

## FINANCIAL HIGHLIGHTS

UNIT: MILLIONS OF RMB

	2000	1999
<b>For the Year:</b>		
Income Before Taxes	8,483	7,366
Net Income	7,540	4,958
Interest Income	99,237	110,883
Interest Expenses	49,122	59,707
Non-interest Income	5,200	4,850
Non-interest Expenses	46,832	48,660
Including: Operating Expenses	27,475	25,396
<b>At Year-End:</b>		
Total Assets	2,531,695	2,201,065
Total Loans	1,386,386	1,200,945
Total Liabilities	2,416,845	2,094,196
Total Deposits	2,010,284	1,764,433
Owner's Equity	114,850	106,869
Paid-in Capital and Reserves	105,844	101,911
Retained Earnings	9,006	4,958
<b>Other Performance Indicators: (%)</b>		
Income Before Taxes / Owner's Equity	7.39	6.89
Income Before Taxes / Total Assets	0.34	0.33
Interest Income / Total Revenue	95.02	95.81
Interest Expenses / Total Expenses	51.19	55.10
Income Before Taxes / Operating Expenses	30.88	29.00



## STATEMENT OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The year 2000 provided a historical platform for our people at China Construction Bank ("CCB" or the "Bank") to review our successes and to anticipate the advent of a new millennium. Our record-setting profits are the result of the efforts of our employees channelling their energies to make CCB the leading domestic bank. At the threshold of the new century, our record performance marks a starting point from which our corporate spirit of innovation and excellence will lead us to pursue even greater success. I believe, with full confidence, the 21st century holds a brighter future for our bank.

In the past decade, the powerful trend of financial globalisation of world economies has brought about fundamental changes in the financial services industry. A great number of mergers and acquisitions, along with technology and product innovations, have changed the worldwide financial landscape forever. In China, the ongoing structural reform of the financial system, the expansive growth of the domestic economy and the advancement of our standard of living have brought prosperity to the financial services industry. Faced with this exciting environment of change and growth, our employees committed to exploring new opportunities to advance the commercialisation process of the Bank. Our mission to develop CCB into a commercial bank built on the highest international standards is unobstructed, and is a goal that we are actively pursuing every day.

### RECORD-SETTING PERFORMANCE

2000 was a breakthrough year for the Bank. Profit before tax reached RMB 8.5 billion, a 15.2% increase with solid growth across all business lines. Total assets increased by over 15%, reaching RMB 2.5 trillion at December 31, 2000, driven by a 15.4% increase in loans, to RMB 1.4 trillion. Customer deposits also grew substantially, by 13.9% to RMB 2 trillion. Investment income and other non-interest income reached RMB 20.5 billion, increasing its share of total operating income by 10.8 percentage points. Our efforts to control costs, enhance our non-interest based service income sources and improve our investment returns were very successful, as all of these measures contributed to our strong performance this year.

In 2000, we also continued to make significant efforts to improve our asset quality, reducing our non-performing loan ratio by 1.8 percentage points. We also carefully controlled the direction of our capital expenditures by focusing future investment on building information technology and new product and service capabilities. We believe these investments will help our bank build a stronger foundation for future development.



## SETTING A VISION

We recognise the importance of setting goals for our bank and our people that are challenging, yet realistic and achievable. Through a detailed analysis of our own strengths and weaknesses, business opportunities and competitive threats, we have developed a single-minded objective for all of our employees to pursue: Develop CCB into a universal bank, providing full-service customer attention and banking services through an effective combination of international practices tailored to the Chinese environment and structure. Through continued growth in our domestic banking model, as well as increased emphasis on expanding our overseas presence and service capabilities, we believe significant, meaningful changes will occur in the management and operations of our bank.

Facing a highly competitive market, but one with significant growth potential, we have repositioned our operations to focus on four major business lines - corporate banking, personal banking, real estate business and intermediary services. In addition, we have developed specific marketing strategies within each of these business lines to address the four cornerstones of our operations - industries, products, regions and customers. The identification of our marketing position and marketing strategy defines how we direct our investment and resources.

## CORPORATE GOVERNANCE

In order to facilitate the delivery and management of this strategy, we have begun to reorganise our corporate structure at the head office and consolidate business operations at the branch level. We expect these restructuring efforts will yield greater control and supervision, stronger and more cost efficient banking operations, and quicker customer response time throughout our vast banking network. We are not afraid to make the hard choices that will help the Bank become more profitable, more flexible and more efficient in many key areas in the longer term.

A sound corporate governance structure begins with a "tone from the top" that stresses sound business decision-making and that supports the development of a comprehensive internal control system. In 2000, we accomplished this leadership and direction through two primary activities. During the year, the State Council appointed a Supervisory Board to assist in ensuring the healthy development and focused direction of our bank. The changes we have made in our internal audit reporting structure call for direct accountability by branch internal audit operations to Head Office Internal Audit Department, while maintaining their close communication with branch management. This change will strengthen the internal communication and monitoring of provincial branch and sub-branch activities, and provide more effective control over these operations.

Another critical element of corporate governance is the maintenance of a sound financial management function, including relevant policies and procedures. We have made significant strides in this area during the year also, as part of our overall emphasis on greater risk management.

## INNOVATION IN TECHNOLOGY AND PRODUCT DEVELOPMENT

We are obsessed with innovation - new uses of technology, creative ways to meet our client's needs, and the integration of better management methodologies all depend greatly on the ability of our people to think in new and different ways.

The brilliant achievements of the 20th century are largely built upon the development of information technology. This great invention of mankind will reach even a higher level of perfection in the next century. The continued development of our information technology capability is of extreme importance to our overall development strategy. Our efforts to date have helped us reduce operating costs, improve market competitiveness, and integrate our technology with our leading-edge client services. The introduction of a complete city network of comprehensive banking operations, the establishment of instantaneous funds clearing and settlement systems for our individual and corporate customers, and the advent of internet banking are all very recent successful application of technology. These achievements contributed significantly to the growth of our various business lines as well as to the strength of our internal control system. Centralisation and standardisation are goals of our information technology development and we are determined to reach these goals within the next few years.

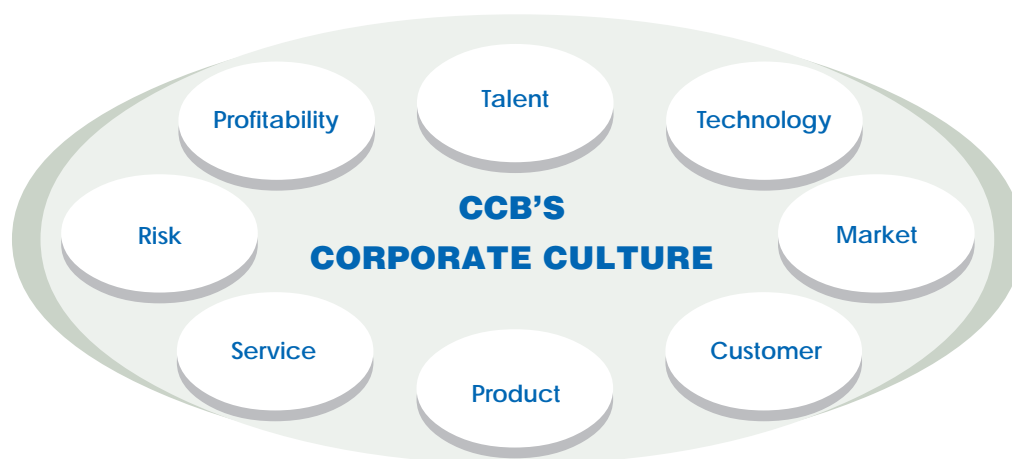
2000 also marked a year of great successes in product innovation for CCB. The formal launch of our mobile-phone banking, the successful introduction of a new teller system in Shanghai, and the establishment of customer service centres are prime examples of our leadership abilities at work. 2000 is also the first year that we participated in large RMB loan syndication, a major step forward in our effort to find creative ways to address our customers' banking issues and actively manage the Bank's risk profile. I believe that continued innovation in these areas and others will improve not only our banking services to our customers, but also the way in which we manage our business.



## HUMAN RESOURCES AND CORPORATE CULTURE

The competition in the 21st century will be fierce - not only in the speed and diversity of our product offerings but also in terms of talent. As a seasoned veteran of the banking industry my years of experience have taught me that we do not lack talent, we simply lack ways of providing the right opportunities to the right staff. We believe in respect and commitment to our people, and to their continuing development. We will accomplish this by implementing more relevant incentive systems and diversified training programs and by improving our hiring policy. Our management team will do its best to provide as many opportunities as possible to our talented employees to prepare them for future challenges.

Building the right corporate culture is critical for CCB to achieve its future success. Our management philosophy and principles shape the soul of our bank, and in turn, it reflects in the way we manage our business. Innovation and excellence are the goals that we encourage everyone at CCB to pursue. We firmly believe the eight key elements of our corporate culture, the invisible platform upon which our bank is built, will take us to our destination.



## OUTLOOK FOR 2001

The new millennium marks a new beginning for CCB. The pending WTO accession will not only provide opportunities but also challenges from stronger, more agile financial services companies from overseas. However, I believe that the continued development of China will create an excellent economic environment for our bank in 2001. Solid growth in GDP will endorse my optimism.

Our plan for 2001 is clear: we must maintain our strong domestic market leadership position; we must continue to expand our international businesses to key financial centres; we must continue to improve our asset quality and credit and funding portfolio structures; and we must enhance our customer service capabilities and product innovation. Delivery of this plan will depend greatly on our ability to get the fundamentals right: implementing a quality financial management system, accomplishing our internal restructuring goals, allocating our resources effectively, and most importantly, staying focused on the needs of our valued customers. Our investment in technology, in product innovation, and in the development and retention of our people must and will continue.

I would like to take this opportunity to extend my sincere appreciation to the friends and employees of CCB for their faith and support. Without their contribution, we would not have been able to reach our current stage of success. With trust, I believe, we can make our future even better.

The themes we have emphasised - continued innovation and commitment to excellence - are evident in every business line in which we participate. The progress we have made this year is simply another step in the path we believe will lead CCB to continued prosperity in our changing business world. Ultimately, this prosperity, and the security of our bank's future, lies in our ability to deliver. It is this challenge that motivates us to improve ourselves in every aspect of our business, as a path without these challenges is probably one not worth following.



WANG XUEBING

PRESIDENT AND CHIEF EXECUTIVE OFFICER



## SENIOR EXECUTIVES AND CHAIRMAN OF THE SUPERVISORY BOARD



**WANG XUEBING**

PRESIDENT AND CHIEF EXECUTIVE OFFICER



**DING XIANJUE**

CHAIRMAN OF THE SUPERVISORY BOARD

The State Council instituted the Supervisory Board in August 2000. On behalf of our government, the board monitors the quality of the Bank's assets and the Bank's efforts in protecting and increasing the value of the state assets.





**ZHANG ENZHAO**  
DEPUTY PRESIDENT

In charge of the Office of Risk Management and Internal Control Committee, Credit Examination and Approval Office of Risk Management and Internal Control Committee, Human Resource Department and Credit Risk Management Department.



**LIU SHULAN**  
DEPUTY PRESIDENT

In charge of the Executive Office and Audit Department.



**ZHAO LIN**  
CHIEF AUDITOR

In charge of the Supervision and Inspection Department and Security Department.



**SONG MI**  
DEPUTY PRESIDENT

In charge of the Corporate Banking Department and Banking Department.



**LUO ZHEFU**  
DEPUTY PRESIDENT

In charge of the Personal Banking Department, Financial Institutions Department and Accounting Department.



**CHEN ZUOFU**  
ASSISTANT PRESIDENT

In charge of the Intermediary Services Department, Special Assets Resolution Department, Fund Custody Department, Legal Department and Second Banking Department.



**FAN YIFEI**  
ASSISTANT PRESIDENT

In charge of the Office of Asset and Liability Management Committee, Planning and Financial Department, Treasury Department and Settlement Department.



**ZHENG ZHIJIE**  
ASSISTANT PRESIDENT

In charge of the Office of Information and Development Committee, Real Estate Finance Department, Information Technology Department and Research and Development Department.

# CORPORATE GOVERNANCE

Our corporate governance structure has undergone continued modification to reflect our new corporate objectives, market strategies, and the dynamic nature of the industry in which we work, our commercial reform initiatives, and our focus on outstanding customer service.

- The installation of the Supervisory Committee at the uppermost level of our bank will provide a basis for standardising our operations and for delivering on our commitment to improve our operating activities and asset quality.
- We reorganised the structure of the head office to establish a basic framework that consists of decision making, management, operation, support and monitoring functions. This framework will aid CCB in developing as a modern commercial bank that is unique, competitive, adaptable to the market, and contains adequate corporate governance.
- We have reduced the number of standing committees to three (Asset/Liability Committee, Risk Management Committee, and Information and Development Committee) to focus on critical areas of bank development needs, such as business strategy, internal controls awareness, and information technology investment, and to build the monitoring and management capabilities of CCB.
- Supporting this top-level structure is a streamlined departmental organisation, which focuses on efficiency and cost-effectiveness in its decision-making and business response time. This structure will allow us to be more creative and responsive to business opportunities, and will commit the Bank's resources to serving the customer as its top priority.

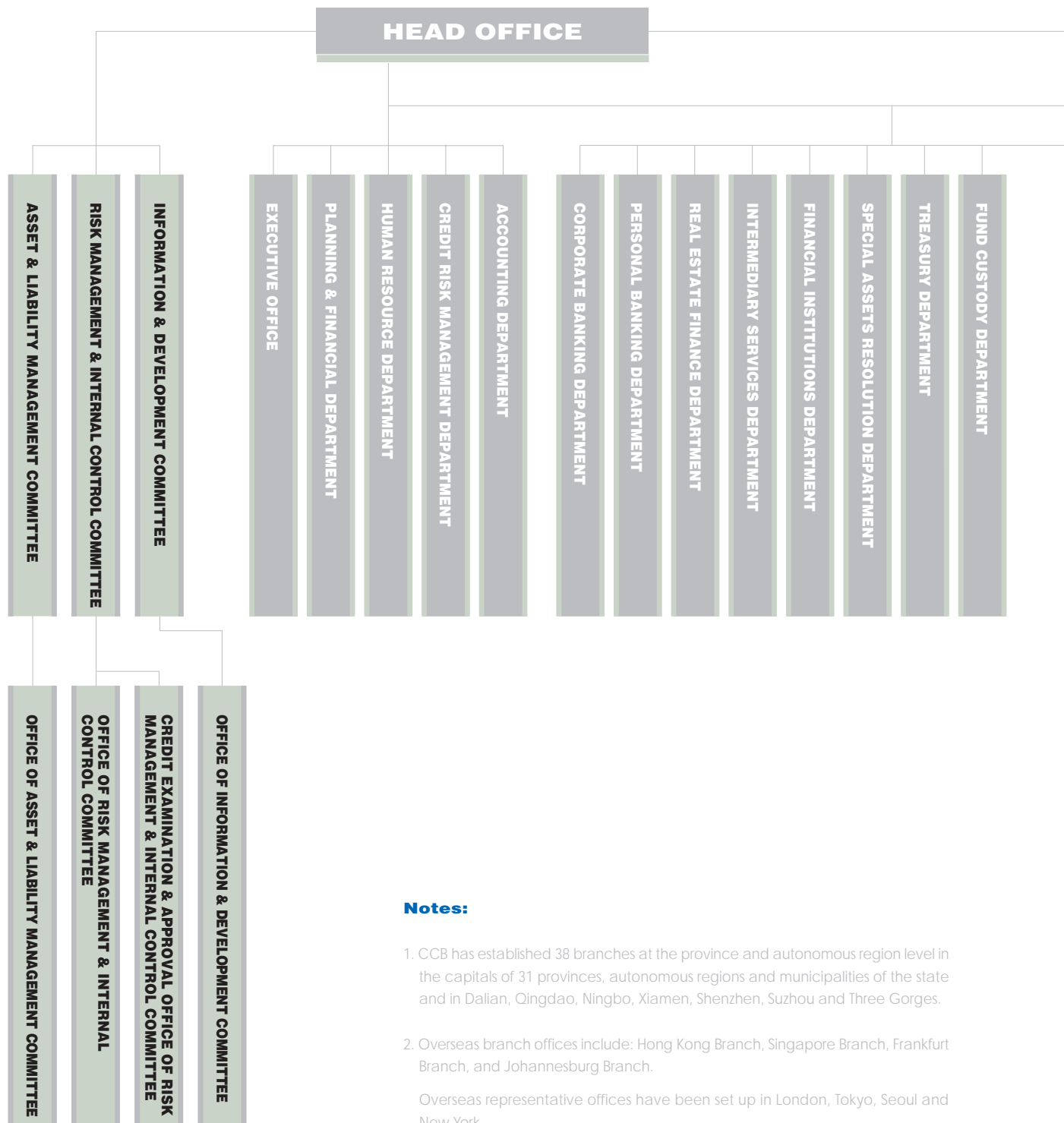
Our corporate restructuring involved all levels of the Bank. We critically reviewed our overall banking network, and eliminated or combined certain network offices that had been unprofitable for a period of time, that lacked adequate market opportunities, or that were unable to reach adequate operating scale and profitability. By the end of 2000, the number of our network offices has been reduced from 27,889 in 1999 to 25,763, down by 7.6%.

While reducing the number of network offices, we took steps to improve the functionality of our remaining branches and network offices. Our efforts were aimed at enhancing the market coverage, customer service quality and profitability of the branches or offices. Through such reorganisation, we were able to rationalise the resource allocation, to reduce costs, and to improve operating effectiveness and return on capital. We also took this opportunity to improve information technology functions at the individual offices to support the services offered and implement the concept of providing comprehensive services at the customer counter.





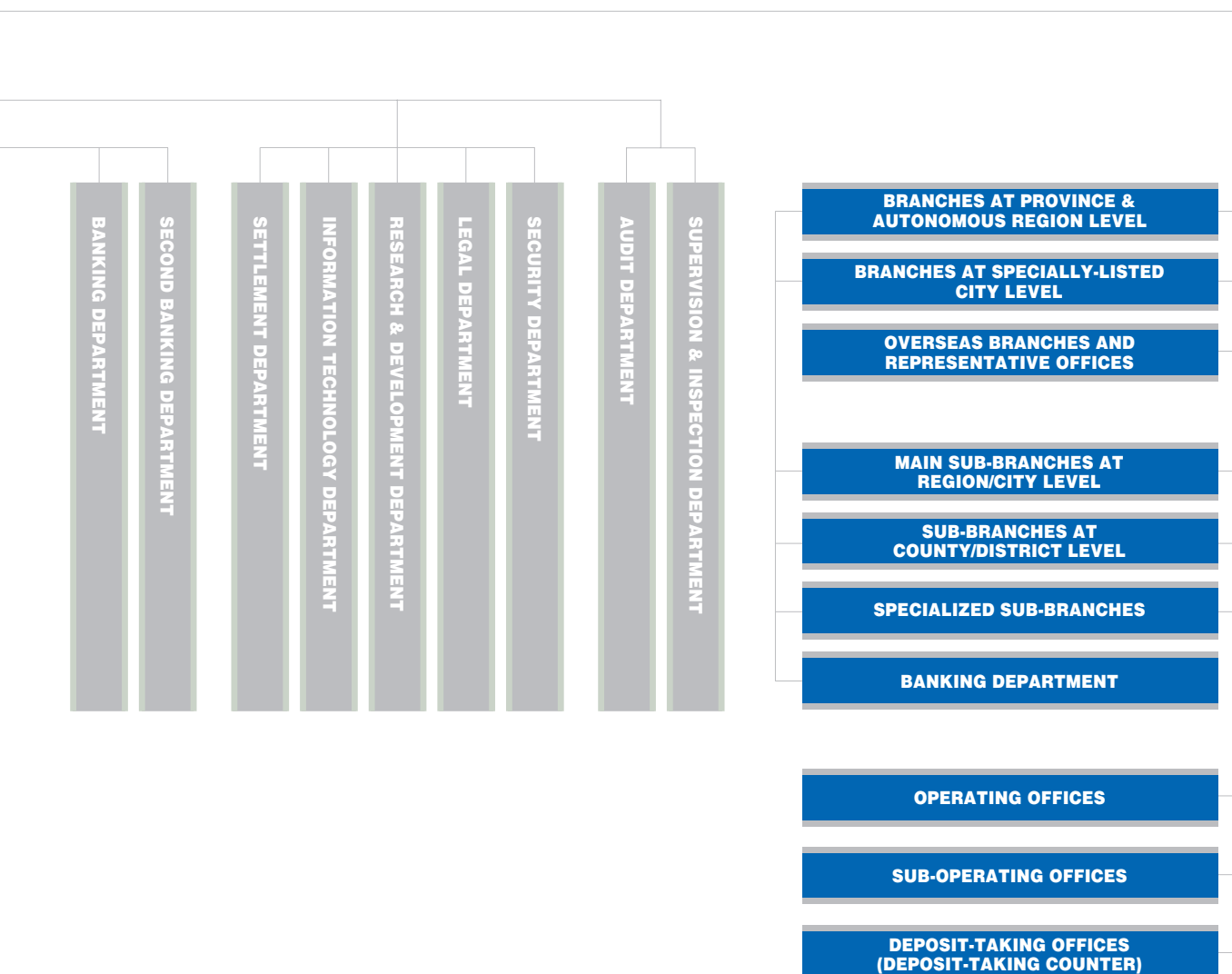
# ORGANISATION STRUCTURE



## Notes:

1. CCB has established 38 branches at the province and autonomous region level in the capitals of 31 provinces, autonomous regions and municipalities of the state and in Dalian, Qingdao, Ningbo, Xiamen, Shenzhen, Suzhou and Three Gorges.
2. Overseas branch offices include: Hong Kong Branch, Singapore Branch, Frankfurt Branch, and Johannesburg Branch.  
Overseas representative offices have been set up in London, Tokyo, Seoul and New York.





3. Harbin Specialized Investment College and Changzhou School of Finance and Economics are the training bases of the Bank under the guidance of the head office.

4. The Bank has established 8 regional offices of the Audit Department at the head office in Beijing, Dalian, Shanghai, Nanjing, Wuhan, Guangzhou, Chengdu, and Xi'an.

5. At the end of 2000, CCB had 25,763 branches, sub-branches and operating offices, with a total of 321,000 employees (deposit-taking agents not included.)

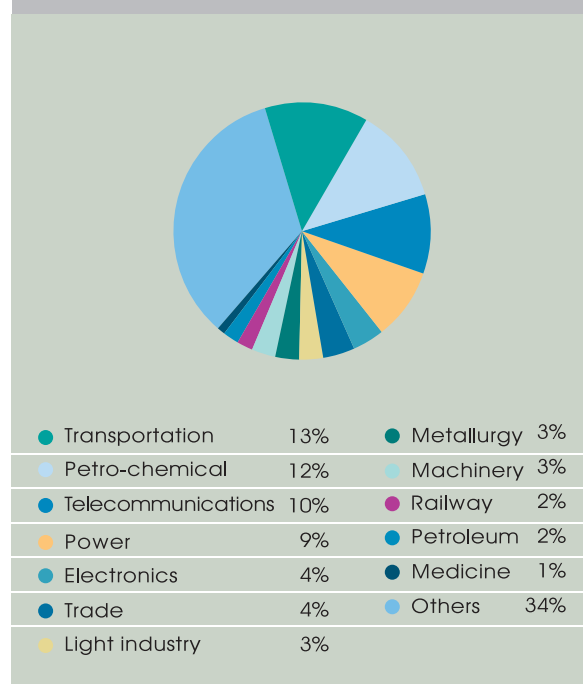
## CORPORATE BANKING

Corporate banking remains the core component of our business. Accounting for over 51% of all new lending and 72.6% of the Bank's loan portfolio at the end of 2000, this sector of our business continues to undergo steady growth and change as we follow our overall banking strategy and adapt our services to our customers' needs. The outstanding efforts of our corporate banking staff have led to a growth of RMB 114.1 billion in commercial lending even after considering the transfer of non-performing loans of RMB 23.1 billion and debt-to-equity swaps of RMB 16.9 billion, and a 14.6% increase in our domestic commercial deposits to RMB 1,059 billion, at the end of 2000.

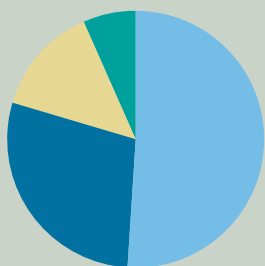
Our development strategy has focused on the following segments:

**Industries** - The range of industries has gradually expanded as economic opportunities grow. We continue to focus resources on the key infrastructure industries of telecommunications, transportation, power generation, urban infrastructure, petroleum and metallurgy. These industries all require significant investment, and they also present the greatest opportunities for excellent returns. In 2000, loans to these industries accounted for 55% of all new corporate lending.

PROPORTIONATE GROWTH OF CORPORATE LOANS BY INDUSTRY IN 2000



**PROPORTIONATE GROWTH OF  
CORPORATE LOANS BY  
REGION IN 2000**



Coastal Region	56%
Central Region	27%
Western Region	13%
Northeastern Region	4%

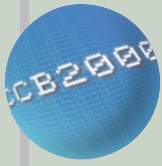
**Products** - Through the development of our information technology system and network, we are able to offer customised services in internet banking and fund settlement to our corporate customers. Our corporate banking team offered over 130 loan products to meet our customers' diverse requirements.

**Regions** - We have targeted our corporate lending to approximately sixty key economic centres throughout China, after carefully weighing the economic development and market potential of these regions. Coastal cities, and other key areas where Fortune 500 companies are expanding rapidly, were key considerations in this strategy. In 2000, we have also participated in some of the ten major infrastructure projects designated for the economic development in the western region of China by the government, such as natural gas pipelines and power plant construction.

**Customers** - Our corporate customers include state owned enterprises, multinational corporations, and joint ventures. Large corporate customers have become the main support of our corporate banking business. To

satisfy their increasing needs in banking services, we adopted a customised marketing and service strategy that focuses on the individuality of the organisation. In selecting these customers, we look for overall profitability and sound internal control. In 2000, we identified 262 customers as our key customers based on various reviews and analysis. We will complete the full identification of the top 1,000 customers in 2001.

The development of our funds clearance network, as described in the following page, is one of the primary examples of this flexibility in service of which we take pride.



## FUNDS CLEARANCE AND SETTLEMENT SERVICES

Our customers are expecting more financial services from us. Direct lending is only the tip of the iceberg when it comes to defining our customers' financial needs. One of the most recent developments is the introduction of a comprehensive funds clearance system for our corporate clients. This network speeds the settlement of payment transactions, whose delay can often cost our customers thousands of RMB annually in lost interest income.

CCB's Funds Clearance Network focuses on delivering on two key aspects of the business:

- Ignore nothing - we prefer to work directly with our customers' head offices, and provide service to the entire network of the customers' operations.
- Be flexible - this ability to tailor our service offerings to our customers' demands sets CCB apart from others in this field.

We are now providing funds clearance and settlement services for over 30 large scale domestic and foreign-owned companies. We are also offering settlement services for over 90 correspondent banks, including foreign banks, and over 120 securities brokerage firms. Our funds clearance network processed 34.8 million transactions during 2000, up 33% from a year ago.

## CUSTOMER RELATIONSHIP MANAGEMENT

One of the key developments in 2000 was the introduction of Customer Relationship Management techniques to all of our customer service staff. We recognise the importance that our customers place on being able to identify with one person in our branch to whom they can turn and ensure that their needs are met. Through the assignment of customer relationships to specific customer service officers in our network, we enhance the accountability of our customers' satisfaction and improve response time in addressing customer requests. This approach is setting us apart from our competitors and earning us a reputation for positive customer performance and service delivery.

## ADDRESSING THE NEEDS OF OUR SMALL AND MEDIUM-SIZED CUSTOMERS

Small and medium-sized businesses are an important part of China's economic development. We continue to play an important role in the development of this sector by providing the financing necessary for individuals to realise their entrepreneurial dreams. At the end of 2000, lending to small and medium-sized businesses reached RMB 794.3 billion, increasing 2.8% from the prior year. We have designated staff to provide expert advice and assistance to these companies, serving them in all of their financial needs.

## LOAN SYNDICATIONS

CCB has also played an active role in the syndicate loan market during 2000. This market is growing quickly, and we continue to look for opportunities to actively manage our credit risk from large financing structures while retaining and building close working relationships with our customers. CCB served as the lead syndicator on a RMB 12.5 billion loan to China Mobile (Shen Zhen) Limited. We will continue to use this financing and risk management tool to bring better service to our clients and better returns for our bank.



We have made significant efforts in the development of our corporate banking. The unique background of CCB and the development of the economy in China call for strong growth in this key business line. Our strategy and direction are clear, and we strive to expand our market share, strengthen our management, enhance our product innovations and improve our services to meet the needs of customers. Our efforts will not only improve the performance of the Bank, but also advance the development of our corporate customers.

## PERSONAL BANKING

Nowhere has our innovation and focus on client service been as evident as in the continuous development of our personal banking services. Whether it's helping a family buy a new car, assisting a student in opening a securities account, or providing a busy executive with up-to-date account information, we have one mission in mind - excellent, timely client service. Visit our internet banking site, use our new telephone banking services, or drop in at any of our ATM locations, and you'll get the same quality service we provide at every one of our branches, sub-branches and deposit taking locations, at any time of the day and any day of the year.

Since we merged our retail banking, internet banking and credit card functions in 2000, we have been able to take advantage of the multiple delivery channels at our disposal to ensure that wherever you are, CCB is there for you.

We believe this network gives us the unique opportunity to be the real "financial supermarket" in China - we can serve all of your traditional needs, and yet still be modern in our methods.

### DEPOSIT SERVICES

RMB deposit growth under our personal banking business line continues to be very strong with growth of 10.4% over the prior year. Our market share among the five largest banks in China also continues to grow, now reaching 20.2%, an increase of 0.6 percentage points from the prior year. Foreign currency deposits also grew steadily in 2000, reaching a record USD 5.7 billion, up 39.9% from the prior year. We attribute much of this growth to the satisfaction our customers have with our excellent service capabilities, and the difference our "Customer First" mentality has made in attracting new customers to our bank.

### PERSONAL LENDING

Our personal lending business has been on the rise since its launch in the middle of 1999, and it now represents RMB 13.7 billion of the total loan portfolio at year-end. Over RMB 25.5 billion in new personal loans were made last year, for every financing need imaginable - consumer lending, education loans, home equity, auto loans, and our newest offering, the personal credit line, with flexible terms that allow you to get the credit you need, when you need it most.



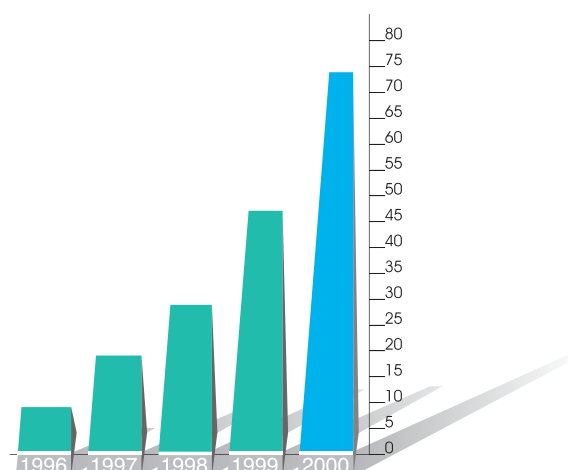
## BANK CARD SERVICES

Our Long Card extended its reach in 2000, as 25 million new cards were issued in 2000, raising the total cards issued to over 74.2 million. Over RMB 1.2 trillion in RMB business was conducted through these cards at the end of the year, and RMB 116 billion in deposits was held by the Bank for future debit card usage by our customers. The use of credit cards by Chinese individuals is growing steadily, but many still see the Long Card as the best way to get quick and easy access to their funds on deposit at our bank. Our nationwide Long Card network, now established in 280 cities, ensures that our customers get access to funds wherever they are, whenever they need them. Transaction volume across cities has reached over 10 million with a total transaction value of RMB 55.5 billion.

In addition, we continue to see a great attraction of our customer base to the use of credit and debit cards in managing their finances. In 1999, we introduced the Lunar Year debit cards, and because they were so well received, we issued our second in the series in 2000, the Year of the Dragon. These have proven to be a hit with customers of all ages, and provide a great way to educate children on the value and management of their money.

### BANK CARDS ISSUED

Unit: in millions



## PERSONAL ELECTRONIC REMITTANCE SERVICES

At any point in time, there are literally tens of millions of people away from home for extended periods of time, such as university students, military personnel, and workers employed in cities other than their hometowns. Each of these groups have the same need - to be able to transfer funds to or from their relatives in the distant reaches of China, and to get money quickly to where it is needed the most.

CCB has introduced a unique service to accommodate these needs - the personal electronic remittance service. By using any of our branch offices where this service is available throughout China, people can transfer funds to others and know that these funds will make it through to the intended recipient quickly - usually within minutes. And business is booming - over 3.3 million transactions with a total value of RMB 93 billion, more than double that of the prior year. Clearly, this is the sign of a service much in demand by our customers and one that we are proud to bring them.

## INTERNET BANKING

With the continued enhancement added to our internet banking site, our customers can now conduct more basic financial services activities over the web than ever before. Over 117,000 transactions have been logged on our website, accounting for more than RMB 50 million of banking activity. Our online customer list continues to grow, now representing more than 11,000 companies and individuals, as the simplification of our signup process and the introduction of new functions have attracted more users to our site. Long Card holders can make payments, securities margin account funds can be transferred and even personal foreign currency dealings can be handled quickly and safely from your own computer.

Our business customers are also finding this expanded service invaluable. Electronic funds transfer options and customer account inquiry capabilities were recently added to our site, allowing customers the flexibility to pay businesses on line directly through our website.

We believe we have found a way to combine the physical and virtual environments of banking to take advantage of the benefits of both methods, and our clients are benefiting from these innovations every day.

## TELEPHONE BANKING

95533 - write it down. Our new telephone banking hotline allows customers across the country to speak directly to our customer service representatives for help in their banking needs. Consultations, recommendations, complaints - you now have one number to remember, regardless of what your service needs might be. Future enhancements to this feature will expand the range of products and services available; this expanded service is already available in select locations, such as Beijing, Guangdong, Shanghai and Ningbo, and customer response is very strong.

## MOBILE PHONE BANKING

A brand new service in 2000, this delivery channel is being tested in the Beijing market and will be expanded to the rest of China in the near future. Conducting foreign currency business, funds transfers, even stock purchases can be made from your car, the football stadium, or wherever your travels take you in China. One more way we're making banking easier for our customers.



## SELF-SERVICE BANKING

We know there are times you need to see one of our professional staff to address your banking needs. But we also find that a significant majority of the transactions conducted in our branches can be conducted faster and even safer through the use of automated tellers or other self-service facilities. When you don't have time to stand in line, check out one of over 6,700 ATMs nationwide, or one of the 53 self-service facilities that provide 24-hour access to your accounts. Equipped with ATMs, inquiry systems, foreign currency machines, and even 24-hour vaults, you'll feel like the only thing missing is the friendly smile of one of our customer service professionals.



We feel like we've done a lot this year to upgrade the quality of our service in our personal banking area, but the real judge of that is you, the customer. And we know customers can be very demanding. That's why we aren't resting on our laurels, as we try to bring you even higher quality service in the future. Everyday, we are working harder to learn more about our customer base to determine what we can offer each valued customer on a specific basis. With over 170 million personal banking customer accounts, there's no time like the present to get started.

As the first bank to introduce commercial and residential real estate lending to China, CCB has always been a leader in this market.

## RESIDENTIAL MORTGAGE LENDING

The industry has been aided by government mandates addressing the restructuring of subsidised housing. CCB was uniquely positioned to take advantage of this opportunity. By the end of 2000 we had underwritten nearly RMB 250 billion residential mortgage loans - nearly half of that (RMB 122 billion) in the last year alone - and helped 3.6 million families realise the dream of owning their home. This explosive growth is driven by market growth in sixty key economic centres, which represent more than three quarters of all outstanding mortgage loans and new originations in the past year.

This growth has attracted many competitors, however, we remained a clear market leader with dominant position in key segments, holding 40% market share in all loans outstanding and new originations.

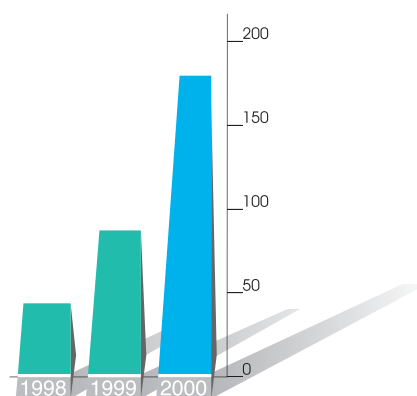
We see this niche as a powerful strength - one we believe we can leverage into other service opportunities in the future. We are already actively working with the regulatory authorities to investigate ways in which this market exposure can be diversified through the creation of secondary mortgage markets and asset securitisation vehicles. Quite simply, we are committed to leading this market.

## ENTRUSTED HOUSING LENDING

CCB has been a major player in the development of entrusted housing lending ever since its emergence in the market. This entrusted lending service was provided in connection with government housing subsidy programs and collection of public housing deposits and entrusted housing deposits. By the end of 2000, the entrusted housing loan balance reached RMB 93.2 billion, up by RMB 11.9 billion and 14.6% from the previous year,

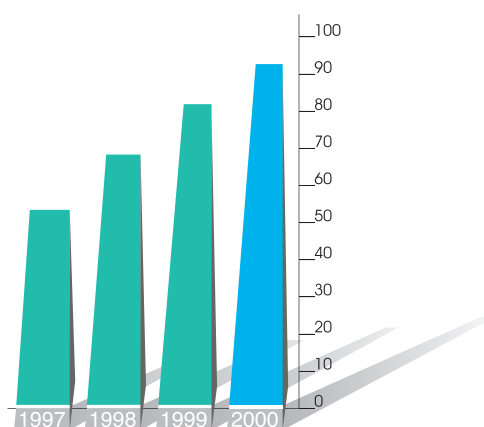
### RESIDENTIAL MORTGAGE LOANS OUTSTANDING

Unit: in billions of RMB



### ENTRUSTED REAL ESTATE LOANS

Unit: in billions of RMB



and accounted for 77% of the market. Entrusted housing deposits reached RMB 210.1 billion, up by RMB 28.1 billion and 15.4% from the previous year, accounting for 70% of the market. Public housing deposits totalled RMB 97.4 billion, up by RMB 14.8 billion and 17.9% from the previous year.

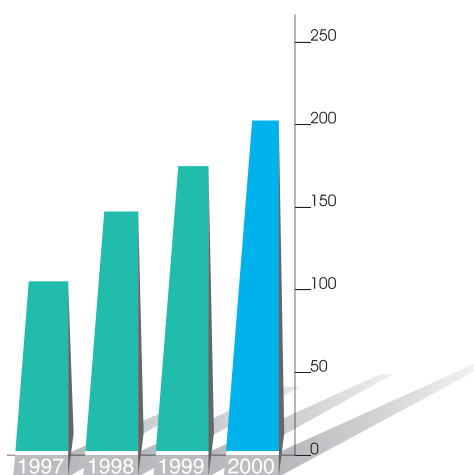
### LENDING SERVICE FOR THE CONSTRUCTION INDUSTRY AND REAL ESTATE ENTERPRISES

Lending service for construction enterprises, one of the first credit services CCB offered, is an important market niche for us. By the end of 2000, there are more than 50,000 construction enterprises that maintain accounts with us, annually contributing approximately RMB 600 billion in settlement volume. At December 31, 2000, working capital loans to the construction industry totalled RMB 103.9 billion, up by RMB 8.7 billion and 9.1% from the previous year.

CCB's real estate enterprise lending is developing at a steady pace along with the rapid growth of private housing loans. In 2000, CCB extended a total of RMB 90.2 billion loans for real estate enterprises, and collected RMB 74.4 billion. By the end of 2000, the balance of loans to real estate enterprises stood at RMB 115 billion, an increase of RMB 10.6 billion. Of the total balance, real estate development loans stood at RMB 16.3 billion, down by RMB 3.2 billion, while working capital loans for real estate development enterprises stood at RMB 98.7 billion, an increased of RMB 13.8 billion.

### ENTRUSTED HOUSING DEPOSITS

Unit: in billions of RMB



The sustained growth of real estate enterprise lending at our bank has not only contributed to our net profits, through higher interest income and lower cost of funding via deposits collected from real estate developers, but has also brought other benefits, including a stable, quality client base, housing referral services to potential customers, and a better brand name and social image for CCB through our support of the development of the real estate industry in China.



The phenomenal growth in this line of business for the past several years is evident. Our 2000 performance is even more exciting. We know that we have advantages over our peers in this area as a result of the history. But we do not take things for granted; instead, we strive to be the driver of the market and maintain our leadership position. We believe the booming real estate market will bring us even more prosperity in 2001.



## INTERMEDIARY SERVICES

The most important component of any fiduciary relationship is trust. Our Intermediary Services are growing at a rate of over 18% per annum for the past three years. We attribute it to our ability to conduct this business with the highest of integrity. We have earned the trust of our customers, and we are committed to retaining this trust everyday.

In 2000, our market-oriented and customer-focused efforts led to the growth in service income of 101.1% over last year's level, which resulted in total service income of RMB 4,062 million and net service income of RMB 2,675 million in 2000. Each of our key intermediary service offerings contributed greatly to this success.

### TRUST AND AGENCY BUSINESS

CCB was the first agent bank for centralised payment of State Treasury funds, and the range of our cooperation with the Ministry of Finance has continued to grow. During the year, under the intensified reform of the Government's budget management system, CCB transferred over RMB 60 billion for key infrastructure projects in the construction and geological prospecting sectors. We were also appointed funding agent of several pilot projects of the State, focusing on the construction of a 10 billion kilo central grain reserve depot, and the collection of vehicle purchase taxes. These roles have led to an increase in average monthly deposits at the Bank of over RMB 9.8 billion from the prior year.



We have also built close relationships with China Development Bank and China Export Import Bank, two of the key policy banks under the State Council, to serve as an entrusted lender for their project funds. CCB handled over RMB 20 billion in loans for these two banks in 2000.

The construction pricing advisory business, a growing business line for us, underwent significant transformation in 2000. The total construction pricing advisory business of RMB 433.6 billion yielded income of RMB 500 million (including trust commission fees for price auditing from Ministry of Finance) in 2000. The Bank was also successfully engaged as trust agent in this business for large customers such as Ministry of Finance, China Everbright Group and China Netcom.

China's robust insurance market fits naturally with our extensive domestic customer base. When regulations allowing the entry of commercial banks to engage in the entrusted agency business were unveiled in 2000, that strategic fit makes us an obvious choice as a partner for domestic insurance companies. We have

seen this business grow quickly, since our first venture into the market as a sole agent in 1997. We now hold business cooperation agreements with 13 domestic insurance companies, while over 6,800 CCB employees across our 3,203 business offices are now qualified insurance agents. In 2000, over RMB 5.7 billion in insurance premiums were collected, earning the Bank more than RMB 80 million in commission fees. In addition, insurance company deposits of over RMB 7.2 billion have been collected.

## **FUNDS CUSTODY**

Another key element in the development of China's financial services market, the investment management industry, also provides unique opportunities for us to expand our intermediary services to that of funds custodian. We were one of the first banks to offer this custody business, with reliable back office services and key operating systems, we now hold over RMB 11.5 billion in assets under management for seven different securities investment funds, with net asset value of RMB 16.4 billion at December 31, 2000. In 2000, revenue from the funds custody services approximated RMB 35.5 million, increasing by 129.7% from RMB 15.4 million for the same services in 1999.

## **SECURITIES SERVICES**

As interest in the domestic capital markets grows, so too do our service offerings. By forming alliances with seven of the most recognised names in the domestic securities industry, we have begun offering brokerage account management services for our clients who maintain cash accounts with our preferred brokers. Our pilot project of security account transfer was successfully launched in Guangdong, Shenzhen and Tianjin. This service allows customers to transfer their security guarantee deposits to brokers' account automatically and safely, thus shortening the time required to process the transactions.

## **FINANCIAL ADVISORY SERVICES**

CCB's leading position in project financing in China is built on the full use of our talents, technology, and network strength. We have conducted financial advisory services for multinational companies in the power and petrochemical industries, including companies such as Exxon, BASF and BP. Our customer service team is also involved in corporate asset management advisory services, corporate structured financing programs and merger and acquisition advisory services. Each of these services is growing in demand, and we are determined to build our expertise continually to meet this demand and retain our domestic leadership position.

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The growth in our intermediary services reflects our efforts to meet the demands of market competition, customer satisfaction and leveraging of our continued investment in low-cost funding. Such effort is also necessary for us to increase fee-based revenue, lower our operational risk and improve our product service offering. The growth in the insurance industry and capital markets in China has brought us tremendous opportunities. Facing our growing customer base, we remain dedicated to improving services and better overall performance for the Bank.

## INTERNATIONAL BUSINESS

The Bank's international business continued to grow in 2000, both in terms of services to our domestic clients, and in expanding our international financial network. As our domestic customers access international markets and China opens more to foreign investors, we believe this line of business will grow significantly in the short-term, with sustainable long-term growth prospect.

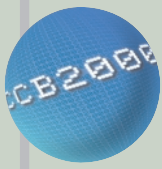
Our long-term objective is to develop CCB as a global commercial bank. To achieve this, we search for competitive advantages and opportunities to establish business institutions and relationships in major international financial centres where there are close economic and trade cooperation ties.

Our international business activities work under a risk management framework that is consistent with the rest of the Bank's risk control structure. By using counterparty and country limits, as well as allocating these limits to certain products, we have managed the Bank's risk exposure while still ensuring that we can serve our most valued clients effectively in their international dealings.

### OVERSEAS BRANCH DEVELOPMENT

Year 2000 marked another year of steady growth for our overseas branches. By the end of year, total assets and net income of our Hong Kong branch have reached HKD 18.8 billion and HKD 50.5 million, respectively; our Singapore branch totalled SGD 488 million and SGD 3 million, respectively. Total assets of our Frankfurt, Germany branch have also grown to EURO 146 million.

Our growing network of overseas branches and affiliates ensures that our customers have access to our bank's facilities and services wherever their business may lead them. Our new Johannesburg, South Africa branch, which opened in October 2000, expands our reach to the African continent. We continue to evaluate opportunities to expand our services to major financial centres around the world to provide even more global coverage and a wider range of services to our customers.



## PROFILE - HONG KONG

Hong Kong remains a key Asian financial centre and the one in which we believe we are able to participate and prosper. The Hong Kong branch of CCB has existed for five years, and it has begun to show considerable growth in asset size and profitability within the last two years. Jianxin Bank, in which we have 70% stake, is a long-time member of the Hong Kong financial scene.

After the Asian financial crisis we carefully evaluated the branch's internal control and operating structure, to identify ways to improve our efficiencies as well as our risk management techniques in the business activities of the branch. In addition, with the expectation of increased business flow through Hong Kong (both inward and outward-bound from China), we believe that addressing these issues will also improve our customer service capabilities, and will allow us to respond more quickly to their requests.

All of these reasons led us to undertake several key initiatives:

- our management information system in the branch was updated to allow for more real time information inquiries and analysis;
- credit management procedures were evaluated and upgraded to incorporate tighter risk management controls over credit extension and credit review; and
- detailed plans for expanding online banking and internet services were developed.

As a result, we have enjoyed another profitable year from our Hong Kong operations, with growth in total assets of 175% over the prior year, and total revenue of HKD 899 million, up 69.1% from 1999.

## CORRESPONDENT BANKING

Our agency and correspondent banking network continues to grow. Now reaching 591 banks in 80 countries, our network covers all of our major trade partners and the most recognised global banks.

As this network grows, it has allowed us to expand our range of services in 2000. This year, we began accepting stand-by letters of credit from our agency partners in exchange for direct RMB lending to their customers' China operations. Over USD 1.3 billion, representing 462 transactions, had been lent under these standby agreements, a 15% increase over 1999. The RMB business opportunities have grown throughout the network to include interbank lending and borrowing and RMB clearing activities for agency banks licensed to conduct this activity in China.

## FOREIGN EXCHANGE BUSINESS ACTIVITIES

The increased globalisation of the world's financial markets means that we cannot afford to overlook the opportunities the global market provides for our services. One such opportunity is the foreign exchange clearing business. Providing the ability to handle collection, payment and clearing functions of all the major global currencies has resulted in CCB's recognition by foreign bank sources as one of China's leading banks in foreign exchange handling. Using the most advanced foreign exchange system in China, we can guarantee same-day delivery of inbound and outbound remittances.

As the first state bank to adopt the SWIFT system, CCB communicates safely and efficiently with over 1,200 banks around the world. Our daily transaction volume, while still relatively small at just over 6,000, has been growing annually since the service was first introduced in 1996, and our systems have been designed to handle significantly higher levels of activity in the future. Over 120 branches are now able to conduct SWIFT transactions directly from their locations.

All of these innovations and developments have led to real improvements in service quality and increases in transaction size. Over USD 122.1 billion in foreign currency clearing business was conducted in 2000, a 28% increase over 1999 levels. In addition to the establishment of the Hong Kong Dollar Clearing Centre, our Euro Clearing Centre at our Frankfurt branch has been generating an increasing level of business, to the point that all Euro fund clearing for the Bank occurs through this centre, which improves the efficiency of the use of funds throughout the Bank.

Our success in working with these global institutions in the foreign currency business has now opened the door to other possibilities, including providing RMB funds management services to global companies. We continue to investigate and evaluate the new and exciting opportunities before us in this area.

## FX TREASURY BUSINESS

As global confidence in the Chinese economy returned, we saw a marked increase in levels of foreign exchange business. Lending to overseas financial institutions has grown 59% to USD 5.5 billion. FX trading turnover approximated USD 193.6 billion, a 29% increase over 1999.

We doubled our foreign currency denominated bond investments in 2000, to USD 1 billion, as US Treasury bonds presented an attractive risk and reward profile. Prudent investment screening and management also allowed us to realise significant gains as the bond market rallied in late 2000.

We continued to apply our market knowledge, through the use of financial derivatives, in assisting our clients to manage their foreign exchange exposure. Over USD 480 million of notional principal in currency swaps was conducted on behalf of our clients, ranking us second in the local market in this line of activity.

## OVERSEAS FUND RAISING

The demand for foreign currency loans from our domestic customers continued to decline in 2000, so new fund raising from the international markets decreased from 1999 levels, to USD 276 million. However, the generally favourable global interest rate environment allowed us to refinance and restructure existing borrowings, and pass these savings along to our customers. Total loans of approximately JPY 13.5 billion were restructured on this basis, resulting in savings to our customers of over JPY 1.6 billion.

The global fund raising that we did undertake was highlighted by a USD 200 million bond issuance in the Hong Kong market in June at very attractive cost, which was immediately matched with the domestic borrowing needs of our customers.





## CHINA INTERNATIONAL CAPITAL CORPORATION

China International Capital Corporation Limited ("CICC"), in which the Bank holds a 42.5 % interest, is the first PRC-based international investment bank. It was established in 1995 as a strategic partnership of leading Chinese and international financial institutions and corporations.

Combining an international presence with a thorough understanding of the Chinese business environment, CICC provides world-class financial services characterised by quality, integrity and innovation in responding to client needs. CICC's membership in the Shenzhen, Shanghai and Hong Kong stock exchanges, and its diversified portfolio of financial services, have it positioned perfectly to take full advantage of China's growing capital markets landscape.

In 2000, CICC focused its effort in restructuring and overseas listing of large state-owned enterprises. CICC assisted some of China's most prominent enterprises, including PetroChina, China Unicom, Sinopec, China Mobile, Bao Steel and Sina.com, in their initial or follow-on public offerings in domestic and international capital markets. It helped raise approximately USD 20 billion in 2000. In addition, CICC participated in the issuance of convertible debt of USD 690 million for China Mobile, as well as providing a wide range of investment banking services for high-tech companies and other non-state-owned enterprises in 2000.

Its reputation as a leader in its marketplace was recognised by Finance Asia and Euromoney magazines, where CICC was named the best domestic investment bank in China for 2000.

# RISK MANAGEMENT

The banking business exposes CCB to a number of risks. It is the proper management of these risks that generates the intrinsic value in a bank. The major risks to which CCB is exposed are financial, credit, liquidity, market and operating risks.

## FINANCIAL MANAGEMENT

As the foundation of good risk management, financial management plays an important role in modern banks. Financial management incorporates the accurate accounting and recording of financial data; the proper and timely reporting of comprehensive and reliable financial information for internal and external users; and the maintenance of adequate systems to support these functions. The significance of financial management is to provide the financial information necessary to help the bank management in timely and accurate business decision-making, and to help maximise the value of the Bank.

In 2000, our financial risk management efforts emphasised our management policies of being scientific, centralised, prudent and standardised. As mentioned earlier, we carefully managed our investment in capital expenditures, achieving reduction target in this area, and we centralised the management of our account structure to achieve single account responsibility throughout the Bank. Many of our financial policies and systems were also standardised, for consistent treatment of financial issues throughout the Bank. In addition, we strengthened the overall planning for the promotion of cost accounting and managerial accounting methodologies, and began introducing these concepts to our staff in greater detail.

The development of various data models, the design and implementation of a more centralised, vertical reporting system between the branch structures and head office, and the assignment of responsibilities for reviewing and investigating financial anomalies were also key measures taken in 2000 to improve our financial management practices.

Capital adequacy is a key performance measure in the financial management of CCB. By managing our risk-weighted asset composition we ensured capital adequacy compliance with the requirement of People's Bank of China ("PBOC"). We are evaluating various financing alternatives to ensure continued compliance with this standard, and with international capital standards, in 2001 and future periods.

## CREDIT RISK MANAGEMENT

In conducting its lending activities, the Bank is exposed to the possibility that borrowers may default on their loans, which is defined as the failure of a borrower or counterparty to fulfil its contractual obligations. In both its retail and wholesale businesses, CCB seeks opportunities to take credit risk prudently and manage it effectively in order to reduce credit losses and create value and profit. Credit risk is managed at both the portfolio and transaction levels.

Significant steps have been taken by bank management over the past several years to address the management and monitoring of credit risk taken in the Bank's activities. In 2000, management replicated the credit risk management structure that was developed at head office, and installed the improved and strengthened structure at the provincial branches. This structure, which helps to clearly define and segregate responsibilities for credit risk management and monitoring functions, has led to more rigorous compliance of credit policy at branch level, more effective control of credit risk across the Bank, and more consistent implementation of asset classification standards.

The Credit Risk Management Department also evaluates the quality of assets, and conducts research of industry and regional concentrations to remain alert to potential concentration risks and to ensure that portfolio diversification is compliant with management's goals and standards. Significant commercial loans, and loans considered to be of specific risk based on their borrower or industry type, are subject to high-risk reviews by relevant risk management departments before such loans can be originated.

In 2000, management reinforced the offsite and onsite risk monitoring controls at the branch level, including financial analysis, asset quality analysis, and comprehensive branch evaluations. Through quarterly analyses of problem credits, conducted in accordance with the "five classification" system followed by international banks and recommended by the People's Bank of China, management is able to better understand the Bank's current credit risk position.

The Bank's problem asset levels have improved overall from prior year levels after the transfer of non-performing assets and bad loans to Cinda Asset Management Company. The improvement can also be attributed to the closer attention management is giving the resolution of problem assets, greater efforts taken to collect existing non-performing loans, more rigorous reviews conducted of new loan originations, and more effective and timely monitoring of branches. By the end of 2000, our total non-performing loans stood at 15.7% with past due, doubtful and loss loans representing 5.3%, 9.8% and 0.6%, respectively. The non-performing asset level of newly originated loans was controlled at below 2%. In 2001, we will continue to improve asset quality and aim to reduce the overall non-performing level by 2-3 percentage points.

## LIQUIDITY RISK MANAGEMENT

Liquidity management addresses CCB's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, and to make new loans and investments as they arise. Liquidity is managed on a daily basis, and incorporates known and unanticipated cash needs. In managing liquidity, CCB takes into account the various legal limitations and deposit requirements it must meet in the domestic marketplace, as well as capital utilisation in its key business areas.

A major source of liquidity for the Bank is the ability to generate deposit growth. Despite the continued growth of the domestic capital markets, CCB continued to attract record levels of customer deposits. During 2000, the Bank's deposit base grew by 13.9% over the previous year.

As in prior years, CCB holds domestic bonds and other short-term investments that can be readily converted to cash if needed. During 2000, CCB purchased over RMB 87 billion of treasury bonds, domestic policy bank bonds, and short-term financial bonds. Our trading volume of agency book-entry treasury bonds was the highest among our peers.

Other short-term funding sources such as borrowings from financial institutions and repurchase transactions were used in our liquidity management practices. During 2000, we raised RMB 136.4 billion funding from the interbank market, of which, borrowings from financial institutions accounted for RMB 80.2 billion and repurchase transactions stood at RMB 56.2 billion.

Proceeds from principal and interest payments on loans and investment securities are also primary sources of funding. While maturities and scheduled amortisations of loans and securities are a predictable source of funds, deposit flows are influenced by general economic conditions, interest rate movements and market competition for these funds.

The continued development of the interbank market has seen CCB seize the opportunity to provide RMB funding to foreign banks participating in this market, and to increase its return on funds with a relatively low risk position. During 2000, the Bank provided over RMB 47 billion in interbank funding.

Foreign exchange activity is undertaken with the direction of the Asset/Liability Management Committee, which is responsible for the market analysis and liquidity policy management. Foreign Exchange Department is responsible for maturity analysis, cash flow analysis, and managing the liquidity ratios and foreign exchange exposure.

## MARKET RISK MANAGEMENT

Market risk is the risk of loss due to adverse changes in investment from market fluctuations. In CCB, this includes changes in interest rates and foreign exchange rates.

## INTEREST RATE RISK MANAGEMENT

We actively follow the core principles of the Basle Committee on interest rate risk management. We have started to build a modern risk management system, which includes highly efficient decision-making mechanisms on interest rates, a reliable system of internal control, and advanced management information systems and scientific modelling.

Our Asset/Liability Management Committee is in charge of the overall decision-making on interest rate risk management policies for all currencies while our Office of Asset/Liability Management Committee is in charge of the daily operations and implementing these policies.

Utilising various econometric and statistic analysis tools, we follow the movement of market interest rates and perform analysis on the current trends and the forecast results, making necessary adjustments in the asset and liability structure of the Bank. In 2000, the Bank mainly invested in the short-term bonds and long-term floating rate bonds to lower the potential risk of interest rate hikes. The majority of the domestic bonds in our portfolio possesses yields that rank the highest within their stated maturity bracket.

CCB performs interest rate sensitivity analysis using various risk management methodologies on a regular basis. In 2000 we started to perform stress testing based on our proprietary dynamic simulation analysis model. According to the parameters of our sensitivity analysis on maturities and interest rates and the simulation of the interest rate movements, especially unusual fluctuations, we estimate the impact of such changes on the Bank's net profit and asset and liability gap. Through such analysis and testing, we can choose the best possible asset and liability structure for CCB.

#### **FOREIGN CURRENCY RISK MANAGEMENT**

CCB adopts conservative foreign currency risk management policies. Through the use of various methodologies and tools such as PSC, FSS and VAR, CCB regularly conducts trend and forecast analysis by currency. Based on the results of our analysis, we take necessary steps to balance the related asset and liability structure so that minimal gaps are maintained. The Foreign Exchange Department at the head office is in charge of managing overall foreign exchange exposure for the entire bank. This department applies financial derivatives to manage the Bank's exposure to foreign exchange volatility.

#### **OPERATIONAL RISK MANAGEMENT**

CCB, like all large companies, is exposed to many types of operating risks, including the risk of fraud by employees or outsiders, unauthorised transactions, and errors relating to computer and telecommunications systems. CCB maintains a system of controls that is designed to keep operating risk at appropriate levels in view of the financial strength of the Bank, the characteristics of the businesses and markets in which CCB operates, competitive circumstances and regulatory considerations. Some of the measures introduced include the following:

- Branches, sub-branches and functional departments of the Bank are granted limited authority to conduct business activities, based on business scope, risk prevention abilities and required levels of approval needed at each entity. This has helped limit the risk of unauthorised transactions throughout the Bank, and has streamlined some of the management approval processes involved in conducting general business transactions.
- The implementation of a centralised function overseeing the review and approval of legal documents throughout the Bank ensures that each contract complies with the Bank's standards, providing a uniform contractual framework for all bank activities.

The internal audit function is seen by management as a key tool through which operating risk can be effectively controlled. During 2000, the management restructured its internal audit function into two distinct layers (head office and branch level), which has enhanced the focus with which the Internal Audit Department can monitor compliance. This has resulted in improvements in addressing the ethical behaviour of employees, unauthorised transactions, and computer processing activities.





## INFORMATION TECHNOLOGY



Driven by reform and technological innovation, CCB continued its efforts in information technology development. We strengthened our overall strategic planning capabilities for the information technology sector, increased our investment in this area, and enhanced our computer application and financial service innovations. Now, every operation of the Bank is networked, and comprehensive business processing is extensively integrated with management information.

The core communication platform for the Bank consists of an information technology network with

dual WAN links, PSTN/ISDN backup, and dual routers setup, so that a firm foundation is now in place for the integration of electronic financial, voice and video data. We have also focused on business continuity issues, to ensure the uninterrupted processing of all bank data and key banking services to our customers.

The integration of technology in our product offerings helps drive efficiencies in cost management and customer service satisfaction. Our bank-wide business systems offer immediate access and daily settlement features to our vast customer base, and as mentioned earlier, new products and services such as mobile phone banking, online banking and fund clearance are highly reliant on our ability to integrate superior technology advancements with our core service responsibilities.

For our internal management purposes, the completion of our corporate intranet, which links corporate databases, multimedia, and management information and reporting systems, will ensure rapid delivery of financial information to key decision-makers and managers throughout the organisation. We have also made great strides in developing integrated systems to assist in credit risk management, human resources management, and automated office functions, to help make us even more responsive and up-to-date with our people, our customers, and our operations.

## PERSONNEL DEVELOPMENT

The ability to serve our customers effectively is highly dependent on the quality and extent of professional training our staff receive. Our training program focuses on providing our staff with the opportunity to expand their skills in line with their own personal development goals, so as to ensure that our customers can count on us for professional, high-quality service and attention. Over 300 staff participated in international training programs, attending universities in the United States and the United Kingdom. Participation in masters programs at some of China's best universities is also strongly encouraged, and many of our qualified staff take advantage of this opportunity.

The Bank invested over RMB 152 million in training resources in 2000, and thousands of man hours in designing and delivering modern courses in customer relationship management, general management and e-commerce, all with the goal of improving our staff's competency and customer service levels. And we believe our staff recognise our commitment to their personal development.



## TOTAL ASSETS AND LIABILITIES

Total assets and liabilities continue to grow steadily. By the end of 2000, the total assets of CCB reached RMB 2,531.7 billion, increased by RMB 330.6 billion and up 15% from the previous year. Most evident growth comes from loans and investments, which increased by RMB 185.4 billion, or 15.4%, and RMB 104.3 billion, or 20.9%, respectively. Of all assets, investments account for 23.9%, up 1.2%, while non interest-bearing assets account for 8.1%, down by 2.1%. We refocused on lending activities with RMB 78.4 billion of consumer residential loans being added in 2000, representing 42.3% of all new loans.

By the end of 2000, total liabilities of CCB stood at RMB 2,416.8 billion, up by RMB 322.7 billion and 15.4% from the prior year. Most of this growth occurred in customer deposits and deposits from other banks and financial institutions, which increased by RMB 245.9 billion, or 13.9%, and RMB 80.7 billion, or 47.3%, respectively. Within customer deposits, low-cost current deposits account for 59%, increasing by 3.4% from the prior year.

## NET PROFITS

CCB achieved record profit level for the year 2000. Pre-tax profits totalled RMB 8.5 billion, RMB 1.1 billion more than 1999, and up by 15.2%. The pre-tax return on capital was 7.4%, up by 0.5% from that for 1999, while the pre-tax return on assets stood at 0.3%, slightly higher than the past year. The head office set aside an additional RMB 2.5 billion interest payable to cover the interest payable gap of previous years. The Bank carefully evaluated its asset quality, and wrote off assets with a book value of RMB 8.1 billion, representing loss loans of RMB 3.3 billion, other bad debts of RMB 1.4 billion, investment losses of RMB 2.1 billion and interbank lending losses of RMB 1.3 billion. This total is RMB 6.7 billion more than the asset write-offs recognised in the previous year.

## REVENUE AND EXPENSE ANALYSIS

Positive changes have taken place in the revenue and expense structure of CCB. For the components of business revenues, the proportions of revenues from net interest margin and net income from financial institution lending have declined, while income from securities investment activities and non-interest income have increased in relative weight. Net interest revenues for the year totalled RMB 31.3 billion, representing 56.6% of the overall revenue, down by 9.3% from the previous year, while the figures for net current revenue from financial institutions were RMB 3.6 billion, 6.4% of total revenue, down by 1.5% from the prior year. Income from securities investments reached RMB 15.3 billion, accounting for 27.6% of the overall business revenue and up by 10.1%, while noninterest revenue increased to 9.4% (RMB 5.2 billion) of total revenue, up 0.7% from 1999.

## OPERATING EXPENSES

Operating expenses were better managed in the year 2000. Along with the significant and steady growth of asset size and revenues, we have taken cost control measures to slow the growth of operating expenses. Total operating expenses for the year increased RMB 2.1 billion, or 8.2%, to reach RMB 27.5 billion. Salaries and staff welfare provisions represented the largest increase, climbing by RMB 1.1 billion due to higher rates for social security and welfare premiums. Intangible assets and deferred asset amortisation expenses grew by RMB 1.2 billion from the previous year, 4% higher in terms of their proportion to total operating expenses. After considering one-time events and unusual charges, CCB has continued to maintain its total operating expenses at 1999's levels.

## AUDITORS' REPORT

**TO: CHINA CONSTRUCTION BANK**

We have accepted the appointment to audit the accompanying balance sheet of China Construction Bank as of December 31, 2000 and related income statement for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an audit opinion on these financial statements. Our audit was conducted in accordance with the Independent Auditing Standards of Chinese Certified Public Accountants and included such auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of China Construction Bank as of December 31, 2000 and the results of its operations for the year then ended in accordance with Accounting Standards for Enterprises, Accounting Regulations for Financial Enterprises, and other related financial and accounting regulations of the People's Republic of China. The accounting policies used in the preparation of the financial statements for the year are consistent with those used in the preceding year.


**ZHONG TIAN YIN CERTIFIED PUBLIC ACCOUNTANTS**

Zhang Baofen      Fu Pingnan

Beijing

March 10, 2001



# FINANCIAL STATEMENTS & NOTES

## BALANCE SHEET

AS OF DECEMBER 31, 2000 AND 1999  
(UNIT: RMB MILLION YUAN)

ASSETS	Notes	2000	1999
<b>Cash</b>		24,404	33,017
<b>Deposit with the Central Bank</b>	3	235,697	229,198
<b>Deposit with other banks and financial institutions</b>		12,662	13,916
<b>Lending to other banks and financial institutions</b>		90,183	68,134
<b>Other receivables</b>		54,142	53,197
<b>Loans</b>	4	1,386,386	1,200,945
Less: Allowance for loan losses	5	(10,545)	(11,683)
<b>Loans, net</b>		1,375,841	1,189,262
<b>Interest receivable</b>		18,452	21,087
Less: Bad debt provision	5	(64)	(385)
<b>Interest receivable, net</b>		18,388	20,702
<b>Securities purchased under resale agreements</b>		19,940	1,444
<b>Investments</b>	6	603,871	499,581
Less: Investment loss reserve		(751)	(720)
<b>Investments, net</b>		603,120	498,861
<b>Fixed assets, net</b>	7	69,310	66,507
<b>Other assets</b>	8	28,008	26,827
<b>TOTAL ASSETS</b>		<b>2,531,695</b>	<b>2,201,065</b>

The accompanying notes form an integral part of these financial statements.

LIABILITIES	Notes	2000	1999
Deposits	9	2,010,284	1,764,433
Deposits from other banks and financial institutions		251,201	170,504
Borrowing from other banks and financial institutions		1,798	3,647
Borrowings from the Central Bank		4,620	4,090
Interest payable		24,265	21,602
Other payables		38,695	31,166
Long-term borrowings		37,181	38,915
Other liabilities	10	48,801	59,839
<b>Total Liabilities</b>		<b>2,416,845</b>	<b>2,094,196</b>
<b>OWNERS' EQUITY</b>			
Paid-in capital		85,115	85,119
Reserves	11	20,729	16,792
Retained earnings		9,006	4,958
<b>Total Owners' Equity</b>		<b>114,850</b>	<b>106,869</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>2,531,695</b>	<b>2,201,065</b>

The accompanying notes form an integral part of these financial statements.

## INCOME STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999  
(UNIT: RMB MILLION YUAN)

INTEREST INCOME	2000	1999
Loans	74,762	91,494
Deposit with the Central Bank	5,062	6,012
Deposit with other banks and financial institutions	953	1,390
Lending to other banks and financial institutions	2,816	1,799
Discounted bills	312	327
Securities investments	15,288	9,849
Other interest income	44	12
	<b>99,237</b>	<b>110,883</b>
INTEREST EXPENSES		
Deposits	(42,626)	(54,011)
Borrowings from the Central Bank	(43)	(273)
Deposits from other banks and financial institutions	(4,955)	(4,194)
Borrowing from other banks and financial institutions	(269)	(282)
Financial bonds	(102)	(44)
Discounted bills	(98)	(51)
Long-term borrowings	(1,029)	(852)
	<b>(49,122)</b>	<b>(59,707)</b>
<b>Net Interest Income</b>	<b>50,115</b>	<b>51,176</b>
Provision for loan losses	(3,364)	(10,514)
<b>Net Interest Income after Provision for Loan Losses</b>	<b>46,751</b>	<b>40,662</b>

The accompanying notes form an integral part of these financial statements.



NON-INTEREST INCOME	2000	1999
Investment income, net	404	254
Fee income	2,345	1,493
Exchange gain	1,245	247
Non-operating income	473	288
Other income	733	2,568
	<b>5,200</b>	<b>4,850</b>
NON-INTEREST EXPENSES		
Operating expenses	<b>(27,475)</b>	<b>(25,396)</b>
Includes: Salary and employee benefits	(9,744)	(8,610)
Occupancy expenses	(1,909)	(2,202)
Equipment rentals and maintenance	(3,051)	(3,657)
Insurance expenses	(262)	(268)
Amortization of intangible and deferred assets	(2,903)	(1,665)
Depreciation	(3,732)	(3,112)
Provision for investment losses	(2,071)	(471)
Fee expenses	(294)	(475)
Exchange loss	(1,054)	(69)
Non-operating expenses	(2,186)	(646)
Business tax and surcharges	(6,618)	(7,929)
Other	(38)	(48)
	<b>(43,468)</b>	<b>(38,146)</b>
<b>Income Before Income Taxes</b>	<b>8,483</b>	<b>7,366</b>
Income taxes	(943)	(2,408)
<b>Net Income</b>	<b>7,540</b>	<b>4,958</b>

The accompanying notes form an integral part of these financial statements.



## CHINA CONSTRUCTION BANK NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2000 AND 1999  
(EXPRESSED IN MILLIONS OF RENMINBI UNLESS OTHERWISE STATED)

### 1. BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying financial statements of China Construction Bank (the "Bank") are prepared in accordance with the "Accounting Law", "Financial Regulations for Business Enterprises", "Accounting Standards for Enterprises", "Financial Regulations for Financial and Insurance Institutions", and "Accounting Standards for Financial Institutions" issued by the Ministry of Finance of the People's Republic of China (the "PRC").

The financial statements of the Bank include the results of operations of the Bank's headquarter, the domestic branches, and branches in Hong Kong, Singapore, Frankfurt, Germany and Johannesburg, South Africa, for the years ended December 31, 2000 and 1999; and the assets and liabilities as of December 31, 2000 and 1999. All significant inter-bank balances have been eliminated during consolidation.

### 2. PRINCIPAL ACCOUNTING POLICIES

#### (a) Accounting basis and method

The financial statements of the Bank are prepared on an accrual basis. The accounting records are maintained on a historical cost basis, using the double entry accounting method.

#### (b) Accounting period

The accounting period is from January 1 to December 31 of each calendar year.

#### (c) Foreign currency translation

Renminbi ("RMB") is the base recording currency. With respect to foreign currency operations, transactions are recorded by separate accounting books. In order to prepare the consolidated financial statements in RMB, monetary assets and liabilities denominated in foreign currencies are translated into RMB based on the exchange rates stipulated by the Central Bank as of the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Exchange differences arising from changes of exchange rates subsequent to the dates of transactions are included in income statement as exchange gain or loss. The year end exchange rates used were:

December 31, 2000: USD 1 = RMB8.2781

December 31, 1999: USD 1 = RMB8.2793

#### (d) Interest income

Interest income includes interest earned on advances, deposit with the Central Bank, discounted bills, and investment securities. Prior to 2000, interest income is suspended when loans are overdue for 12 months. Starting in 2000, interest income is suspended when loans are overdue for 6 months or interest installments

are overdue for 3 years. Such past due interest is excluded from interest income until received. The compounding of the past due interest is recorded off balance sheet and excluded from interest income until received.

#### (e) Interest expenses

Interest expense of current deposits is compounded quarterly, and that of savings deposits compounded annually on June 30. Time deposits are compounded according to the terms of the respective certificates.

#### (f) Interest rates on loans and deposits

The Bank complies with the interest rate policy for loans and deposits stipulated by the Central Bank. The policy allows banks to set their own interest rate within a certain range.

#### (g) Allowance for loan losses

Allowance for loan losses consists of two components: allowance for doubtful loans which is provided against the principal of doubtful loans, at 1% on the outstanding loan balances at the end of year; and allowance for doubtful receivables which is provided against doubtful interest receivables, at 0.3% on the outstanding interest receivables at the end of the year. Provisions for loan losses are charged to the income statement. The write-off of doubtful loans and interest receivables are based on the estimates made by the Bank based on the loan losses for the fiscal year, within the outstanding of allowance provided in the previous year. In addition, in accordance with the relevant rules of the Ministry of Finance ("MOF"), state-owned commercial banks are allowed to write-off additional loan losses according to the MOF's criteria for doubtful receivables of state-owned commercial banks. The additional write-offs are charged directly to the income statement. The Bank's overseas branches provide allowance for loan losses according to the local regulations.

#### (h) Investments and investment loss reserve

Investments are stated at cost. The investment loss reserve is provided at 1% on the outstanding balance of investments at the end of the year.

#### (i) Fixed assets and depreciation

- i. Fixed assets are stated at cost less accumulated depreciation.
- ii. Depreciation of fixed assets is provided using the straight-line method over their estimated useful lives, taking into account their estimated residual value at 3% of cost. The estimated useful lives are as follows:

<b>Buildings</b>	<b>30-35 years</b>
<b>Motor vehicles</b>	<b>4-6 years</b>
<b>Electronic equipment</b>	<b>3-8 years</b>
<b>Other</b>	<b>5-11 years</b>



#### (j) Intangible assets

- i. Intangible assets are stated at cost less accumulated amortization.
- ii. Intangible assets are included in other assets and are amortized on a straight-line basis over their useful lives of not less than five years.

#### (k) Taxation

The Bank's domestic branches are subject to income tax at 33% and business tax at 8% levied on the Bank's interest income, fees and commissions, and other revenue earned. The Bank is also subject to business tax surcharges which are based on business tax payable, at 0.5% for city branches and 0.4% for branches at county level or below. The Bank's overseas branches are subject to the taxation applicable in the countries in which they are located.

#### (l) Appropriation of profit

- i. The Bank appropriates reserves upon approval from MOF.
- ii. In accordance with the relevant rules of the MOF, the interest income earned on bonds issued by asset management companies in exchange for the non-performing assets of state-owned commercial banks is not subject to income tax and should be recorded separately. Such interest income is not subject to profit distribution.

#### (m) Derivative financial instruments

The Bank offers services in interest rate and foreign currency swaps to its corporate customers and earns commission income by providing such services. In order to manage the related interest rate and foreign currency risk exposures, the Bank maintains a portfolio of generally matched offsetting swap agreements with foreign banks.

### 3.DEPOSIT WITH CENTRAL BANK

As of December 31, 2000, there were restricted reserves of RMB114,288 million (1999: RMB101,766 million) included in balances with the Central Bank.

### 4.LOANS

#### (a) Loans by term:

	2000	1999
Less than one year	523,347	445,778
More than one year	863,039	755,167
	<b>1,386,386</b>	<b>1,200,945</b>

## (b) Loans by geographical locations:

	2000	1999
<b>China</b>		
Northeastern region	110,789	99,272
Northern region	332,342	300,125
Eastern region	433,728	368,537
Central region	291,514	244,998
Northwestern region	90,815	81,469
Southwestern region	120,424	102,137
Hong Kong	6,175	3,717
Overseas	599	690
	<b>1,386,386</b>	<b>1,200,945</b>

## (c) Loans by currency:

	2000	1999
Loans in RMB	1,313,834	1,130,944
Foreign currency loans	72,552	70,001
	<b>1,386,386</b>	<b>1,200,945</b>

## 5.ALLOWANCE FOR LOAN LOSSES AND BAD DEBT PROVISION

	2000	1999
Balance, beginning of year	12,068	2,861
Direct write-off	(3,623)	(748)
Recovery	204	615
Provision for the year	1,960	9,340
Balance, end of year	<b>10,609</b>	<b>12,068</b>



## 6.INVESTMENTS

(a) Investments consist of:

	2000	1999
<b>Equity investments</b>	2,505	8,676
<b>Debt-to-equity swaps</b>	16,560	-
<b>Bond investments</b>	584,806	490,905
<b>Include: Treasury bonds</b>	200,628	13,174
<b>Financial bonds</b>	134,178	227,731
<b>Enterprise bonds</b>	250,000	250,000
<b>Total</b>	<b>603,871</b>	<b>499,581</b>

(b) Investments in subsidiaries and associated companies:

As of December 31, 2000 and 1999, the Bank has the following subsidiaries and associated companies:

NAME	Location of incorporation	Principal activities	Percentage of equity interest held
<u>Subsidiary</u>			
<b>Hong Kong Jianxin Bank</b>	<b>Hong Kong</b>	<b>Banking</b>	70%
<u>Associated Companies</u>			
<b>China International Capital Corporation Limited</b>	<b>Mainland China</b>	<b>Investment banking</b>	42.5%
<b>CITIC Kowah Bank</b>	<b>Hong Kong</b>	<b>Banking</b>	5.19%

Due to the insignificance of the current operations of the Hong Kong Jianxin Bank to the Bank as a whole, the balance sheet of Hong Kong Jianxin Bank as of December 31, 2000 and 1999 and its results of operations for the years then ended are not included in the consolidated financial statements.

**7.FIXED ASSETS**

	<b>2000</b>	<b>1999</b>
<b>Buildings</b>	60,030	49,866
<b>Motor vehicles</b>	4,629	4,595
<b>Electronic equipment</b>	5,994	5,651
<b>Others</b>	7,531	7,697
<b>Less: Accumulated depreciation</b>	(18,037)	(15,942)
	60,147	51,867
<b>Construction-in-progress</b>	9,163	14,640
<b>Fixed assets, net</b>	<b>69,310</b>	<b>66,507</b>

**8.OTHER ASSETS**

	<b>2000</b>	<b>1999</b>
<b>Intangible assets</b>	2,865	2,973
<b>Deferred assets</b>	6,651	8,436
<b>Assets received in lieu of debt repayment</b>	12,600	10,026
<b>Other</b>	5,892	5,392
	<b>28,008</b>	<b>26,827</b>

**9.DEPOSITS**

(a) Deposits by currency:

	<b>2000</b>	<b>1999</b>
<b>Deposits in RMB</b>	1,518,961	1,685,029
<b>Foreign currency deposits</b>	491,323	79,404
	<b>2,010,284</b>	<b>1,764,433</b>





(b) Deposits by term:

	2000	1999
Current deposits	1,186,751	982,150
Term deposits	823,533	782,283
	2,010,284	1,764,433

(c) Deposits by customer:

	2000	1999
Personal deposits	925,456	830,596
Enterprise deposits	1,084,828	933,837
	2,010,284	1,764,433

10. OTHER LIABILITIES

	2000	1999
Inward remittance	3,478	3,201
Outward remittance	29,403	29,348
Others	15,920	27,290
	48,801	59,839

**11.RESERVES**

Movements in reserves were as follows:

	CAPITAL SURPLUS	REVENUE RESERVE	TOTAL
<b>Balance, 1 January 2000</b>	12,017	4,775	16,792
<b>Appropriation during the year</b>	0	3,492	3,492
<b>Asset revaluation surplus</b>	24	0	24
<b>Other</b>	421	0	421
<b>Balance, 31 December 2000</b>	<b>12,462</b>	<b>8,267</b>	<b>20,729</b>

**12.ENTRUSTED ACTIVITIES AND SIGNIFICANT OFF-BALANCE SHEET ITEMS**

As of December 31, significant entrusted balances consisted of the following:

	2000	1999
<b>Entrusted investments</b>	56,810	70,428
<b>Entrusted loans</b>	169,131	544,834
	<b>225,941</b>	<b>615,262</b>

As of December 31, other significant off-balance sheet items consisted of the following:

	2000	1999
<b>Acceptances</b>	44,162	25,715
<b>Letters of credit issued</b>	18,802	11,646



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TEL: (028) 6767161  
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#### INTERNATIONAL DEPARTMENT

ADD: No.86, Tidu Street, Chengdu  
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### CHONGQING BRANCH

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ADD: L365 Daduhui Square, No.68, Zourong Road, Yuzhong District, Chongqing  
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FAX: (023) 63841416  
TELEX: 62251 CBCQ CN  
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### YUNNAN BRANCH

ADD: No.37, Yong an Road, Kunming  
TEL: (0871) 3513300  
FAX: (0871) 3559355  
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#### INTERNATIONAL DEPARTMENT

ADD: No.404, Beijing Road, Kunming  
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### GUIZHOU BRANCH

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#### INTERNATIONAL DEPARTMENT

ADD: No.113, Ruijin North Road, Guiyang  
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ZIP: 550003

### TIBET BRANCH

ADD: No.99, Beijing Zhong Road, Lhasa  
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FAX: (0891) 6836818  
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### SHANXI BRANCH

ADD: CCB Plaza, Wuweishizi, Zhuquemennei Street, Xi'an  
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FAX: (029) 7617514  
ZIP: 710002

#### INTERNATIONAL DEPARTMENT

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FAX: (029) 7614810  
TELEX: 700245 CBSX CN  
ZIP: 710002



**GANSU BRANCH**

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 FAX: (0931) 4891862 4891750  
 ZIP: 730030

**INTERNATIONAL DEPARTMENT**

ADD: No.267, Qingyang Road, Lanzhou  
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 FAX: (0931) 8471134  
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**QINGHAI BRANCH**

ADD: No.59, West Street, Xi'ning  
 TEL: (0971) 8261180  
 FAX: (0971) 8261225  
 ZIP: 810000

**INTERNATIONAL DEPARTMENT**

ADD: No.59, West Street, Xi'ning  
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 TELEX: 77027 CBQHI CN  
 ZIP: 810000

**NINGXIA BRANCH**

ADD: No.26, Nanxun West Road, Yinchuan  
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 FAX: (0951) 4106165  
 ZIP: 750001

**INTERNATIONAL DEPARTMENT**

ADD: No. 26, Nanling West Road, Yinchuan  
 TEL: (0951) 4112504  
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**XINJIANG BRANCH**

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 TEL: (0991) 2848666  
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**INTERNATIONAL DEPARTMENT**

ADD: No.36, Minzhu West Road, Urumqi  
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#### **CCB HONG KONG BRANCH**

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TEL: 00852-2868-4438  
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#### **CCB SEOUL REPRESENTATIVE OFFICE**

ADD: 6/F, Ankuk Insurance BLDC 87 1-GA Ulchi-Ro Chung-  
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#### **CCB SINGAPORE BRANCH**

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#### **CCB NEW YORK REPRESENTATIVE OFFICE**

ADD: 320 Park Avenue, 30th Floor, New York, NY 10022  
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#### **CCB FRANKFURT BRANCH**

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#### **CCB JOHANNESBURG BRANCH**

ADD: 18th Floor, Office Tower, Sandton City; Sandton Private  
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