**Zhang Jianguo**
*Vice Chairman, Executive Director and President*

**2006 witnessed stable and rapid growth in China's economy, which created a favourable environment for our business expansion. By seizing on these opportunities, we implemented the development strategies and operating policies set by the general meeting of shareholders and the Board. We also fulfilled our commitments to shareholders, customers, and employees, by steadily transforming our business and improving our operating structure. As a result, we achieved rapid business growth, continued to improve our business, and steadily increased our market share.**

## Outstanding Performance in 2006

- Steady improvements in quality and productivity

In 2006, the Group achieved pre-tax profit of RMB65,717 million, representing an increase of RMB10,353 million, or 18.70%, over the previous year.

Whilst our traditional core businesses enjoyed steady growth, we were focused on developing our retail, international, treasury and wealth management businesses. As a result, operating income experienced rapid growth. During the year, the Group achieved an operating income of RMB151,593 million, an increase of 17.78%, and recorded a net interest income of RMB140,368 million, or an increase of 20.43%, compared to 2005. Net fee and commission income rose by 60.51%. The proportion of net fee and commission income to operating income rose to 8.95%.

In 2006, the Group recorded a net exchange loss of RMB6,068 million after taking into account the effect of options and swaps, which was a result of RMB appreciation during the year. However, we were able to offset this loss by utilising our US dollar-denominated assets in earning interest income with higher yields than RMB-denominated assets.

We continued to implement stringent group-wide cost control measures, as a result, we maintained a healthy cost-to-income ratio. In 2006, general and administrative expenses grew slower than operating income, with the cost-to-income ratio falling by 1.16 percentage points from the previous year to 43.97%. As the tax exemptions in relation to the restructuring expired on 30 June 2005, income tax rose in 2006, which mainly explained the slight reduction in the Group's net profit.

The Group's overall asset quality continued to improve due to its ongoing enhancement of risk management systems as well as its efforts to upgrade risk management capabilities. As at 31 December 2006, its non-performing loans fell by RMB70 million to RMB94,399 million compared to 2005, while the non-performing loan ratio dropped by 0.55 percentage points to 3.29%. The ratio of allowances for impairment losses to non-performing loans increased from 66.78% to 82.24% during the year.

- Effective structural reform

The Group outperformed its domestic competitors in terms of loan growth. As at 31 December 2006, loans and advances to customers totalled RMB2,873,609 million, representing an increase of 16.89%, while deposits from customers reached RMB4,721,256 million, an increase of 17.85%. The growth was primarily due to favourable market opportunities and enhanced brand penetration, which fuelled the growth in both loans and deposits as well as expansion of our market share.

We maintained strong growth in our established medium to long-term loan business, and were well placed to benefit from the robust demand by tapping into new markets and increased marketing efforts. These initiatives brought about rapid growth in our fixed assets loan business. As at 31 December 2006, the fixed assets loan balance was RMB1,038,240 million, accounting for 50.45% of corporate loans. Of these, the infrastructure loan business performed remarkably well, recording an annual growth of 29.16%. Meanwhile, the Group was focused on monitoring industries affected by China's macroeconomic policies, and also leveraged the economic capital approach and credit risk early warning analysis in governing the type and pace of loan extension.

In 2006, the Group secured the largest market shares in both personal loans and residential mortgage loans in the PRC. The Group took advantage of the increased demand for residential housing with the booming Chinese economy by improving and launching new products and services as well as expanding loan operations while maintaining effective risks controls. As at 31 December 2006, the Group's personal loan balance increased to RMB585,085 million, 28.90% higher than at the end of 2005. The proportion of personal loans to total loans rose by 1.90 percentage points to 20.36%. Of these, the residential mortgage loan balance increased by RMB79,820 million to RMB428,039 million. The Group is now ranked first both in terms of size and growth in the PRC mortgage market.

During the year, significant developments were evident in our credit cards, electronic banking, international, treasury and investment banking businesses. The number of credit cards issued amounted to 6.34 million and the total spending amount was RMB40,467 million. The number of credit cards issued and spending amount both recorded a year-on-year growth over 100%. In terms of our electronic banking, we now have 43.29 million customers and a total transaction amount of RMB30.7 trillion, representing increases of 38% and 227%

respectively compared to the previous year. Our international settlement volume grew by 35.05% to USD190.3 billion, while our customer-driven foreign exchange trading as well as purchases and sales of foreign exchange reached the volume of USD123.3 billion, 27.51% higher than in 2005. We secured the largest domestic market share in commercial paper underwriting, recording a total of RMB65,775 million, or an increase of 56.24% compared with 2005.

In 2006, a major breakthrough was achieved in our overseas expansion through the successful acquisition of a 100% interest in Bank of America (Asia) Limited and its subsidiaries for HK$9.71 billion. Following the acquisition, the size of our operations in Hong Kong doubled, and in terms of customer loans, we have now climbed from 16th to 9th place. This acquisition has become a platform for us to develop our retail banking in Hong Kong and Macau, resulting in enhanced customer service capability and market competitiveness.

- **Further reforms**

In 2006, we were proactive in promoting the reform of our risk management system through the appointment of our Chief Risk Officer, under a vertical reporting framework, and risk supervisors at tier-one branches as well as risk heads at tier-two branches and risk managers. Working with the relationship managers, our risk managers were involved in every aspect of the credit process ranging from approval assessment to subsequent monitoring. In addition, we further integrated our internal audit resources. Internal audits were deployed centrally by the head office under a vertical management structure, which has enhanced our internal audit capability, and resulted in significant progress in reorganising our internal audit function.

We have also restructured our accounting and operational management systems by segregating core operations into front and back office functions. Back office activities and support functions, such as cash delivery, vault management, and files management, have been gradually centralised. As a result, our risk control capability has strengthened, and our service efficiency and customer satisfaction have steadily improved.

We continued to revamp our human resource management by strengthening our employee incentive schemes and improving intensive staff training programmes. To encourage our staff to develop their talents, we presented twelve employees with CCB Outstanding Contribution Award in recognition of their contributions, with prizes ranging from RMB100,000 to RMB300,000. Also, we ran 7,071 various training sessions with 402,200 enrolments.

- **Product innovation**

We continued our efforts in product innovation to better satisfy the needs of our customers. During the year, we pioneered cash deposit and withdrawal services for individual RMB deposit customers across branches throughout the PRC. We successfully launched 19 batches of "Profit from Interest" RMB wealth management products and 17 batches of "Profit from Exchange" personal foreign currency structured deposit products. The underlying assets of our wealth management products expanded from initial central bank bills to commercial paper, trust plans, bank credit assets, and offshore fixed income products. We and BAC completed the launch of two batches of our QDII wealth management products. Moreover, we achieved a 26.43% growth in loans to small businesses with our innovative credit products, including "Quick Finance" and "Road of Growth", targeted at small to medium-sized enterprises ("SME").

During the year, we bolstered our financial innovation capability by setting up 10 expert teams responsible for corporate products. Our first research and development ("R&D") centre for retail products was set up in Shenzhen, while an R&D centre for electronic banking was established in Guangzhou. As a result, our product R&D has become more centralised, controlled, and standardised.

- Strategic cooperation

The strategic partnership with BAC was further deepened through technical assistance and business cooperation. During the year, we implemented a total of 14 strategic assistance projects. Among these initiatives, we concluded the free cash withdrawal project at ATMs, and launched direct remittance services, which have benefited customers of both banks. We also completed three pilot projects, namely transformation of retail branches, improvements of personal loan centres and call centres, which have improved customer satisfaction with new service processes and standards. We have since begun to roll out the results of these projects throughout the country. In addition, the two parties have been successful in cooperating to provide cash management service to foreign invested companies, and will endeavour to cooperate in broader areas going forward.

Our strategic cooperation with Temasek and AFH took the form of experience sharing and trainings. Trainings were mainly focused on areas such as SMEs and small enterprises business, treasury, asset and liability management, institutional banking, and human resources management.

## Outlook for 2007

In 2007, the factors conducive to economic development will remain. We foresee that China's economy will maintain steady growth and external factors, such as credit environment, legal system, and regulatory supervision will continue to improve and help in accelerating our reform and development.

Meanwhile, the banking industry's operating environment is now undergoing a series of changes. Specifically, we will face the following challenges: First, following the end of the transitional period of China's accession to the WTO, domestic banks anticipate fiercer competition from foreign banks as well as domestic rivals. Second, the government will further strengthen its macroeconomic policies. Accordingly, our credit growth may be held back to a certain degree. Third, the market anticipates sustained excess liquidity, as a result, our fund utilisation will be under increased pressure. Fourth, further development of the capital market will, to some extent, reduce credit demand from commercial banks. Last, interest rate will gradually become more competitive and continued appreciation in the RMB is expected, which will affect the stability of interest spread and the value of foreign currency assets in the banking sector.

Against this backdrop, we will remain positive and intend to focus on the following areas:

- **Leverage our advantages in established businesses and expedite business transformation.** We will continue to develop our established businesses, such as deposit-taking, loan extension, and clearing, and take advantage of any new growth opportunities arising from the thriving capital market. We will focus on both established and new businesses and strengthen regional and operational synergies. We will also be active in developing emerging businesses such as investment banking, consumer finance, financial services for small businesses, asset management and capital market services. Furthermore, the Group will effectively consolidate its entities and business resources in Hong Kong, and further strengthen its overseas operations.

- **Further the growth and importance of our personal banking.** We will continue to rationalise our branch network, consolidate sales channels, and enhance our competitiveness and market share in major areas. We plan to promote our new improved branches, and to standardise and modify the workflow of marketing and services at the branch level. As a result, we will upgrade service and sales capability, thereby offering better customer service.

- **Strengthen overall risk management and enhance quality and return.** We will continue to reinforce the awareness of risk management on a bank-wide level, and introduce strategic and structural changes and raise risk-adjusted return through the use of economic capital and the Economic Value Added management approaches. We will also accelerate the implementation of new Basel Capital Accord and further improve our internal rating system.

- **Improve management capabilities and increase momentum in our business expansion.** We will continue to improve our operational management through the reform and rationalisation of our organisational structure and management conduct. Our partnership with BAC will continue to improve product collaborative programmes with the aim of improving product quality and processes. We will concentrate in improving and consolidating the key application systems of our core business processing systems. Performance management system will be improved through the use of key performance indicators.

2006 marked our first year being under the spotlight of the international capital market. We owe our success to the relentless efforts of our employees, the support of our customers and strategic partners, as well as the help from the community. On behalf of the senior management, I extend my heartfelt gratitude to each of them. As a committed and ambitious team, we will remain focused and positive faced with the challenges brought by intensified competition, and strive to meet our 2007 operating targets and fully fulfil our strategic vision.

張建國

*Vice Chairman, Executive Director*
*and President*

13 April 2007