交通銀行
BANK OF COMMUNICATIONS

交通銀行股份有限公司

Bank of Communications Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3328)

Final Results Announcement
For the year ended 31 December 2006

The Board of Directors of Bank of Communications Co., Ltd. (the "**Bank**") is pleased to announce the annual audited consolidated results for the year ended 31 December 2006 (the "**Reporting Period**") of the Bank and its subsidiaries (the "**Group**"), which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Board of Directors of the Bank (the "**Board**") and its audit committee have reviewed and adopted these annual audited consolidated results.

1. FINANCIAL HIGHLIGHTS

	2006	2005	Change
Annual	***RMB million***	*RMB million*	*+/(-)%*
Net interest income	**39,803**	31,591	25.99
Profit before tax	**17,405**	12,843	35.52
Net profit	**12,274**	9,249	32.71
Per share	***RMB***	*RMB*	
Basic and diluted earnings per share	**0.27**	0.22	22.73
Net assets per share	**1.97**	1.81	8.84
As at end of the year	***RMB million***	*RMB million*	*+/(-)%*
Shareholders' equity	**90,436**	83,082	8.85
Issued and paid-up share capital	**45,804**	45,804	0.00
Total assets	**1,719,483**	1,423,439	20.80
Financial ratios	***%***	*%*	*+/(-)%*
Return on average total assets *(Note 1)*	**0.78**	0.72	0.06
Return on average shareholders' equity *(Note 2)*	**14.15**	13.68	0.47
Cost-to-income ratio *(Note 3)*	**47.66**	51.24	(3.58)
Impaired loan ratio *(Note 4)*	**2.53**	2.80	(0.27)
Non-performing loan ratio *(Note 5)*	**2.01**	2.37	(0.36)
Tier-1 capital adequacy ratio *(Note 5)*	**8.52**	8.78	(0.26)
Capital adequacy ratio *(Note 5)*	**10.83**	11.20	(0.37)

Notes:

1. This is calculated based on net profit of the year divided by the average of total assets at the beginning and the end of the year;
2. This is calculated based on net profit of the year divided by the average of shareholders' equity balance at the beginning and the end of the year;
3. This is calculated based on other operating expenses divided by the operating income (including net interest income, net fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from investment securities and other operating income);
4. This is calculated based on the balance of impaired loans divided by the balance of total loans at the end of the year;
5. This is calculated in accordance with China Banking Regulatory Commission ("**CBRC**") guidelines and based on PRC Generally Accepted Accounting Principles ("**PRC GAAP**").

2. CONSOLIDATED PROFIT AND LOSS ACCOUNT

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	For the year ended 31 December	
	2006	2005
Interest income	**64,543**	49,680
Interest expense	**(24,740)**	(18,089)
Net interest income	**39,803**	31,591
Fee and commission income	**3,476**	2,544
Fee and commission expense	**(603)**	(435)
Net fee and commission income	**2,873**	2,109
Dividend income	**123**	45
Gains less losses arising from trading activities	**(57)**	420
Gains less losses arising from de-recognition of investment securities	**58**	359
Other operating income	**1,038**	629
Impairment losses on loans and advances	**(5,538)**	(4,298)
Other operating expenses	**(20,895)**	(18,012)
Operating profit before tax	**17,405**	12,843
Income tax	**(5,136)**	(3,600)
Net profit for the year	**12,269**	9,243
Attributable to:		
Shareholders of the Bank	**12,274**	9,249
Minority interest	**(5)**	(6)
	12,269	9,243
Basic and diluted earnings per share (in RMB)	**0.27**	0.22

3. CONSOLIDATED BALANCE SHEET

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	As at 31 December	
	2006	2005
ASSETS		
Cash and balances with central banks	**253,941**	140,309
Due from other banks and financial institutions	**118,623**	170,101
Financial assets held for trading	**12,995**	3,228
Loans and advances to customers	**910,307**	758,773
Investment securities — loans and receivables	**48,050**	28,372
Investment securities — available-for-sale	**339,823**	285,971
Property and equipment	**26,284**	25,164
Deferred tax assets	**3,520**	955
Other assets	**5,940**	10,566
Total assets	**1,719,483**	1,423,439
LIABILITIES		
Due to other banks and financial institutions	**168,666**	84,094
Financial liabilities held for trading	**8,724**	9,555
Due to customers	**1,420,331**	1,220,839
Other liabilities	**16,151**	12,349
Current taxes	**2,501**	751
Deferred tax liabilities	**323**	413
Subordinated term debt	**12,292**	12,292
Total liabilities	**1,628,988**	1,340,293
EQUITY		
Capital and reserves attributable to the Bank's shareholders		
Share capital	**45,804**	45,804
Capital surplus	**21,540**	21,540
Other reserves	**10,364**	6,555
Retained earnings	**12,728**	9,183
	90,436	83,082
Minority interest	**59**	64
Total equity	**90,495**	83,146
Total equity and liabilities	**1,719,483**	1,423,439

4. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(All amounts expressed in millions of RMB unless otherwise stated.)

			Other reserves							
	Share capital	Capital surplus	Statutory reserve	Statutory general reserve	Revaluation reserve for AFS securities	Revaluation reserve for properties	Translation reserve on foreign operations	Retained earnings/ (Accumulated losses)	Minority interest	Total
Balance at 1 January 2005	39,070	10,872	—	—	(1,272)	3,579	—	(146)	—	52,103
Gains from changes in fair value of AFS securities, net of tax	—	—	—	—	3,875	—	—	—	—	3,875
Revaluation of property	—	—	—	—	—	541	—	—	—	541
Translation difference on foreign operations	—	—	—	—	—	—	(88)	—	—	(88)
Establishment of new subsidiary	—	—	—	—	—	—	—	—	70	70
Realization of revaluation reserve upon disposals	—	—	—	—	—	(80)	—	80	—	—
Net income/(expense) recognized directly in equity	—	—	—	—	3,875	461	(88)	80	70	4,398
Net profit	—	—	—	—	—	—	—	9,249	(6)	9,243
Issue of shares	6,734	11,259	—	—	—	—	—	—	—	17,993
Issuance cost	—	(591)	—	—	—	—	—	—	—	(591)
Balance at 31 December 2005	45,804	21,540	—	—	2,603	4,040	(88)	9,183	64	83,146
Balance at 1 January 2006	45,804	21,540	—	—	2,603	4,040	(88)	9,183	64	83,146
Losses from changes in fair value of AFS securities, net of tax	—	—	—	—	(1,736)	—	—	—	—	(1,736)
Revaluation of property	—	—	—	—	—	605	—	—	—	605
Translation difference on foreign operations	—	—	—	—	—	—	(125)	—	—	(125)
Realization of revaluation reserve upon disposals	—	—	—	—	—	(262)	—	262	—	—
Net income/(expense) recognized directly in equity	—	—	—	—	(1,736)	343	(125)	262	—	(1,256)
Net profit	—	—	—	—	—	—	—	12,274	(5)	12,269
Dividends	—	—	—	—	—	—	—	(3,664)	—	(3,664)
Transfer to reserves	—	—	899	4,428	—	—	—	(5,327)	—	—
Balance at 31 December 2006	45,804	21,540	899	4,428	867	4,383	(213)	12,728	59	90,495

5. CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated.)

	For the year ended 31 December	
	2006	2005
Cash flows from operating activities:		
Net profit before taxation:	**17,405**	12,843
Adjustments for:		
Impairment of loans and advances to customers	**5,748**	4,549
Write-back of due from banks and financial institutions	**(117)**	(149)
Impairment of other receivables	**311**	327
Depreciation of property and equipment	**2,501**	2,364
Revaluation of property and equipment	**41**	9
Amortization of prepaid staff subsidies	**118**	38
Amortization of prepaid rental expenses	**180**	179
Amortization of land use rights	**3**	5
Amortization of computer software	**136**	105
Gains less losses arising from de-recognition of investment securities	**(58)**	(359)
Gains on disposal of fixed assets	**(54)**	(66)
Increase in the fair value of investment property	**(16)**	(46)
Losses on disposal of investment property	**5**	—
Accrued interest expense on subordinated term debt	**636**	557
Net increase in mandatory reserve deposits	**(30,774)**	(11,639)
Net decrease/(increase) in due from other banks and financial institutions	**53,155**	(55,578)
Net increase in financial assets held for trading	**(9,767)**	(733)
Net increase in loans and advances to customers	**(157,282)**	(131,710)
Net decrease in other assets	**3,613**	5,179
Net increase in due to other banks and financial institutions	**84,572**	52,383
Net (decrease)/increase in financial liabilities held for trading	**(831)**	4,469
Net increase in due to customers	**199,492**	190,898
Net decrease/(increase) in other liabilities	**1,548**	(352)
Net increase in business tax payable	**125**	161
Income tax paid	**(5,389)**	(215)
Net cash from operating activities	**165,301**	73,219
Cash flows from investing activities:		
Purchase of investment securities	**(486,037)**	(408,379)
Disposal or redemption of investment securities	**409,933**	346,965
Acquisition of intangible assets	**(164)**	(145)
Prepaid rental expenses	**(145)**	(172)
Purchase of land use rights	**—**	(72)
Disposal of land use rights	**13**	108
Purchase of property and equipment	**(3,258)**	(3,513)
Disposal of property and equipment	**490**	610
Disposal of investment property	**586**	—
Net cash used in investing activities	**(78,582)**	(64,598)

	For the year ended 31 December	
	2006	2005
Cash flows from financing activities:		
Issue of shares	**—**	17,402
Interest paid on subordinated term debt	**(636)**	(540)
Minority interest — capital contribution	**—**	70
Dividends paid	**(1,665)**	(5)
Net cash (used in)/from financing activities	**(2,301)**	16,927
Net increase in cash and cash equivalents	**84,418**	25,548
Cash and cash equivalents at the beginning of the period	**101,305**	75,757
Cash and cash equivalents at the end of the period	**185,723**	101,305
Major non-cash transactions		
Capitalization of translation difference on foreign operations	**125**	88
Transfer from fixed assets to other assets	**19**	—
Supplementary Information		
Interest received	**63,798**	49,120
Interest paid	**(23,405)**	(16,122)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies

The Group adopted IAS 19 Amendment and IAS 21 Amendment, and IFRIC 4 that were effective as at 1 January 2006. The application of above amendments and interpretations did not result in substantial changes to the Group's accounting policies and did not materially impact the consolidated financial statements for the two years ended 31 December 2005 and 2006. Other amendments and interpretations that were effective as at 1 January 2006 are not applicable to the Group's accounting policies.

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective as at 31 December 2006: IFRS 7, IFRS 8, IAS 1 Amendment, IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11, IFRIC 12. The application of these new standards, amendments and interpretations will not materially impact the Group's consolidated financial position in the period of initial application.

Except for the adoption of the above amendments and interpretations which are effective on financial periods on or after 1 January 2006, the accounting policies and basis of presentation of the financial statements of the Group are consistent with those adopted in the 2005 annual financial statements.

(2) Net Interest Income

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Year ended 31 December	
	2006	2005
Interest income		
Balances with central banks	**2,096**	1,815
Due from other banks and financial institutions	**6,141**	3,375
Trading securities	**—**	9
Loans and advances to customers	**45,321**	36,305
Investment securities	**10,855**	8,114
Others	**130**	62
	64,543	49,680
Interest expense		
Due to other banks and financial institutions	**(3,548)**	(1,548)
Due to customers	**(21,192)**	(16,541)
	(24,740)	(18,089)
Net interest income	**39,803**	31,591

	Year ended 31 December	
	2006	2005
Interest income accrued on loans and advances to customers individually identified with impairment	**553**	740
Interest income accrued on amounts due from other banks and financial institutions with impairment	**—**	—

(3) Other Operating Income

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Year ended 31 December	
	2006	2005
Profit on sales of land use rights and buildings	**54**	66
Sales of foreclosed assets and other assets	**148**	38
Revaluation surplus of investment property	**16**	46
Penalty income	**—**	9
Fund management income	**118**	17
Other miscellaneous income	**702**	453
	1,038	629

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers.

(4) Impairment Losses on Loans and Advances

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Year ended 31 December	
	2006	2005
Due from other banks and financial institutions and securities purchased under resale agreements, net	**(117)**	(149)
Loans and advances to customers	**5,748**	4,549
Less: recovery of loans previously written off	**(93)**	(102)
	5,538	4,298

(5) Other Operating Expenses

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Year ended 31 December	
	2006	2005
Staff costs	**7,391**	5,776
General and administrative expenses	**3,742**	3,080
Depreciation	**2,501**	2,364
Business tax and surcharges	**2,555**	2,109
Operating lease rentals	**849**	737
Impairment of other receivables	**311**	327
Regulator's supervision fee	**317**	259
Provision for/(Reversal of) outstanding litigation	**197**	(51)
Amortization of intangible assets	**136**	105
Revaluation deficit of property and equipment	**41**	9
Professional fees	**40**	34
Losses on sales of investment property	**5**	—
Amortization of land use rights	**3**	5
Others	**2,807**	3,258
	20,895	18,012

(6) Income Tax

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Year ended 31 December	
	2006	2005
Current tax		
— Mainland China income tax	**6,706**	786
— Hong Kong profits tax	**188**	139
— Overseas taxation	**245**	2
	7,139	927
Deferred tax	**(2,003)**	2,673
	5,136	3,600

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 the year ended 31 December 2006.

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 17.5%, on the estimated assessable profit for the year ended 31 December 2006. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the year ended 31 December 2006.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Bank at 33%. The reconciliation is as follows:

	Year ended 31 December	
	2006	2005
Profit before tax	**17,405**	12,843
Tax calculated at a tax rate of 33%	**5,744**	4,238
Effect of different tax rates in other countries	**(3)**	(58)
Tax credit arising from income not subject to tax *(note 1)*	**(970)**	(1,020)
Tax effect of expenses that are not deductible for tax purposes *(note 2)*	**365**	440
Income tax expense	**5,136**	3,600

Notes:

1. The income not subject to tax of the Group mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulation.

2. The expenses that are not tax deductible of the Group mainly represents a portion of expenditure, such as payroll, entertainment expenses etc, which is over the tax deduction limits in accordance with PRC tax regulation.

(7) Basic and Diluted Earnings per Share

Basic and diluted earnings per share is calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

(All amounts expressed in millions of RMB unless otherwise stated.)

	Year ended 31 December	
	2006	2005
Profit attributable to shareholders of the Bank	**12,274**	9,249
Weighted average number of ordinary shares in issue	**45,804**	42,581
Basic and diluted earnings per share (expressed in RMB per share)	**0.27**	0.22

(8) Segmental Information

The following table sets out the segmental information of the Group's operating results, assets and liabilities. The geographical segments are:

(i) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North Eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China — Including head office and the following provinces: Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(iv) Central & Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Overseas — Including overseas subsidiaries and the branches in the following cities: Hong Kong, New York, Singapore, Seoul and Tokyo.

Geographical Segment Information

(All amounts expressed in millions of RMB unless otherwise stated.)

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
As at 31 December 2006								
Assets								
Cash and balances with central banks	51,808	3,910	180,153	11,046	6,007	1,017	—	253,941
Due from other banks and financial institutions	21,239	497	72,037	5,508	472	22,971	(4,101)	118,623
Financial assets held for trading	—	—	8,599	—	—	4,396	—	12,995
Loans and advances to customers	162,029	55,830	376,947	179,744	79,490	53,667	2,600	910,307
Investment securities								
— loans and receivables	2,564	1,514	38,788	3,384	1,800	—	—	48,050
— available-for-sale	31,462	17,042	228,981	27,449	10,221	24,668	—	339,823
Other assets	11,229	8,241	29,155	13,129	7,227	7,646	(40,883)	35,744
Segment assets	280,331	87,034	934,660	240,260	105,217	114,365	(42,384)	1,719,483
Liabilities								
Due to other banks and financial institutions	(70,829)	(1,277)	(76,127)	(12,608)	(2,150)	(5,675)	—	(168,666)
Financial liabilities held for trading	—	—	(419)	—	—	(8,305)	—	(8,724)
Due to customers	(257,469)	(129,916)	(533,531)	(291,467)	(137,982)	(69,647)	(319)	(1,420,331)
Other liabilities	(3,408)	(1,103)	(37,046)	(3,520)	(1,521)	(27,372)	42,703	(31,267)
Segment liabilities	(331,706)	(132,296)	(647,123)	(307,595)	(141,653)	(110,999)	42,384	(1,628,988)
Net on balance sheet position	(51,375)	(45,262)	287,537	(67,335)	(36,436)	3,366	—	90,495
Acquisition cost of property and equipment and intangible assets	491	283	1,970	647	325	92	2	3,810

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
For the year ended 31 December 2006								
Interest income	10,545	4,574	36,034	11,870	5,253	5,602	(9,335)	64,543
Interest expense	(4,620)	(1,829)	(17,813)	(4,209)	(1,707)	(3,897)	9,335	(24,740)
Net interest income	5,925	2,745	18,221	7,661	3,546	1,705	—	39,803
Fee and commission income	387	233	1,355	578	261	662	—	3,476
Fee and commission expense	(79)	(39)	(169)	(98)	(45)	(173)	—	(603)
Net fee and commission income	308	194	1,186	480	216	489	—	2,873
Dividend income	2	—	75	9	—	37	—	123
Gains less losses arising from trading activities	276	63	(378)	158	31	(207)	—	(57)
Gains less losses arising from investment securities	41	—	6	—	—	11	—	58
Other operating income	132	37	554	136	43	136	—	1,038
(Reversal)/Impairment losses on loans and advances	(963)	(1,167)	(2,598)	(489)	(431)	110	—	(5,538)
Other operating expenses	(2,485)	(2,372)	(8,973)	(4,128)	(1,844)	(1,093)	—	(20,895)
Operating profit/(loss) before tax	3,236	(500)	8,093	3,827	1,561	1,188	—	17,405
Income tax	(1,348)	(270)	(1,057)	(1,466)	(604)	(391)	—	(5,136)
Net profit/(loss) for the year	1,888	(770)	7,036	2,361	957	797	—	12,269
Depreciation and amortization of property and equipment and intangible assets	(256)	(287)	(1,302)	(422)	(261)	(112)	—	(2,640)

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
As at 31 December 2005								
Assets								
Cash and balances with central banks	11,289	4,361	108,266	10,427	5,360	606	—	140,309
Due from other banks and financial institutions	25,492	2,091	113,979	10,733	3,160	15,230	(584)	170,101
Financial assets held for trading	—	—	112	—	—	3,116	—	3,228
Loans and advances to customers	128,284	52,192	318,138	145,998	68,932	42,569	2,660	758,773
Investment securities								
— loans and receivables	130	78	28,091	35	38	—	—	28,372
— available-for-sale	21,760	14,523	193,042	23,020	8,737	24,889	—	285,971
Other assets	23,315	8,732	7,568	15,723	8,039	10,561	(37,253)	36,685
Segment assets	210,270	81,977	769,196	205,936	94,266	96,971	(35,177)	1,423,439
Liabilities								
Due to other banks and financial institutions	(32,262)	(4,297)	(34,104)	(7,192)	(2,368)	(3,912)	41	(84,094)
Financial liabilities held for trading	—	—	(141)	—	—	(9,414)	—	(9,555)
Due to customers	(217,460)	(115,118)	(462,960)	(245,324)	(119,951)	(63,408)	3,382	(1,220,839)
Other liabilities	(4,909)	(2,759)	(22,485)	(6,827)	(3,197)	(17,382)	31,754	(25,805)
Segment liabilities	(254,631)	(122,174)	(519,690)	(259,343)	(125,516)	(94,116)	35,177	(1,340,293)
Net on balance sheet position	(44,361)	(40,197)	249,506	(53,407)	(31,250)	2,855	—	83,146
Acquisition cost of property and equipment and intangible assets	461	348	1,794	474	440	118	—	3,635

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
For the year ended 31 December 2005								
Interest income	8,205	3,912	27,416	9,281	4,271	3,028	(6,433)	49,680
Interest expense	(3,278)	(1,769)	(12,743)	(3,234)	(1,534)	(1,964)	6,433	(18,089)
Net interest income	4,927	2,143	14,673	6,047	2,737	1,064	—	31,591
Fee and commission income	321	190	930	470	186	447	—	2,544
Fee and commission expense	(50)	(38)	(128)	(81)	(33)	(105)	—	(435)
Net fee and commission income	271	152	802	389	153	342	—	2,109
Dividend income	—	—	39	3	—	3	—	45
Gains less losses arising from trading activities	218	54	(510)	125	24	509	—	420
Gains less losses arising from investment securities	103	—	258	17	—	(19)	—	359
Other operating income	33	18	249	58	33	238	—	629
(Reversal)/Impairment losses on loans and advances	(505)	(787)	(868)	(915)	(1,237)	14	—	(4,298)
Other operating expenses	(1,879)	(1,911)	(8,209)	(3,535)	(1,695)	(783)	—	(18,012)
Operating profit/(loss) before tax	3,168	(331)	6,434	2,189	15	1,368	—	12,843
Income tax	(1,046)	(216)	(609)	(1,113)	(392)	(224)	—	(3,600)
Net profit/(loss) for the year	2,122	(547)	5,825	1,076	(377)	1,144	—	9,243
Depreciation and amortization of property and equipment and intangible assets	(238)	(288)	(1,149)	(428)	(244)	(127)	—	(2,474)

(9) Financial Guarantees and Credit Related Commitments, Other Commitments and Contingent Liabilities

(All amounts expressed in millions of RMB unless otherwise stated.)

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group commits to extend to customers:

Group

	As at 31 December	
	2006	2005
Guarantees	**83,917**	49,623
Letters of credit	**28,375**	22,316
Acceptances	**166,094**	156,484
Other commitments with an original maturity of		
— Under 1 year	**24,694**	10,044
— 1 year and over	**10,953**	7,443
	314,033	245,910

Capital expenditure commitments

Group

	As at 31 December	
	2006	2005
Capital expenditure commitments for buildings	**335**	238

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases in respect of buildings are as follows:

Group

	As at 31 December	
	2006	2005
Not later than 1 year	**657**	555
Later than 1 year and not later than 5 years	**1,476**	1,320
Later than 5 years	**519**	466
	2,652	2,341

Commitments on security underwriting and bond acceptance

Group

	As at 31 December	
	2006	2005
Outstanding balance on security underwriting	**10,200**	—
Outstanding balance on bond acceptance *(note 1)*	**24,523**	17,686

Note 1: The Bank is entrusted by the Ministry of Finance ("MOF") to underwrite certain Certificates of Treasury Bond. The investors of Certificates of Treasury Bond 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 Certificates of Treasury Bond plus unpaid interest.

The original maturities of these bonds vary from 1 to 5 years.

The MOF will not provide funding for the early redemption of these Certificates of Treasury Bond on a back-to-back basis but will pay interest through maturity and repay the principal at maturity.

Legal proceedings

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at end of the year are as follows:

Group

	As at 31 December	
	2006	2005
Outstanding claims	**2,058**	2,261
Provision for losses	**995**	938

(10) Derivative Financial Instruments

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign exchanges including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC).

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet 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 price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

(All amounts expressed in millions of RMB unless otherwise stated.)

Group	Contract/ notional Amount	Fair values	
		Assets	Liabilities
As at 31 December 2006			
Foreign exchange derivatives			
Currency forwards	**36,419**	**35**	**(70)**
Currency swaps	**61,281**	**126**	**(68)**
Subtotal		**161**	**(138)**
Interest rate derivatives			
Forward rate agreements	**3,748**	**3**	**—**
Interest rate swaps	**34,401**	**213**	**(370)**
Cross currency interest rate swaps	**1,038**	**7**	**(49)**
OTC interest rate options	**1,710**	**8**	**(11)**
Subtotal		**231**	**(430)**
Total recognised derivatives		**392**	**(568)**

Group	Contract/ notional Amount	Fair values Assets	Liabilities
As at 31 December 2005			
Foreign exchange derivatives			
Currency forwards	11,215	51	(43)
Currency swaps	23,234	99	(8)
OTC currency options bought and sold	335	2	(1)
Subtotal		152	(52)
Interest rate derivatives			
Interest rate swaps	24,791	108	(220)
Cross currency interest rate swaps	3,532	36	(26)
OTC interest rate options	565	3	(3)
Subtotal		147	(249)
Total recognised derivatives		299	(301)

The tables above provide a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group undertakes its transactions in foreign exchange and interest rate contracts with other financial institutions and customers. Management has established limits on these contracts by counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	As at 31 December **2006**	2005
Derivatives		
— Exchange rate contracts	**264**	122
— Interest rate contracts	**101**	62
	365	184

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the China Banking Regulatory Commission ("CBRC") and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

Replacement costs

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	As at 31 December	
	2006	2005
Derivatives		
— Exchange rate contracts	**161**	152
— Interest rate contracts	**231**	147
	392	299

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 taken the effects of netting arrangements into account.

Notional amounts of derivative financial instruments by original currency

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	RMB	**US Dollars**	**HK Dollars**	**Others**	**Total**
As at 31 December 2006					
Notional amount of derivative financial instruments	**38,662**	**79,145**	**11,958**	**8,832**	**138,597**
As at 31 December 2005					
Notional amount of derivative financial instruments	2,100	31,006	25,006	5,560	63,672

(11) Dividends

(All amounts expressed in millions of RMB unless otherwise stated.)

	Year ended 31 December	
	2006	2005
Paid in the year	**1,665**	5

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(i) Making up prior year's cumulative losses, if any;

(ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under PRC accounting regulations;

(iii) Allocations to statutory general reserve;

(iv) Allocations to the discretionary revenue reserve fund if approved by the Bank's Annual General Meeting. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the distributable profit is deemed to be the lesser of (i) the distributable profit determined in accordance with PRC GAAP and (ii) the distributable profit determined in accordance with IFRS.

The dividends are recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting. At 31 December 2006, the aggregate amount of distributable profit was RMB12,635 million (2005: RMB8,991 million), being the distributable profit determined in accordance with IFRS (2005: PRC GAAP). On 8 March 2007, the directors proposed a cash dividend of RMB0.10 per share (2006: RMB0.08 per share), amounting to RMB4,580 million (2006: RMB3,664 million).

7. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Operation Overview

In 2006, the Group successfully achieved all of its yearly performance targets and brought its scale of operation and profitability to new heights. As of 31 December 2006, the Group's total assets was RMB1,719.483 billion, representing an increase of 20.80% 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 reached 0.71% and return on shareholders' equity reached 13.57%, representing an increase of 0.06 percentage points and 2.44 percentage points, respectively, as compared with the previous year. Average return on assets was 0.78% and average return on shareholders' equity reached 14.15%, representing an increase of 0.06 percentage points and 0.47 percentage points, respectively, compared to the previous year. Net interest spread was 2.70%, representing an increase of 12 basis points from the previous year. Net interest margin was 2.75%, representing an increase of 11 basis points over last year. Impaired loan ratio was 2.53%, representing a decrease of 0.27 percentage points compared to the beginning of the year. Provision coverage reached 72.83%, representing an increase of 14.44 percentage points, as compared with the beginning of the year. Capital adequacy ratio and Tier-1 capital adequacy ratio were 10.83% and 8.52%, respectively, representing a decrease of 0.37 percentage points and 0.26 percentage points, respectively, as compared with the beginning of the year.

(2) Business Review

(A) *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.

(B) *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 active 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 department, the PFS sales and service department, the PFS product management department, and the PFS financial risk management 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.

(C) *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.

(D) *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 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.

(E) *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" (股權信托), 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" (金融快綫), 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.

(3) Financial Results

The Group continued to strengthen its management foundation. Operating profitability increased steadily and the cost to income ratio remained under effective control. Return on assets and return on shareholders' equity also saw continuous growth.

(A) *Operating profit before tax*

For the year ended 31 December 2006, operating profit before tax was RMB17.405 billion, representing an increase of RMB4.562 billion or 35.52% over the last year. The primary sources of operating profit before tax were net interest income and net fee and commission income.

The table below shows certain information of the Group's operating profits before tax for the periods indicated:

	31 December 2006 Amount	31 December 2005 Amount
	(in millions of RMB)	
Net interest income	**39,803**	31,591
Net fee and commission Income	**2,873**	2,109
Impairment losses on loans and advances	**(5,538)**	(4,298)
Operating profit before tax	**17,405**	12,843

(B) *Net interest income*

For the year ended 31 December 2006, the Group realized a net interest income of RMB39.803 billion, representing an increase of RMB8.212 billion or 25.99% as compared with the previous year.

The table below sets forth the major components of the Group's interest income, interest expense and the associated net interest margin and net interest spread, for the periods indicated:

	As of 31 December	
	2006	2005
	(in millions of RMB, except percentages)	
Interest Income		
Balances with central banks	**2,096**	1,815
Due from other banks and financial institutions	**6,141**	3,375
Trading securities	**—**	9
Loans and advances to customers	**45,321**	36,305
Investment securities	**10,855**	8,114
Others	**130**	62
Total interest income	**64,543**	49,680
Interest expense		
Due to other banks and financial institutions	**(3,548)**	(1,548)
Due to customers	**(21,192)**	(16,541)
Total interest expense	**(24,740)**	(18,089)
Net interest income	**39,803**	31,591
Net interest spread(1)	**2.70%**(3)	2.58%
Net interest margin(2)	**2.75%**(3)	2.64%

Notes:

(1) This represents the difference between the average yield on the Group's total average interest-earning assets and the average cost of total average interest-bearing liabilities.

(2) This represents the ratio of net interest income to the average interest-earning assets.

(3) This eliminates the impact of wealth management products.

Net interest spread and net interest margin increased slightly as compared with the previous year. The increase was mainly due to: (1) the loan structure adjustment so that among the total customer loans, the discounted bills decreased whereas the mid and short term loans increased; (2) the two time revision of benchmark interest rate by the People's Bank of China during the year. Such revision is favorable to the increase in return on loans, thus resulting in an increase of 32 basis points from the previous year; and (3) a significant increase in market interest rate of US dollars as compared to the last year, leading to an increase in the return on the relevant assets.

The table below shows the average daily balances and the interest rates of the Group's interest-earning assets and interest-bearing liabilities for the dates indicated:

	As of 31 December					
	2006			2005		
	Average balance[(1)]	**Interest income (expense)**	**Average Yield/(cost)**	Average balance[(1)]	Interest income (expense)	Average yield/ cost
	(in millions of RMB, except percentage)					
Assets						
Cash and balances with central banks	**146,190**	**2,096**	**1.43%**	125,179	1,815	1.45%
Due from other banks and financial institutions	**142,158**	**6,141**	**4.32%**	112,776	3,375	2.99%
Loans and advances to customers	**818,166**	**45,321**	**5.54%**	694,903	36,305	5.22%
Investment securities and others	**351,993**	**10,985**	**3.12%**	265,921	8,185	3.08%
Total interest-earning assets	**1,446,109[(2)]**	**64,005[(2)]**	**4.42%**	1,198,779	49,680	4.14%
Non interest-earning assets	**71,814**			50,988		
Total assets	**1,517,923[(2)]**			1,249,767		
Liabilities and Shareholders' equity						
Due to customers	**1,303,524**	**21,192**	**1.63%**	1,095,578	16,541	1.51%
Due to other banks and financial institutions	**100,215**	**2,974**	**2.97%**	51,793	991	1.91%
Subordinated bonds	**12,000**	**574**	**4.78%**	12,210	557	4.56%
Total interest-bearing liabilities	**1,403,341[(2)]**	**24,202[(2)]**	**1.72%**	1,159,581	18,089	1.56%
Shareholders' equity and non interest-bearing liabilities	**114,582**			90,186		
Total liabilities and shareholders' equity	**1,517,923[(2)]**			1,249,767		

Notes:

(1) Daily average balance calculated in accordance with the PRC GAAP and adjusted in accordance with IFRS.

(2) This eliminates the impact of wealth management products.

The table below shows the changes in the Group's interest income and interest expenses due to changes in transaction volume and interest rates. Transaction volume and interest rate variances have been calculated based on movements in average balances over these periods and changes in interest rates on interest-earning assets and interest-bearing liabilities.

	2006 vs. 2005			2005 vs. 2004		
	Increase/(decrease) due to			Increase/(decrease) due to		
	Volume	**Interest rate**	**Net increase/ decrease**	Volume	Interest rate	Net increase/ decrease
			(in millions of RMB)			
Interest-Earning Assets						
Cash and balances with central banks	**305**	**(24)**	**281**	221	(261)	(40)
Due from other banks and financial institutions	**879**	**1,887**	**2,766**	333	811	1,144
Loans and advances to customers	**6,434**	**2,582**	**9,016**	6,053	1,965	8,018
Investment securities and other interest-earning assets	**2,651**	**149**	**2,800**	2,442	(236)	2,206
Change in interest income	**10,269**	**4,594**	**14,863**	9,049	2,279	11,328
Interest-Bearing Liabilities						
Due to customers	**3,140**	**1,511**	**4,651**	2,048	2,462	4,510
Due to other banks and financial institutions	**925**	**1,058**	**1,983**	325	(188)	137
Subordinated bonds	**(10)**	**27**	**17**	274	8	282
Changes in interest expenses	**4,055**	**2,596**	**6,651**	2,647	2,282	4,929

(C) *Net Fee and Commission Income*

For the year ended 31 December 2006, the Group achieved a net fee and commission income of RMB2.873 billion, representing an increase of RMB0.764 billion or 36.23% compared to the previous year. The increase was primarily due to the following reasons: (1) the Pacific Credit Card business recorded simultaneous increases in card volume and consumption per card, giving rise to a robust growth in the card business income. Transaction volume of and revenue from international settlement increased significantly; (2) In 2006, the Bank underwrote thirteen short-term financing bonds. For the year ended 31 December 2006, the commission income of underwriting business amounted to RMB88.44 million, representing an increase of 215% over the previous year. The total market share of the Group was 10.95%, ranked fourth in the country. (3) For the year ended 31 December 2006, the value of assets under custody increased by 24% compared to the previous year, giving rise to an income from custodian business of RMB143 million, representing an increase of 23% from the previous year.

(D) *Other operating expenses*

For the year ended 31 December 2006, the other operating expenses of the Group amounted to RMB20.895 billion, representing an increase of RMB2.883 billion or 16.01% from the previous year.

The cost-to-income ratio of the Group continued its descending trend: from 51.24% in the previous year to 47.66% as of the end of the Reporting Period, representing a decrease of 3.58 percentage points. The decrease was mainly due to a substantial increase in operating income by 24.71%, which exceeded the 16.01% increase in operating expenses. A series of cost control measures also attributed to this satisfactory result.

(E) *Impairment losses on loans and advances*

The Group's impairment losses on loans and advances consisted of impairment losses on impaired loans and advances to customers (less recovery of loans previously written off) and the provision for balances due from other banks and financial institutions as well as securities purchased under resale agreements.

The impairment losses on loans and advances increased from RMB4.298 billion in the previous year to RMB5.538 billion in the Reporting Period. The credit cost ratio reached 0.60%, representing an increase of 0.04 percentage points.

(4) Assets

As of 31 December 2006, the Group's total assets amounted to RMB1,719.483 billion, achieving an increase of RMB296.044 billion, or 20.80% from the previous year. The four principal components of our assets were loans and advances to customers, investment securities, due from other banks and financial institutions, and cash and balances with central banks, representing 52.94%, 22.56%, 6.90% and 14.77%, respectively of the Group's total assets.

(A) *Loan business*

In response to China's macroeconomic reform policy, the Group made great efforts in maintaining the growth of the loan business within a sustainable scale at a moderate pace, restructuring the loan portfolio and diverging from the relatively less profitable bill discounting business. As of 31 December 2006, the Group's total outstanding loans and advances to customers (before provision and after interest, similarly hereinafter unless otherwise stated) amounted to RMB927.405 billion, representing an increase of RMB156.031 billion or 20.23% from the beginning of the year; while the loans to deposits ratio (excluding any interest receivable and interest payable) reached 65.52%, achieving an increase of 2.07 percentage points from the beginning of the year. The customers loans other than discounted bills became the major component contributing to the surge of loans and advances to customers. Such loans increased by RMB143.356 billion or 20.23% from the beginning of the year and accounted for 91.88% of the increase in the total loans and advances to customers. The balance of discounted bills increased by RMB11.929 billion or 19.60% from the beginning of the year, contributing to 7.65% of the increase in the total loans and advances to customers.

(i) *Loan concentration by industries*

The Group has effectively managed industry risk, by adjusting policy on loan portfolio, strengthening industry-specific guidance, refining the loan concentration by industries and maintaining a sustainable loan portfolio. The Group's loan portfolio covered a wide spectrum of industries, with relative concentration in manufacturing, trading, real estate, transportation and public utilities. Of such industries, loans to the manufacturing industry recorded a net increase of RMB30.386 billion over the beginning of the year and accounted for 25.96% of the total loans and advances to customers, representing a decrease of 1.31 percentage points compared to the beginning of the year. Loans to the trading industry recorded a net increase of RMB8.968 billion over the beginning of the year and accounted for 8.84% of the total loans and advances to customers, representing a decrease of 0.62 percentage points compared to the beginning of the year. Loans to the real estate industry recorded a net decrease of RMB5.049 billion over the beginning of the year and accounted for 7.11% of the total loans and advances to customers, representing a decrease of 0.79 percentage points compared to the beginning of the year. Loans to the transportation and public utilities sectors recorded a net increase of

RMB40.968 billion over the beginning of the year and accounted for 16.86% of the total loans and advances to customers, representing an increase of 1.91 percentage points compared to the beginning of the year.

(ii) *Borrower concentration*

Under the existing PRC banking regulations, the total outstanding credit exposure to a single group customer must not exceed 15% of the net regulatory capital of a bank whereas the total outstanding loans to a single borrower shall not exceed 10% of the net regulatory capital of a bank. The Group currently complies with these regulatory requirements.

(iii) *Loan concentration by geographical locations*

The Group's loans and advances to customers concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta regions. Loans to borrowers from the above regions accounted for 64.26% of the total loans and advances to customers outstanding (excluding interest receivable) as of 31 December 2006.

(iv) *Loan Quality*

The Group continued to enhance asset risk management to maintain stable loan quality. Supervision efficiency significantly improved as a result of the following measures: having regular meetings for key risk projects; establishing and operating a centralized and inter-departmental asset risk management system; launching the "Qianliyan Economic Intelligence System" as a risk monitoring system; and expanding the scope of the risk monitoring system to the three main areas including credit risk, market risk and operational risk. As of 31 December 2006, the impaired loan ratio was 2.53%, down by 0.27 percentage points as compared with the percentage as of the end of the previous year; credit-cost ratio was 0.60%, up by 0.04 percentage points as compared with the ratio as of the end of the previous year; and the provision coverage of impaired loans has increased from 58.39% at the end of last year to 72.83%. Taking into account the statutory and general reserves of RMB4.428 billion, the Group's provision coverage of impaired loans stood at 91.69%. According to the methods of computation adopted by the PRC regulatory authorities, the Group's provision coverage of non-performing loans at the end of Reporting Period reached 114.69%.

Impaired loan is a concept defined under the International Financial Reporting Standards. A loan is impaired if there is objective evidence that not all amounts due would be recovered under the original contract terms of such loan.

The table below shows certain information of the Group's individually identified impaired loans and loans overdue by 90 days or more, as of the dates indicated:

	31 December 2006	31 December 2005
	(in millions of RMB, except percentage)	
Individually identified impaired loans	**23,477**	21,579
Loans overdue by 90 days or more	**18,369**	17,267
Loans with impairment to gross loans balance (percentage)	**2.53%**	2.80%

The Group monitors the quality of its loan portfolio in accordance with the five-category loan classification guidelines prescribed by the People's Bank of China. Pursuant to the guidelines, commercial banks in the PRC are required to classify their loans into the following five categories of asset quality: (1) "**pass**", (2) "**special-mentioned**", (3) "**sub-standard**", (4) "**doubtful**" and (5) "**loss**". A loan is classified as a "**non-performing loan**" if it is classified as "**sub-standard**", "**doubtful**" or "**loss**".

The table below sets forth the five-category loan classification of the Group's loan balance as of the dates indicated:

	31 December 2006		31 December 2005	
	Amount	**% of Total**	Amount	% of Total
	(in millions of RMB, except percentage)			
Pass	**807,023**	**89.93%**	652,653	85.52%
Special-mentioned	**72,303**	**8.06%**	92,473	12.11%
Sub-standard	**8,358**	**0.93%**	9,770	1.28%
Doubtful	**8,787**	**0.98%**	7,935	1.04%
Loss	**889**	**0.10%**	363	0.05%
Percentage of non-performing loans to gross loan balance		**2.01%**		2.37%

(v) *Borrowers' Structure*

Over the recent years, the Group strives to optimize its credit structure through geographical, industrial, clientele and business diversity. Targeting at prominent enterprises in quality industries located at key regions, the Group implemented various measures such as enhancement of credit policy, provision of more guidance to front line personnel and improvement of quality and efficiency of customer sales and marketing services in order to optimize the customer structure. As of 31 December 2006, corporate customers of the Group's domestic institutions were classified based on the 10-class credit rating system. Compared to the beginning of the year, the proportion of outstanding loans to class 1 to class 5 high quality customers increased by 4.30 percentage points to 71.90% while those of class 6 to class 7 customers decreased by 6.10 percentage points to 20.60%, and those of class 8 to class 10 high risk customers decreased by 0.20 percentage points to 2.20%. Credit business for small enterprises improved significantly, as a result of product innovation and operational improvement. The launch of the new product "Zhanye Tong" (展業通), the design and development of our small enterprise credit rating assessment score card, and the enhancement of small enterprise credit process, altogether contributed to the growth in this business segment. As of 31 December 2006, total loan outstanding to domestic small enterprises increased by 27.70% compared to the previous year.

(B) ***Treasury operation***

The Group strengthened its fund management business. It deployed non-credit assets, taking into consideration the liquidity and security of these assets. In addition, the Group carried out innovations in treasury products and improved its profit position in the treasury operation. As of 31 December 2006, the Group's average balance of investment securities amounted to RMB351.993 billion, representing an increase of RMB86.072 billion or 32.37% from the previous year. This increase was higher than the growth rate in balances with central banks and other banks, thereby enhancing the future profitability of the Group's assets.

As of 31 December 2006, the Group ranked fifth in the RMB money market in terms of the aggregate transaction amount. It continues to maintain an active trading market position.

(5) Liabilities

As of 31 December 2006, the total liabilities of the Group amounted to RMB1,628.988 billion, representing an increase of RMB288.695 billion or 21.54% from the previous year. The amount due to customers represented 87.19% of the Group's total liabilities. The principal sources of funds were from corporate and individual deposits. The sound deposits structure ensured a stable source of funds for the Group. During the Reporting Period, corporate deposits and individual deposits recorded an increase of 17.58% and 12.14%, respectively, thereby providing a stable source of funds for loan and investment business.

The table below sets forth the Group's corporate and individual deposits structure as of the dates indicated:

	31 December 2006	31 December 2005
	(in millions of RMB)	
Corporate deposits	**755,719**	642,735
in which: Corporate current deposits	**457,839**	407,228
Corporate savings deposits	**5,878**	4,232
Corporate time deposits	**292,002**	231,275
Individual deposits	**488,599**	435,718
in which: Individual current deposits	**185,521**	162,757
Individual savings deposits	**14,182**	9,725
Individual time deposits	**288,896**	263,236

(6) Geographical Segments

(A) *Segmental operating results by geographical segments*

A geographical segment refers to a specific economic environment under which the Group operates and which gives rise to risks and returns that are different from other economic environments in which the Group operates.

The table below shows the net profit and total revenue from each of the Group's geographical segments as of the dates indicated:

	31 December 2006		31 December 2005	
	Net profit/ (loss)	**Total revenue[1]**	Net profit/ (loss)	Total revenue[1]
		(in millions of RMB)		
Northern China[2]	**1,888**	**11,383**	2,122	8,880
Northeastern China[3]	**(770)**	**4,907**	(547)	4,174
Eastern China[4]	**7,036**	**37,646**	5,825	28,382
Central and Southern China[5]	**2,361**	**12,751**	1,076	9,954
Western China[6]	**957**	**5,588**	(377)	4,514
Overseas[7]	**797**	**6,241**	1,144	4,206
Eliminations	**—**	**(9,335)**	—	(6,433)
Total[8]	**12,269**	**69,181**	9,243	53,677

Notes:

(1) Including interest income, fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from de-recognition of investment securities and other operating income (similarly hereinafter).

(2) Including Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region (similarly hereinafter).

(3) Including Liaoning Province, Jilin Province and Heilongjiang Province (similarly hereinafter).

(4) Including Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province (similarly hereinafter).

(5) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province (similarly hereinafter).

(6) Including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region (similarly hereinafter).

(7) Including overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo and Seoul (similarly hereinafter).

(8) Including minority interests.

(B) *Segmental Deposit/Loan results by geographical segments*

The table below sets forth the deposit balance and loan balance from each of the Group's geographical segments as of the dates indicated:

	31 December 2006		31 December 2005	
	Deposit Balance(1)	**Loan Balance(2)**	Deposit Balance(1)	Loan Balance(2)
		(in millions of RMB)		
Northern China	**255,802**	**164,116**	216,346	129,729
Northeastern China	**128,824**	**58,739**	113,906	53,962
Eastern China	**530,266**	**381,356**	456,569	320,533
Central and Southern China	**289,917**	**182,059**	243,909	148,064
Western China	**137,161**	**81,658**	119,048	71,027
Overseas	**69,648**	**56,897**	63,047	46,225
Total	**1,411,618**	**924,825**	1,212,825	769,540

Notes:

(1) Net of interest payable

(2) Net of interest receivable

(C) *Segmental operating results by business segments*

The Group's business is mainly divided into four business segments: corporate banking, retail banking, treasury and others. Corporate banking segment remained the primary source of profit for the Group and accounted for 88.91% of its profit before tax.

The table below shows the operating results of each of the Bank's business segments as of the dates indicated:

	2006	2005	**2006**
	Total Revenue	Total Revenue	**Operating profit before tax**
		(in millions of RMB)	
Corporate banking	**41,254**	33,248	**15,474**
Retail banking	**8,548**	6,282	**4,870**
Treasury	**18,512**	13,323	**1,648**
Others	**867**	824	**(4,587)**
Total[1]	**69,181**	53,677	**17,405**

Note:

(1) Including minority interests.

(7) Capital Adequacy Ratio

As of 31 December 2006, the Group's capital adequacy ratio was 10.83% and the Tier-1 capital adequacy ratio was 8.52%, representing a decrease of 0.37 percentage points and 0.26 percentage points, respectively, from the previous year. The decrease in the Group's capital adequacy ratio was due to (1) the increase in the weighted risk assets resulting from normal business growth; and (2) the relatively strained growth of net capital, as the Group had no external financing during the Reporting Period and subordinated bonds, which were recorded in the supplementary capital, decreased gradually over the years.

In addition, the Group's strong and stable management system, optimized business structure and sound operating performance, altogether curtailed the drop in capital adequacy ratio.

The capital adequacy ratio above is calculated in accordance with the formula promulgated by CBRC and relevant methods of computation.

(8) Outlook

Looking forward, 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.

8. FINAL DIVIDEND

As of 31 December 2006, the aggregate amount of distributable profit of the Bank, being the lesser of the distributable profits determined in accordance with PRC GAAP and that with International Financial Reporting Standards, amounted to RMB12.635 billion. The Board proposed a cash dividend of RMB0.10 per share, amounting to a total of RMB4.58 billion. The profit distribution plan is subject to approval by shareholders at the 2006 annual general meeting.

9. PURCHASE, SALE OR REDEMPTION OF SHARES OF THE BANK

During the Reporting Period, none of the Bank or any of its subsidiaries has purchased, sold or redeemed any shares of the Bank.

10. COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The directors of the Bank confirmed that throughout the year ended 31 December 2006, the Bank had been in compliance with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By order of the Board
Bank of Communications Co., Ltd.
Jiang Chaoliang
Chairman

Hong Kong, PRC, 8 March 2007

*As at the date of this announcement, the directors of the Bank are Mr. Jiang Chaoliang**, Mr. Li Jun, Mr. Peng Chun, Mr. Zhang Jixiang, Mr. Hu Huating*, Mr. Peter Wong Tung Shun*, Ms. Laura M Cha*, Mr. Li Keping*, Mr. Li Zexing*, Mr. Gao Shiqing*, Mr. Shen Weiming*, Mr. Li Guanglin*, Mr. Qian Ping*, Mr. Xie Qingjian#, Mr. Ian Ramsay Wilson#, Mr. Thomas Joseph Manning#, Mr. Chen Qingtai#, and Mr. Li Ka-cheung, Eric#.*

* *Non-executive Directors*
\# *Independent Non-executive Directors*

Please also refer to the published version of this announcement in ***South China Morning Post.***