees of our Group unite as one. They are constantly improving and progressing. This is the motivational source for our development and is also the foundation of our success.

The Group has a clear development strategy, which has been well executed. The Group has distinct comparative advantages and these advantages are continuously being maintained and expanded. In 2007, the Group is confident that it will reward its partners who have trusted and supported the Group, by performing even better and by making its internal management even more robust.

President



Li Jun