

## PRESIDENT



Vice Chairman,  
Executive Director and President  
**Mr. Chang Zhenming**

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## PRESIDENT'S REPORT

I am pleased to report on another fruitful year for the Bank. Not only did we successfully introduce strategic investors and list in Hong Kong, but also made great progress in reforming the Bank's risk management, internal control and management systems, improving service quality and exploiting new markets.

We set ourselves ambitious targets over the past three years and I am pleased to report that we have achieved them. The Bank has completed its legal restructuring from a wholly state-owned commercial bank to a publicly listed joint-stock company. We have strengthened our risk management and corporate governance, and improved our asset quality and capital adequacy.

We are proud that our achievements have been broadly recognised both at home and abroad: we were awarded "Bank of the Year" for China by *The Banker* magazine, and "House of the Year, China" by *Asia Risk* magazine in 2005.

### FINANCIAL HIGHLIGHTS

Profit before tax rose to a record RMB 55,364 million, up 8.1% compared with 2004, attributable to the continuing increase in net interest income and net fee and commission income. As the income tax exemption in relation to our restructuring expired on 30 June 2005, income tax rose correspondingly. Thus, net profit slightly decreased by 4.0% to RMB 47,096 million. Excluding the income tax exemption in relation to our restructuring, our net profit increased by RMB 5,681 million, or 16.9%, compared to that of 2004 on the same basis.

Net interest income increased by 14.8% to RMB 116,551 million, which was mainly attributable to the stable growth in our lending business. The increase in interest-earning assets was greater than that of interest-bearing liabilities due to the proceeds from the IPO, and this increase offset narrower net interest spread, resulting in a relatively stable net interest margin.

We were committed to diversifying our fee and commission based services, and expanded the range of services during the year. Net fee and commission income increased by 30.7% to RMB 8,455 million and now contributes 6.6% of total operating income, as compared to 5.7% in 2004 and 4.6% in 2003.

General and administrative expenses rose by 8.7% to RMB 58,092 million mainly as a result of the increase in staff costs due to improving business performance. We are working to create a culture of cost control across the Bank, and the cost-to-income ratio was driven down further from 46.87% to 45.13%.

Our loan book continued to grow, with an increase of 10.4%, or RMB 231 billion, to RMB 2,458 billion. Strong growth has been seen in lending to infrastructure industries such as transportation and electricity generation, and to industries with large growth potential such as petrochemicals. Despite the PRC government's macroeconomic measures to dampen speculation in the property market, we increased our market share in the residential mortgage market by promoting our strong brand, superior customer service and product innovation. Compared with that as at 31 December 2004, personal mortgage loans increased by 12.5% as at 31 December 2005. In the meantime, we expended significant effort in improving our credit risk monitoring and credit operation processes and enhancing risk management techniques. Accordingly, overall loan portfolio quality has improved, with the non-performing loan ratio further dropping to 3.84% at 31 December 2005.

The Bank's capital adequacy ratio as at 31 December 2005 was 13.57% compared with 11.29% a year earlier, largely due to net proceeds of RMB 72,550 million from our IPO.

### OPERATION REVIEW

The Bank entered into agreements with two strategic investors, Bank of America and AFH, for comprehensive cooperation in a number of key areas. We look forward to implementing best practices in these areas to add to the progress we made in the past several years.

## PRESIDENT'S REPORT

In 2005, we made good progress with innovations in products and services and introduced a series of new credit products targeting small and medium-sized enterprises. As part of our expansion of fee and commission based services, we have established CCB Principal Asset Management Co., Ltd. to provide fund management services to investors. In addition, we are the first to provide RMB denominated financial derivative products among the big four commercial banks in China with our "Profit from Interest". We also launched customised financial products, such as personal gold trading and "Lucky Bankbook".

To attain our strategic goals, the Bank is in the process of reorganising and reforming several key areas such as risk management and human resources. We have invested heavily in technology, and our data processing centres and management systems have allowed us to better manage our business and implement changes. We are moving towards a more business-unit focused style of management and have optimised our organisational structure to react to the market more efficiently and effectively.

These changes have enhanced and will continue to enhance our capabilities, enabling us to achieve our objectives in coming years.

### THE YEAR AHEAD

We are operating in a dynamic market and will face many challenges in 2006. More stringent regulatory requirements, greater competition from domestic banks and the foreign banks entering China under the WTO, and liberalisation of interest rates and RMB exchange rate will test our ability to react and adapt to changes. We are confident that with the changes implemented over the past several years we are well equipped to realise our strategic goals to maximise returns to shareholders, better serve customers, reward our staff and contribute to society. The Bank intends to focus its resources and efforts on the following areas in the year ahead:

- We are committed to implementing a customer-focused and market-oriented culture in the Bank to increase the quality of and innovation in our products. By providing better services and tailor-made products, we aim to increase brand awareness and market share.
- We will focus marketing efforts in our core lending business on targeting quality customers and developing businesses in more developed geographical regions and key industries. Lending to infrastructure projects and small and medium-sized enterprises are key growth areas, and we will continue to build on the progress we have made in growing our personal lending business and fee and commission based services.
- Internally, we will strengthen our asset and liability management and treasury operations, continue reforms of key management processes and information systems, and develop our expertise in disposing of non-performing assets. We also plan to reform our human resources, performance and remuneration policies by improving resource allocation and actively exploring ways to increase incentives for staff.

Looking forward, I believe in the coming year, led by Mr. Guo Shuqing, with concerted efforts throughout the Bank, further cooperation with strategic investors and the support of the board, employees, customers and business partners, we will be able to make further progress after our listing.



*Vice Chairman, Executive Director and President*

6 April 2006

## CHAIRMAN OF THE BOARD OF SUPERVISORS



The Bank continued to improve its corporate governance in 2005. With the introduction of strategic investors, and successful listing in Hong Kong, the bank's businesses developed in a healthy manner, operating efficiency grew steadily, and financial position improved further with non-performing assets maintained at a low level.