

2004

ANNUAL REPORT





中国工商银行

INDUSTRIAL AND COMMERCIAL BANK OF CHINA



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Financial Highlights

Unit: RMB million, %

Item	ICBC Group ¹			ICBC		
	2004	2003	Growth Rate	2004	2003	Growth Rate
Operating Results						
Operating profit	74,608	63,544	17.41	73,679	62,603	17.69
Total profit	2,927	2,658	10.12	2,105	2,110	-0.24
Interest income	180,506	162,839	10.85	178,195	161,452	10.37
Interest expense	67,357	64,297	4.76	66,535	63,845	4.21
Net interest income	113,149	98,542	14.82	111,660	97,607	14.40
Non-interest income	16,389	11,496	42.56	16,071	10,888	47.60
Balance Sheet Items						
Total assets	5,670,521	5,279,120	7.41	5,589,904	5,239,963	6.68
Loans	3,705,274	3,392,937	9.21	3,635,281	3,346,923	8.62
Total liabilities	5,503,585	5,106,167	7.78	5,427,189	5,069,824	7.05
Deposits	5,060,718	4,606,202	9.87	5,000,019	4,568,164	9.45
Owner's equity	162,983	170,501	-4.41 ²	162,715	170,139	-4.36
Ratios (%)	Change in percentage points			Change in percentage points		
Operating profit/total assets	1.36	1.26	0.10	1.36	1.26	0.10
Operating profit/owner's equity	44.74	36.45	8.29	44.27	35.98	8.29
Interest income from loans/total income	70.55	71.69	-1.14	70.76	71.90	-1.14
Interest expenses on deposits/total expenses	32.13	33.74	-1.61	32.21	33.73	-1.52
Cost/Income Ratio ³	41.98	46.71	-4.73	41.81	46.73	-4.92
NPL Ratio (Five-Category Classification)	18.99	21.24	-2.25	19.33	21.51	-2.18

Notes: 1.Refer to Page 62 "Notes to the financial statements": (2) The scope of consolidation;

2.Refer to Page 72 "Notes to the Significant Items of the Consolidated Financial Statements": (15) Owner's Equity;

3.Cost/Income Ratio = Operating expenses/Operating income

Address by the President



Chairman and President: **Mr. Jiang Jianqing**

In 2004, in contrast with the underlying growth of the world economy, China's economy maintained a steady and rapid growth in a fiscally managed environment and continued her advancement to becoming an integral part of the global economy.

2004 was an important year for ICBC in its march towards the goal of becoming a modern financial institution. During this year, the Bank has supported the government's macro economic management policies, implemented new regulatory requirements, pushed forward with comprehensive reform and business innovation, strengthened internal control and risk management frameworks, continued to transform the operation model and sources of growth, strengthened and solidified its operational platform and further developed its lines of business.

In 2004, operational efficiency was remarkably enhanced and the asset quality of the Bank was improved. The operating profit earned by the domestic and overseas operations of the Bank amounted to RMB 74.6 billion, up by RMB 11.1 billion as compared to the previous year. All of the domestic tier-one branches were profitable whilst the overseas operations earned USD 170 million in operating profit. The continuous increase of operational efficiency of the Bank provided conditions for ever-improving asset quality. During the year, charges for provisions and charges relating to the disposition of some of the non-performing assets ("NPA") of the Bank amounted to a total of RMB 71.7 billion, while the NPA ratio fell to 14.32%, down by 1.87 percentage points as compared to the previous year. The balance of non-performing loans ("NPL") as measured by the five-category classification standard decreased by RMB 17.1 billion and the NPL ratio declined to 18.99%, down by 2.25 percentage points; non-credit risk assets were also reduced by RMB 25.3 billion. Loans granted since 1999 had performed well with an NPL ratio of a relatively low level 1.57%. Risks arising from the pre-1999 assets were actively managed. 63% of the Bank's total assets as of the end of 2003 were subject to audit by an internationally reputable audit firm, and result of the audit indicated that our processes for assessing asset quality were on the whole valid and reliable.

In 2004, great steps forward have been made in the reorganization of credit function with the allocation of resources being further optimized. In line with both the government's macro economic policies and the core principles for commercial banking, ICBC accomplished an overall satisfactory growth in its credit business, which was supported by enhanced credit risk management achieved through measures such as further improving industry and customer credit policies, strengthening centralized credit line review, group exposure review mechanisms and authorization management etc. The total credit exposure to assets in industries that were identified as being "over-invested" were significantly reduced and loans granted to undesirable segments such as redundant construction were contained. Meanwhile, ICBC provided active support to some core industries and "economic bottleneck" industries such as coal mines, power, petroleum and transportation, and increased loans to the top enterprises in the marketplace as well as those projects which were in compliance with the state's industrial policies and regulations. ICBC also expanded its bills business in line with the trend that more and more enterprises use bills for short-term financing. Credit support to good-quality medium and small sized enterprises continued to grow, and housing mortgage business and consumer credit business developed smoothly. The total loan book including both local and foreign currencies increased by RMB 312.3 billion for the year, including a RMB 252.1 billion increase in project related loans and housing mortgage loans, and a RMB 154.7 billion increase in short-term bill financing. The total balance of bills discounted exceeded RMB 300 billion with an NPA ratio of less than 0.02%. ICBC maintained its leading position amongst its peers domestically in terms of both size and quality in the bills discounting area. The balance of housing mortgage loans amounted to over RMB 400 billion, making ICBC the biggest mortgage bank in China. The Bank also exited from a large amount of bad-quality or low-profitability loans and focused on originating good-quality loans.

Rapid on-going business and technical innovation helped to enhance the competitiveness of the Bank. Based on modern business models, advanced technology and integrated development of various business lines, ICBC's traditional deposit business maintained a steady growth rate with the total balance of all deposits in local and foreign currencies rising by RMB 454.5 billion, and the year-end balance exceeding RMB 5 trillion. The intermediary business achieved a leap-forward in growth, thus making ICBC the first commercial

bank in China to earn a revenue exceeding RMB 10 billion from its intermediary business. The major key performance indicators of new businesses such as investment banking, bank cards, bullion trading and the fund management business, provided solid evidence of the Bank's leading position amongst its peers in China. Total assets under custody of the Bank reached over RMB 100 billion and the E-banking business innovation maintained its leading position. Local and foreign currency business systems for internet banking have also taken shape. A large number of high value-added, high-tech products such as cash management, Elite Club accounts, and Banking@Home further enhanced their market position. The ongoing business interaction between domestic and overseas branches and the integration of local and foreign currency businesses led to a marked operation advantage, and thereby the degree of internationalization of the Bank was further promoted. The consolidation of data centers has been completed and resulted in a safer, more intensive and efficient data operational platform. The multi-functional banking system, as the comprehensive business operation platform of the entire bank, has been constantly fine-tuned and enhanced. The Bank's competitive advantage in technology has substantially increased the competitiveness of the Bank.

Through the transformation of its business operations and sources of growth, the Bank has been able to build an environment conducive for sustainable revenue growth. Both the structure of the asset portfolio and the profitability of the Bank are continuously improving. 64.97% of the total assets were credit related assets and the overall loan-to-deposit ratio fell to 67.05%. The ratio of net interest income from loans to net operating income dropped to 60.29%, while the weight of income from intermediary business and treasury business in net operating income increased to 39.71%. In 2004, ICBC earned a total of RMB 12.3 billion from intermediary business, making up 9.71% of net operating income and equal to 16.11% of net interest income from loans. Income from treasury business reached RMB 38 billion, representing 30% of net operating income. The branch network of ICBC has been rationalized, with outlets being redesigned and with an increasing use of E-banking solutions. The transaction volume of E-banking business reached RMB 38 trillion, constituting 20% of the Bank's total business volume. The cost/income ratio of ICBC dropped to 41.98%, in line with the level of some leading international banks.

New progress has been made in redesigning internal processes while the internal management and the quality of staff have also shown great improvement. The preparation for shareholding restructuring is progressing in line with a predetermined plan, and the restructuring of internal corporate governance framework is advancing step by step. Risk management committees at both the Head Office and the branch level have been restructured and strengthened, and a comprehensive risk management framework has been established with the assistance of an internationally renowned consulting company. The establishment of a vertically-managed, independent internal audit process and the establishment of an Internal Control and Compliance Department managed at different levels in the organization have been mostly completed. Significant progress has been made in the area of business processes and organizational structure consolidation and reengineering. ICBC became the first bank in China to separate out accounting function from business operations. The Bank established "Three Centers" being the Accounting Processing Center, the Supervision Center and the Cash Operation Center. The front office and back office of the consumer credit businesses have been segregated, whilst the operating structures of the funds management and financial management were further strengthened. Personnel management has also made steady progress with the performance evaluation system being further enhanced. Training has been provided for staff at many levels across ICBC, and the Bank is working hard to build and develop its own corporate culture.

In 2004, there were some major changes in the senior management of ICBC. Mr. Yang Kaisheng became the Vice Chairman and Executive Vice President; Mr. Li Xiaopeng, former Executive Assistant President, was promoted to Executive Vice President, while the former Vice Chairman and Executive Vice President Mr. Tian Ruizhang retired.

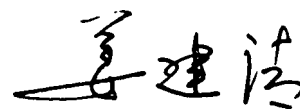
ICBC's steps forward in terms of new achievements, restructuring and good progress in both the operations and management further escalated its reputation and market position both domestically and internationally.

In 2004, ICBC won eleven awards in total, including the “Best Bank in China”, “Best Retail Bank in China”, “Best Consumer Internet Bank in China”, “Best Custodial Bank in China”, and “Best Trade and Project Finance Bank in Asia” by major international publications including “The Banker”, “Euromoney”, and “Global Finance”. Standard & Poors raised ICBC’s outlook rating from “stable” to “positive”.

2005 will be critical for China in implementing the scientific view of development, solidifying the favorable outcome from macro-control and sustaining the good economic and social development trend. It will also be an important year for ICBC in advancing its transformation into a modern financial institution in all aspects of its operations. Starting in 2005, based on the great achievements and the solid foundation of the changes already achieved in the last five years, we will prepare ourselves to get ready to restructure into a shareholding bank when the timing is right, continue reforms in eight areas and enter a new phase in establishing ourselves as a modern financial institution. The eight areas include: 1) establishing a standard modern corporate governance framework supported by rational, effective and efficient decision-making, implementation and supervision processes; 2) establishing effective, efficient and advanced business processes and organizational structure, completing the segregation of the front, middle and back office functions, restructuring the branch network with urban branches as the key focus and gradually transforming to a vertical management system managed by business lines and products; 3) establishing an independent internal audit function reporting to the board and an internal control and compliance function reporting to senior management, constructing standard and effective internal control processes to cover all areas of the business operations and management activities; 4) establishing a comprehensive risk management framework allowing risk control over all processes based on quantitative measures; 5) establishing a prudent, standardized and transparent financial accounting system in compliance with international accounting standards; 6) establishing a capital management system appropriate for a shareholding bank and perfecting the capital management and control mechanism; 7) establishing an information disclosure and reporting system in conformity with international capital market requirements and increasing information transparency; 8) establishing a market-oriented human resources management function and putting in place an effective personnel motivation and management system. The outcome of accomplishing the above will be the comprehensive remodeling of ICBC.

Starting in 2005, we will begin pushing forward the business strategy transformation by focusing on the change of operation model and growth pattern. This requires us to adhere to a rational approach to business development including: setting up a value creation oriented management philosophy; strengthening the view of business development based on adequate capital requirements and cost and risk considerations; pushing forward with the optimizing of the asset portfolio structure, profitability mix, business structure, customer portfolio and geographic coverage; accelerating the establishment of core competitiveness; maintaining our commitment to market-oriented sustainable development; and actively constructing a diversified and value-oriented new operating platform.

ICBC is making relentless efforts towards these goals though both opportunities and challenges lie ahead along the road to becoming a modern financial institution. ICBC will grow rapidly to become the most valuable bank to the state, our shareholders, our customers and our employees. We have full confidence in that!



Jiang Jianqing
Chairman and President
January 1, 2005

Executive Board



Mr. Jiang Jianqing (center)

Chairman and President

Mr. Yang Kaisheng (fourth from right)

Vice Chairman and Executive Vice President

Mr. Chen Keru (third from left)

Member of the Board

Mr. Zhang Furong (third from right)

Member of the Board and Executive Vice President

Mr. Zhang Qu (second from left)

Member of the Board and Executive Vice President

Ms. Wang Lili (second from right)

Member of the Board and Executive Vice President

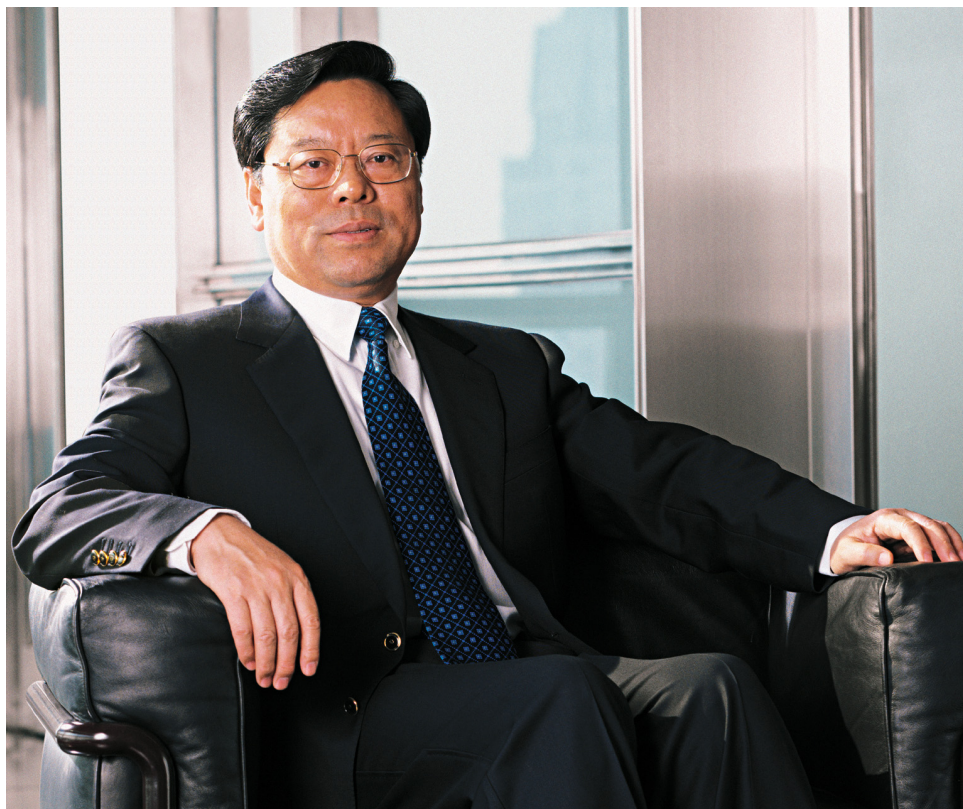
Mr. Niu Ximing (first from left)

Member of the Board and Executive Vice President

Mr. Li Xiaopeng (first from right)

Member of the Board and Executive Vice President

Supervisory Board



Mr. Wang Weiqiang, Chairman of the Supervisory Board

The State Council appointed the new Supervisory Board of ICBC in August 2003. The Supervisory Board is composed of the Chairman, full-time supervisors, part-time supervisors and other staff.

In accordance with the *Provisional Ordinance for Supervisory Board of Key State-owned Financial Institutions*, the main roles of the Supervisory Board include: to inspect the status of ICBC's implementation of the state's financial and economic laws, rules and regulations; to verify the truthfulness and legitimacy of the financial and treasury reports; to examine the operating results, profit distribution, appreciation and maintenance of the value of state-owned assets, and treasury operations; to inspect the asset utilization and management, to raise suggestions and comments on the existing issues and potential risks; and to oversee the activities of senior executives and assess the operating performance of ICBC, and put forward proposals for the promotion or demotion, and the recognition or punishment of senior executives.