

China Construction Bank fortifies its leading market position

The improvement of China Construction Bank's risk management tools and processes in 2010 cemented its influential position in the industry and led to it being named *Asia Risk's* 2011 House of the Year, China

It was a consolidation year for the global economy in 2010. Adhering to its customer-focused and market-oriented operating philosophy, China Construction Bank (CCB) has adopted active risk management to support its business development and innovation, achieving sustained improvement in asset quality and continuous enhancements in its value creation capabilities. At the end of 2010, CCB's non-performing loans (NPLs) were reduced by RMB7,444 million year-on-year, and its NPL ratio declined 0.36 percentage points. Its core business indexes, including capital adequacy ratio, provision coverage ratio, net return on total assets and net return on equity, were among the best in the domestic banking industry.

Pronounced results from structural adjustments

In 2010, CCB responded to the State's macro-control policies by further refining its credit policy – enhancing and guaranteeing credit placement to some industries, while controlling, compressing and withdrawing from others – along different industrial, regional, consumer and product lines. Active risk choices were also made by employing risk limits and economic capital, by refining baselines and credit approval guidelines, and by specifying guidelines for credit access and withdrawal. Subsequently, the credit structure of CCB was further improved by withdrawing RMB104.5 billion in credit, not NPLs. The spare credit resources were used to nurture new profit growth and further fortify CCB's leading position in the market for infrastructure loans and personal housing loans. It also succeeded in maintaining its leading position in the industry for small enterprise loans. The growth in agriculture-related loans outperformed all major banks.

Effective control of underlying risks

CCB has strived to enhance its capabilities of risk monitoring by relying on platforms including a credit extension monitoring system and a corporate customer early-warning and surveillance system. The systems include credit approval, provisioning for impairment, post-lending management and collection. In the meantime, CCB has strictly controlled the credit supply to key areas: industries with overcapacities, government financing platforms and the real estate sector. It has refined the management of its list system, established strict access standards and strengthened its approval checks. At the end of 2010, its balance of loans to industries with overcapacities was reduced by RMB19.3 billion year-on-year. New loans for real estate development were the lowest among major commercial banks and its NPL ratio for the real estate sector continued to decrease, with a drop of 0.96 percentage points year-on-year.

In-depth application of risk management tools

CCB accelerated the development and application of risk management technologies and tools, launching 27 credit-rating models for corporate customers, nine retail banking scorecards and a credit-rating model for small enterprise customers. A new generation of internal rating systems is in use for CCB's daily operations and management. These tools help CCB to adopt scientific pricing. Based on a portfolio risk management system, calculations of risk-adjusted return on capital at both portfolio and single transaction levels are possible.

Enhancement of risk management capabilities

CCB has also strengthened its key processes. Risk mitigation capabilities were bolstered by the development of a collateral management system that raised valuation standards. Baseline management of credit extension was intensified by the integration of overseas branches and subsidiaries into the unified risk management system on a bank-wide basis. CCB took the lead among major domestic banks to develop a provisioning system for country risks. Unified control of on- and off-balance sheet credit risk exposure was strengthened and industry limit management was strictly implemented. Sound data foundations and management platforms were set up to mitigate market risk. Management of operational risks was escalated continuously by improving key risk indicators and a data bank for operational risk losses. Progress in developing a business continuity system and improvements in CCB's emergency response systems have ensured its business continuity management is the most advanced in the domestic banking sector.

Basic management elevated to new levels

During 2011, CCB continued to exert efforts to implement the New Basel Capital Accord. It has transformed 20 existing systems and constructed six new systems. Its portfolio risk management system, financial market business risk management system and operational risk management information system have been launched successively, while an integrated platform for risk management on a bank-wide basis was set up. Establishing a data quality control mechanism and developing a system for data management on operational risk losses has substantially upgraded its fundamental data management. This has provided a solid foundation for CCB's long-term sustainable development.

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