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ANNUAL REPORT



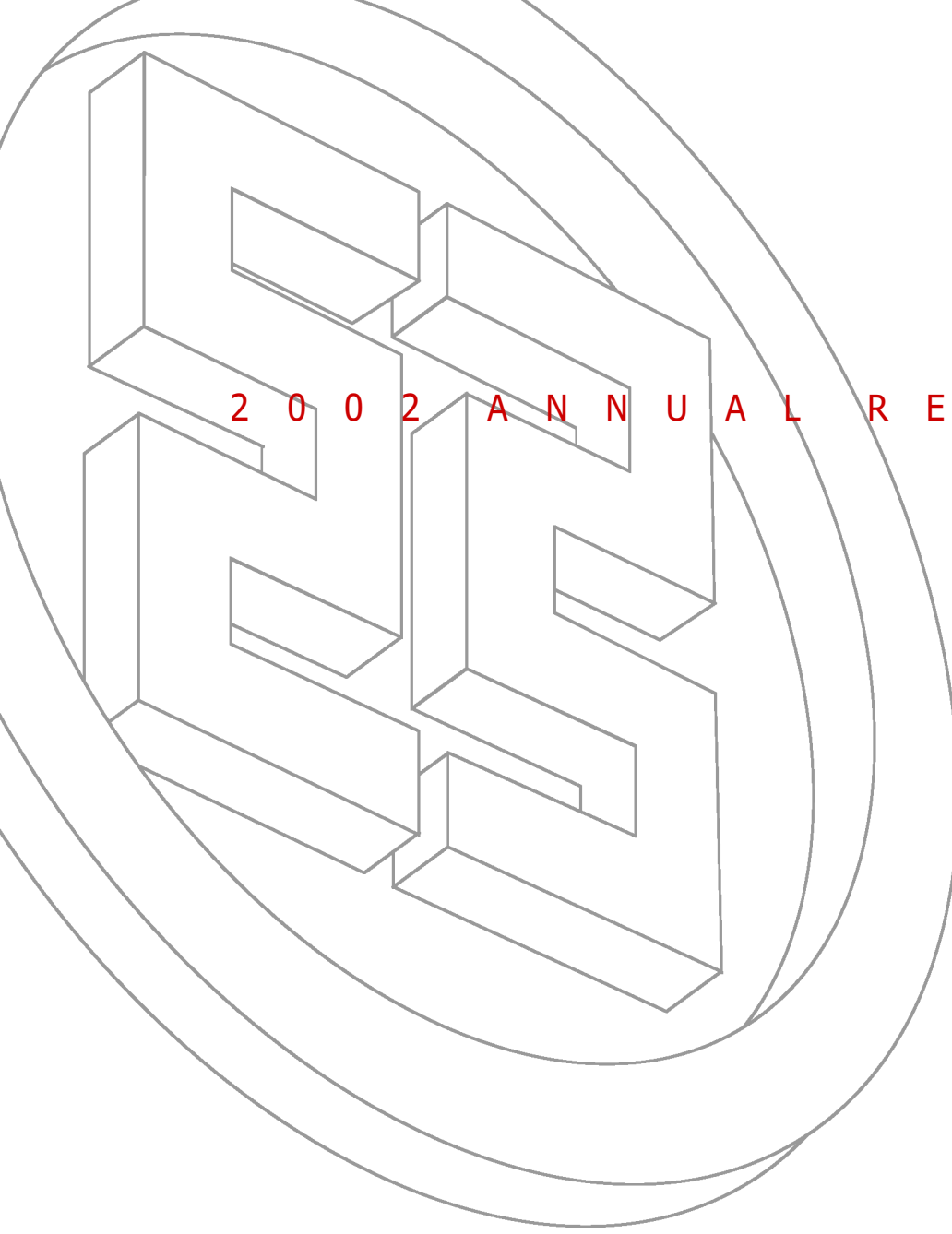
**INDUSTRIAL AND COMMERCIAL
BANK OF CHINA**



Incorporated on January 1, 1984, Industrial and Commercial Bank of China ("ICBC") is now the largest commercial bank in China and one of the top ten commercial banks around the world. As of end of 2002, its total assets reached RMB 4,776.8 billion, representing 1/4 of the aggregate domestic assets of all Chinese commercial banks. It is the market leader in all major areas of the banking service in China.

Through 22,034 domestic outlets, 71 overseas branches and offices and 1,020 correspondent banks all over the world and via an advanced computer network, ICBC delivers comprehensive and convenient service to millions of corporate clients and approximately 100 million personal customers.

Note: all figures in this annual report, unless stated, are the figures of all of ICBC's domestic and overseas branches.



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THE BANKER, UK.

In 2002, The Banker named ICBC "Bank of the Year 2002 China". We have won this award for 3 years in a row.



In 2002, ICBC won the "Bank of the Year 2002 Website".

In its 2002 global top 1000 bank ranking by tier-one capital, we took the 10th position. We have been included in the top ten in this ranking for the last 4 consecutive years since 1998.



GLOBAL FINANCE, U.S.A.

ICBC won "Best Bank Award 2002 China". We have won this recognition for the last two years in a row.



In 2002, ICBC was given the "Best Corporate Internet Bank Award 2002 China".

THE ASIAN BANKER

THE ASIAN BANKER, Singapore

In 2002, ICBC won "Excellence in Retail Financial Services Award 2002 China".



FORTUNE, U.S.A.

In 2002 we were ranked 243rd in Fortune's Global 500. It was the fourth consecutive year that we have been included in these ranking.



FAR EAST ECONOMIC REVIEW, U.S.A.

In 2002, ICBC was included in its "200 Asia's Leading Companies" and ranked 4th in the Top Ten Chinese domestic companies. The bank was ahead of all the other domestic financial institutions included in the ranking.



Market Position and Competitive Edge



Overall Strength

- **The largest commercial bank in China.** ICBC's total assets reach approximately RMB 4.8 trillion, taking 1/4 of the total domestic assets owned by Chinese commercial banks.
- **Serving the most extensive corporate clients in China.** ICBC has 8.1 million corporate accounts and currently has credit relationship with 220,000 corporate clients.
- **Serving the largest number of personal customers in China.** ICBC has approximately 100 million personal customers, 2.8 million consumer credit clients, and approximately 400 million personal savings accounts.
- **Equipped with the most advanced technology among the commercial banks in China.** ICBC has deployed the most advanced IT infrastructure in China, including 2 consolidated data centers. The computer network covers all the branch offices. We have also deployed the largest number of ATM and POS.
- **The bank that always stands by your side.** Through 22,034 domestic outlets, 71 overseas branches and offices and 1,020 correspondent banks in 105 countries across six continents, ICBC delivers convenient service to customers.

Deposits and Loans

- **The largest wholesale banking provider in China.** The outstanding corporate deposits reaches RMB 1,771.7 billion, representing a 20% market share. The outstanding corporate loans reaches RMB 2,654.8 billion, representing a 20% market share.
- **The largest savings bank in China.** The outstanding savings deposits reaches RMB 2,285.2 billion, representing a 24% market share.
- **The largest housing mortgage lender in China.** The outstanding amount of housing mortgage loans stands at RMB 258 billion, making up 31% of the market share.
- **The largest consumer-banking provider in China.** The outstanding amount of consumer credit stands at RMB 303 billion, representing 28% in the market. Other consumer credit (excluding housing mortgages) reaches RMB 45 billion, representing a 19% market share, of which, auto loans reach RMB 21.1 billion, increasing by 220% year on year.

E-Banking

- **Leading E-banking service.** A full array of electronic banking services are available, including Internet banking, telephone banking, mobile phone banking and self-service banking. In 2002, the total transaction volume reached RMB **8.8 trillion**, increasing 2.4 times compared to the previous year. Our Internet banking solution and phone banking service, which are branded "Financial E-channel" and "95588", have been widely recognized and accepted by our customers. ICBC was the first domestic bank to provide online B-to-B banking service. Today, our Internet banking service covers all aspects of B-to-B and B-to-C business. In 2002, the volume of Internet banking transactions exceeded RMB 5 trillion, increasing some 8.4 times compared to the previous year.

Bank Card

- **The largest in card spending amongst the domestic banks.** As of end 2002, a total of 79.46 million Peony cards were on issue and card spending reached RMB 68.5 billion, representing **43%** of the total card market share held by the 4 state-owned commercial banks. In the card business, we scored best compared to our rivals on three major criteria: the number of credit cards issued, volume of spending, and cross-bank transaction volume.

Intermediary Business

- **The largest settlement bank in China.** ICBC was the first commercial bank providing real time funds transfer and settlement services. Our RMB settlement market share is **45%** which is well ahead of other market players. Our market share in the clearing services for securities, futures, and bullion market is above **50%**.
- **The largest agency banking provider in China.** Working on an agency basis, we offer payment and settlement services to government institutions, policy banks, commercial banks, non-bank financial institutions and corporate clients. The payment and settlement transaction volumes ranks the **first** amongst the domestic players.
- **The largest custody bank in China.** ICBC acts as the custody bank for **20** funds and holds some RMB 30 billion of assets under custody. The assets under custody increased by 22% as compared with last year and we have scored the **best** among our domestic rivals on all business criteria for the last five years in a row.
- **The largest institutional investor, bond agent and OTC market maker in China's domestic bond market.**



Financial Highlights

Unit : RMB million, %

ITEM	ICBC Group ¹			ICBC (the Bank)		
	2002	2001	Growth Rate	2002	2001	Growth Rate
Operating Results						
Operating profit ²	44,850	34,677	29.34	43,917	34,384	27.73
Net profit	6,527	5,950	9.70	6,174	5,803	6.39
Interest income	154,875	159,631	-2.98	153,778	158,243	-2.82
Interest expenses	70,113	86,582	-19.02	69,547	85,823	-18.96
Net interest income	84,762	73,049	16.03	84,231	72,420	16.31
Non-interest income	8,592	7,044	21.98	7,402	6,612	11.95
Balance Sheet Items						
Total assets	4,776,773	4,338,985	10.09	4,734,236	4,318,071	9.64
Loans	3,002,283	2,688,877	11.66	2,957,837	2,659,466	11.22
Total liabilities	4,594,767	4,146,058	10.82	4,556,381	4,127,077	10.40
Deposits	4,100,517	3,612,194	13.52	4,056,898	3,580,470	13.31
Owners' equity ³	178,208	191,253	-6.82	177,855	190,994	-6.88
Ratios						
Net profit/total assets	0.137	0.137	-	0.130	0.134	-2.99
Net profit/capital	3.66	3.11	17.68	3.47	3.04	14.14
Interest income from loans/total income	72.96	69.75	4.60	73.13	69.82	4.74
Interest expenses on deposits/total expenses	39.75	45.75	-13.11	39.84	45.75	-12.92
Cost/income	56.37	59.23	-4.83	56.55	59.14	-4.38
NPL ratio (Five-Category Classification)	25.43	29.54	-13.91	25.69	29.78	-13.73

Note: 1. See Page 52 Important Accounting Policies and Accounting Estimates: 14. Scope and Preparation of ICBC's Consolidated Financial Statements;

2. See Page 25 Financial Review;

3. See Page 57 Notes to the Financial Statements: 14. Owners' Equity.

Chairman's Message



Chairman and President: **MR. JIANG JIANQING**

2002 has been a year of far-reaching significance for the development of the country. Amid the turmoil of the international financial markets and slow economic recovery around the world, China has maintained its rapid economic growth with a GDP of over RMB10 trillion, deepened reforms in various areas and improved profitability for enterprises. It also led the world in attracting foreign direct investment, which demonstrated the strong attraction of China's economic growth.

The year 2002 also witnessed outstanding achievements in all aspects of ICBC's activities. In pursuit of high quality and profitability, the Bank actively adjusted to the more complex market environment after China's entry into the WTO by furthering reforms and strengthening internal management and stimulating innovation. The first year post WTO accession can be recorded as being one of an overall growth in all areas of our business and reflecting a historical leap forward in the quality of our operations and management.

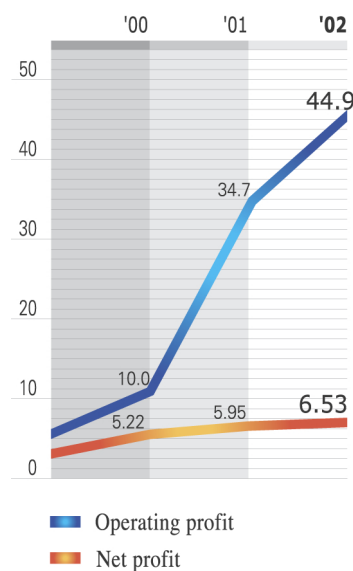
The Bank reported new historical performance in 2002. The operating profit of ICBC group rose to RMB 44.85 billion, an increase of RMB10.17 billion or 29.3%. The total profits reported rose to RMB 6,902 million, growing by 10.5% and the provisions were made at RMB 25,804 million, up RMB 8,320 million. In 2002, the Bank dissolved RMB12,144 million worth of historical burden.

The asset quality was further improved. The total outstanding non-performing loans ("NPLs") and the NPL ratio of domestic and overseas branches declined respectively by RMB 32.1 billion, and 4.09 percentage points, to 25.69% measured by the new Five Category of Loans. Whilst if the old Four Category system was applied, the two figures declined respectively by RMB 26.7 billion, and 3.5 percentage points, to 22.21%. There was remarkable improvement in the quality of new loans made after 1999, which reported only a 0.67% NPL ratio.

As China's economic, structural and strategic reforms accelerated and the markets continued to open up to foreign competition, the Bank actively confronted the challenges brought about by diversifying its product base in financial services and increasing the development of universal banking solutions and dis-intermediation through

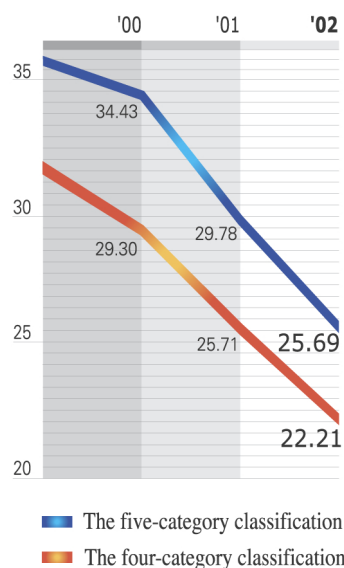
GROUP PROFITS

Unit: RMB billion



NPL RATIO OF DOMESTIC AND OVERSEAS BRANCHES

Unit: %



adjusting the operational structure and restructuring of business models. Through these enhancements progress has been made in the area of business innovation to enhance the Bank's overall competitiveness. In 2002, the Bank's total deposits rose by RMB 476.4 billion, up RMB 144.5 billion than the growth in the previous year, reaching a new historical high. The loan portfolio was further optimized and the total amount of loans increased by RMB 298.4 billion, up RMB 52.5 billion than the growth in the previous year. In domestic settlement and clearing the Bank maintained an absolutely dominant position. ICBC took the top position in terms of market share in new businesses such as consumer credit, bills payment, e-banking and fund custody. In 2002, consumer credit grew by RMB 93.1 billion. The bills discounting transaction volume totaled RMB 875.9 billion in accumulation and e-banking transactions amounted to RMB 8.8 trillion. The sources of income of the Bank were further diversified as non-interest income reached RMB 7.4 billion, growing by 12% as compared with the previous year.

The data center consolidation was fully implemented and the data centers were put into use after three years of construction. The project adopted eight kinds of world's leading technology such as large-scale parallel sysplex system and built up an advanced intensively-operated production system. The development and the implementation of the comprehensive business processing system in the past eight years was completed, which has led to a historically significant leap forward from a traditional bank-counter-centered operation to a customer-centered operation. The advanced information technological infrastructure enabled the bank to develop a series of state-of-the-art management systems and financial products with a view to upgrading both the business management tools and the management information capabilities of the bank. In addition, we continued to enhance the internal monitoring and control framework, established information disclosure policies and appointed an international accounting firm to conduct external auditing for some of the tier-one branches of the Bank. During the year, we managed to close 2,415 inefficient outlets meanwhile opening or upgrading 1,550 new ones in some more developed big- and medium-sized cities. The total headcount was reduced to 405,558. We were the first bank in China to set up centralized card and bills discounting centers, which is an example of how the Bank is exploring a new function specialised operational model, supported by a separate legal entity based management structure for some of the banking business.

The overseas business was expanded steadily. ICBC opened Busan Branch in Korea and launched the Hong Kong Peony Card Center, which had successfully issued RMB/HKD double-account cards. In the wake of closer business links between the domestic and overseas branches, we not only promoted the growth of international business at the domestic branches but also pushed forward the localization of our overseas operations. In 2002, the total international settlement from local and overseas operations reached USD 118.6 billion. The overseas branches reported an operating profit of USD 152 million and a net profit of USD 124 million, with 24.3% and 32.5% year on year growth respectively. Meanwhile, the total NPA (non-performing assets) and NPL ratios for the overseas branches dropped to 1.55% and 3% respectively.


In enhancing our corporate culture, we provided training in large scale and at all levels with a view to building a quick learning bank with high quality and internationalized staff. We enhanced the education related to professional ethics in order to cultivate a professional environment of "Being stringent, pragmatic, prudent, trustworthy and innovative". To attract more talented and high quality personnel, we improved the incentive framework based on competition and performance. In 2002, ICBC took an active part in numerous international conferences. We participated in the ADB annual meeting and the first Boao Forum in Asia. As host or co-host, ICBC held the 9th Assembly of the World Savings Banks Institute and an international forum on "China: the Year of Capital".

In 2002, there were the following changes in the top management: Mr. Niu Ximing was promoted to be a Member of the Board and Executive Vice President. Mr. Li Xiaopeng was newly appointed as Executive Assistant President. Mr. Li Lihui, former Executive Vice President of the Bank was appointed to be the Vice Governor of Hainan Province.

The vigorous growth of the various businesses of the Bank and the continuing improvement in the quality of management helped to further raise ICBC's image as a leading international bank. In 2002, we were awarded the "Bank of the Year 2002 China", "Bank of the Year 2002 Website" by the UK-based magazine *The Banker*, "Best Bank Award in 2002 China" and "Best Corporate Internet Bank Award 2002 China" by the U.S.-based magazine *Global Finance*. We won from the Singapore-based magazine *The Asian Banker* "Excellence in Retail Financial Services Award 2002 China" and were included in "200 Asia's Leading Companies" from the U.S.-based *Far East Economic Review* as No. 4 in the Top Ten of China's domestic companies.

Successfully achieving the "Three-Year Quality Target", we moved onto a new stage in the transformation of ICBC into a modern commercial bank in 2002. We will endeavor to address in steps the Bank's historical burden over the next eight years. In the first step, we shall try to lower the NPL ratio to below 10% by the end of 2006 and by all efforts, write off all non-credit losses pursuant with the fundamental concept of improving the asset quality and the financial condition of the Bank; In the second step, from 2007 to 2009, we shall focus on making adequate general loss provisions and addressing any capital deficiencies. We shall endeavor to further reduce the NPL ratio to a range of 3% to 5% and increase the operating profit of the Bank to around RMB100 billion and net profit to around RMB 80 billion by the end of 2010, so that our major operation and financial indicators can catch up with those financial institutions that are seen as having medium to high standards amongst the international banking community. At the time when we can meet the international banking supervision standards and the requirements for an IPO, we shall implement an overall restructuring of the Bank's legal structure ahead of schedule to make ICBC an internationally competitive modern commercial banking giant with good corporate governance, a sound operational framework and solid financial conditions.

2003 is the first year for China to develop a high standard of living for all, and also a year to turn the next page in ICBC's transformation into a modern commercial bank. At this new starting point and facing the new task, we at ICBC are fully confident and high-spirited in confronting the new challenges brought about by the opening-up of the country and the world's financial globalization process. Broadening our mindset, we shall seize the opportunities and work earnestly to compose the new glorious chapters in the transformation of ICBC into a modern commercial bank.



Jiang Jianqing

Chairman & President

January 1, 2003

Senior Executives



Mr. Jiang Jianqing (Middle)

Chairman and President

Mr. Tian Ruizhang (4th from right)

Vice Chairman and Executive Vice President

Mr. Yang Kaisheng (4th from left)

Member of the Board

Mr. Chen Keru (3rd from right)

Member of the Board

Mr. Zhang Furong (3rd from left)

Member of the Board and Executive Vice President

Mr. Zhang Qu (2nd from right)

Member of the Board and Executive Vice President

Ms. Wang Lili (2nd from left)

Member of the Board and Executive Vice President

Mr. Niu Ximing (1st from right)

Member of the Board and Executive Vice President

Mr. Li Xiaopeng (1st from left)

Member of the Board and Executive Assistant President

The Supervisory Board



Chairman of the Supervisory Board: **MR. HU CHUSHOU**

The State Council appointed the Supervisory Board of ICBC in 2000. The Board supervises ICBC's asset quality and risk management on behalf of the state.

The supervisory board, composed of the Chairman, full-time members, part-time members and other staff, performs four major functions:

To supervise the implementation of the state's financial and economic laws, rules and regulations;

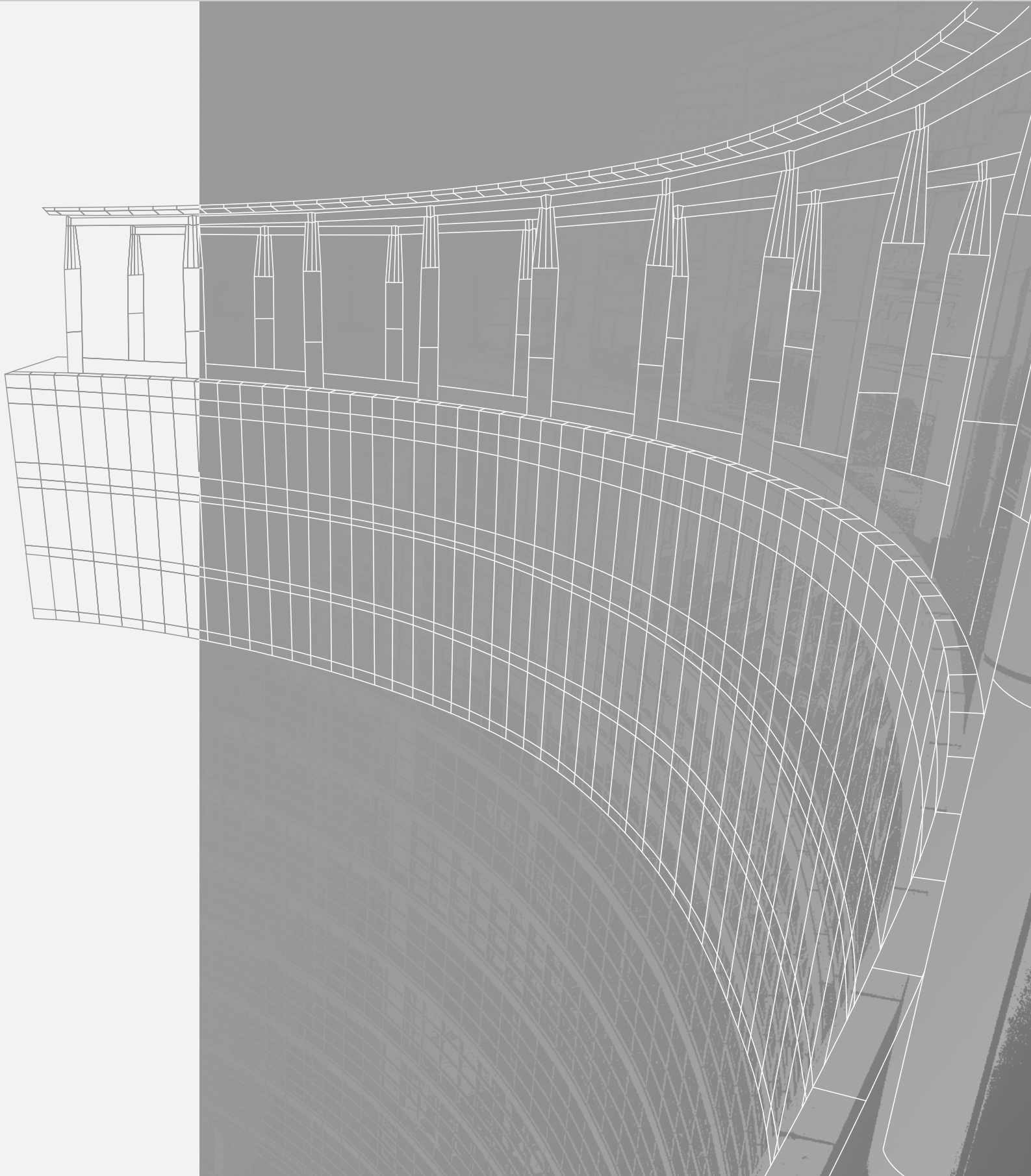
To examine accounting and management materials in order to verify the integrity and legitimacy of financial and risk reports;

To oversee the operational efficiency, profit distribution, appreciation and management of the state's assets;

To oversee the activities of senior executives and assess the operating performance of ICBC, and put forward proposals for the promotion and/or demotion, the recognition and punishment of senior executives.



**INDUSTRIAL AND COMMERCIAL
BANK OF CHINA**



Core Business

2002 was the first year after China's WTO entry. In this year, China's macro economy maintained vigorous growth with GDP growing by 8%, fixed assets investment rising by 16.1%, and total retail sales of consumer goods up 8.8%. Domestic investment and consumption demand remained strong. The economic efficiency of enterprises continued to improve. State-owned and state share holding companies reported steadily increasing profits. Financial operations remained stable. The total outstanding deposits held at all financial institutions reached RMB 18.3 trillion, representing an annual growth of 18.1%. The total outstanding credit reached RMB 14 trillion, up 15.4% from the previous year.

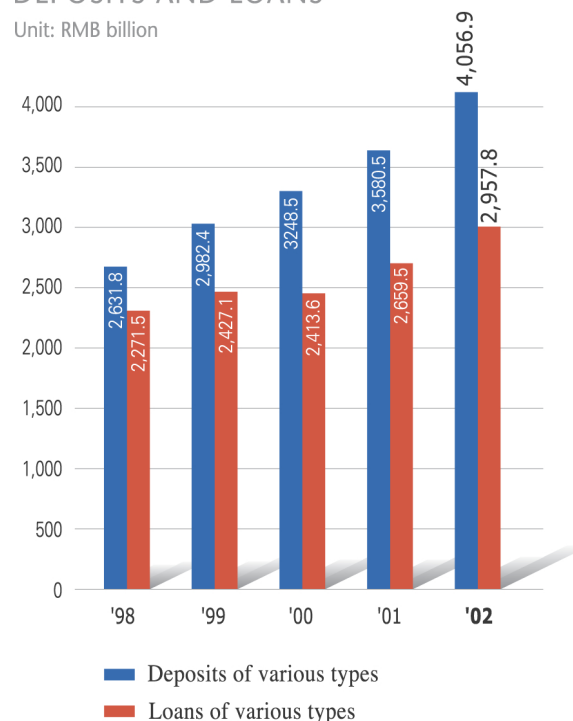
In 2002, despite fierce competition from foreign banks and domestic banks, the Bank maintained its leading position in the market. While consolidating our present business lines and customer base, we made tremendous efforts in exploring new businesses and tapping new customers. As a result, business volumes soared to a record high and the quality of both our service and management rose to a new level.

In 2002, the Bank's deposits and loans continued to grow steadily. The outstanding loans of all types reached RMB 2,957.8 billion, increasing by RMB 298.4 billion, RMB 52.5 billion more than the growth of the year before. The outstanding deposits of all kinds stood at RMB 4,056.9 billion, up RMB 476.4 billion, RMB 144.5 billion more than the growth of the previous year. The market share of the loan and deposit businesses were 21% and 22% respectively, which further enhanced our status as the market leader. This result is largely attributable to the continuous efforts in improving our sales and marketing mechanisms, which is characterized by bank-wide planning, focusing on key customers, customer segmentation, and cross selling synergies. Customer relationship management systems have been established in branches at all levels, which further perfects our customer relationship management. Moreover, the Bank provides tailor-made financial service solutions to key customers and new products and services catering to different needs of differing customers groups.

The intermediary business expanded dramatically and brought substantial revenue growth. The total revenue generated by the intermediary business amounted to RMB 5.13 billion, up RMB 1.2 billion. In 2002, we focused on building up ICBC's brand in the intermediary business. Through all-round efforts, our products such as "Remittance Express", "Financial E-channel", and "Elite club" were gradually recognized and accepted by our customers. Products characterized by high technology and high added value took up an increasing proportion of our intermediary product portfolio. We continued to constantly explore new business areas.

DEPOSITS AND LOANS

Unit: RMB billion



In 2002, ICBC not only won the bid to be the clearing bank and custodian bank for the Shanghai Gold Exchange but also successfully launched the "book-entry treasury bond OTC trading" business.

Because of our outstanding performance, we were named "Bank of year 2002 China" by *The Banker*, "Best Bank Award in 2002 China" by *Global Finance*, and "Excellence in Retail Financial Services Award 2002 China" by *The Asian Banker*. We also ranked the 4th position in the Top Ten Chinese Domestic Companies ranked by the US magazine *Far East Economic Review*.

CORPORATE BANKING

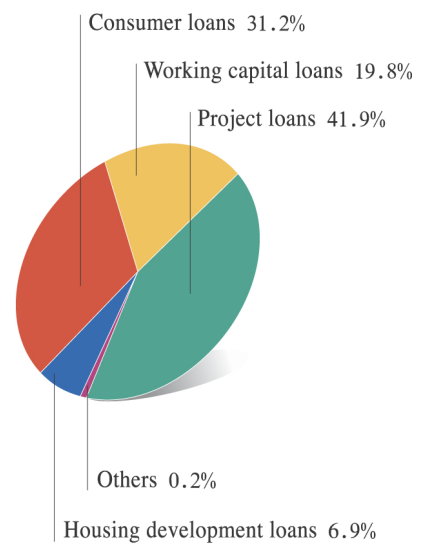
We view corporate clients as our core customer base. We offer a full array of corporate banking products and services including loans and deposits, clearing and settlement, agency and trust services, fund custody, cash management, and investment banking. Confronted with intensifying competition, we have built a quality customer relationship team committed to delivering the best service to our clients. In 2002, the Head Office organized the sales and marketing teams to visit over 300 key multinational, cross regional corporate groups and has maintained close business relations with a number of quality clients both at home and abroad. These clients include household names such as Sinopec, CNPC, Walmart, and BP. Branches at all levels have also been active in doing marketing on reputable regional group clients directly. In the meantime, the Bank also improved its services to small and medium sized enterprises and private businesses.

In terms of product innovation, the Bank provides "One-stop" financial solutions to large conglomerates and launches new products like bullion loans, bullion-secured loans, factoring without recourse, and corporate account overdraft facilities. Moreover, it promotes the marketing efforts for products like banker's acceptances issued against automobile quality certificates, warehouse certificate pledged facilities, financing under export credit insurance, and loans pledged against land pre-registration certificates. A joint assessment and approval process is initiated for syndicated loans and large scale projects. In addition, the Bank establishes new policies which allow natural persons to pledge their personal property as a guarantee for SME loans.

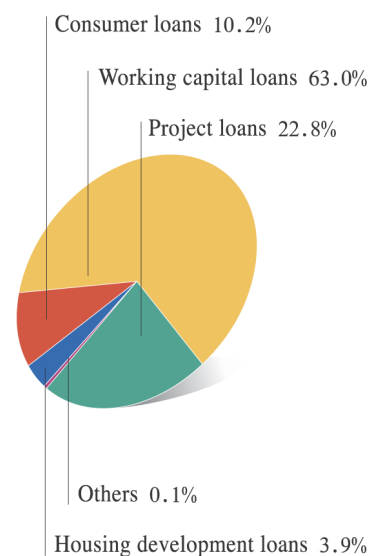
CORPORATE DEPOSITS

As of the end of 2002, the outstanding amount of corporate deposits stood at RMB 1,771.7 billion, up by RMB 207.1 billion or 13% year on year. Among them, the amount of corporate demand

INCREMENTAL LOANS



LOANS OUTSTANDING



deposits reached RMB 1,439 billion, accounting for 81% of the total corporate deposits, with a growth of 16% or RMB 201.5 billion. The outstanding amount of time deposits received from corporate clients stood at RMB 332.7 billion, up by 2% or RMB 5.6 billion.

CORPORATE LOANS

The outstanding of corporate loans stood at RMB 2,654.8 billion, reflecting a RMB 205.3 billion increase. Working capital loans increased by RMB 59.1 billion, accounting for 28.8% of the total amount of new corporate loans granted. Discounted bills rose by RMB 29.3 billion, accounting for 14.3% of the total increment. Project finance loans went up by RMB 124.9 billion, representing 60.8% of the total. The breakdown of the project loans showed that syndicated loans increased by RMB 27.6 billion or 13.4% of the total incremental volume. Loans extended to real estate companies increased by RMB 20.7 billion or 10.1% of the total increase in value. Other types of loans increased by RMB 600 million, accounting for 0.3% of the total incremental volume.

INSTITUTIONAL BANKING

ICBC has been an active player in the inter-bank market and the domestic bond market and a primary lender or investor in both markets. In 2002 the Bank achieved impressive performance in the area of money market transactions, with an accumulative turnover of RMB 1.7 trillion, up 72.9% as compared to the previous year. Inter-bank transactions amounted to RMB 107.8 billion, down 12% and bond repurchases totaled RMB 1.6 trillion in accumulation, up 83.9%.

Cooperation with insurance companies went smoothly. The Bank signed Comprehensive Cooperation Agreements with 8 big domestic insurance companies in a bid to work hand in hand in market exploration and product design. By the end of 2002, ICBC worked on an agency basis for 13 insurance companies in distributing their life insurance and property insurance products.

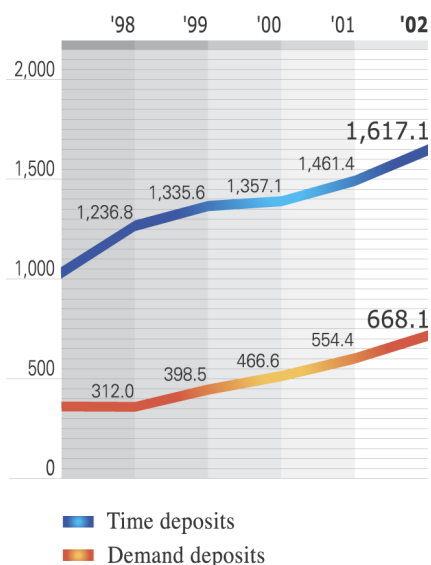
In 2002, ICBC signed Comprehensive Cooperation Agreements with 28 securities firms, Bank-Securities Cooperation Agreements with 32 securities firms as well as Deposit Trust Agreements with 69 securities brokerage companies and 21 trust and investment companies. A total RMB 8 billion worth of stock-backed loans were extended. In addition, ICBC became one of the first financial institutional members of the Shanghai Gold Exchange.

PERSONAL BANKING

In conjunction with domestic residents' growing attention to wealth management and their need for diversifying their investment portfolio, ICBC accelerated the product innovation and adjusted its core product strategy. Based upon the traditional business, a complete, diversified personal financial service solutions which focused on new business and wealth management shaped up to enrich the customers' choices for convenient and personalized financial services.

SAVINGS DEPOSITS

Unit: RMB billion



SAVINGS DEPOSITS

In 2002, the outstanding amount of savings deposits reached RMB 2,285.2 billion, increasing by RMB 269.3 billion. Within this amount, RMB-denominated deposits increased by 254.6 billion, taking 95% of the total incremental deposits, up RMB 70.3 billion over the growth of the previous year. Demand savings deposits went up by RMB 113.7 billion or 21%. Time deposits increased by RMB 155.6 billion or 11%. In 1999, ICBC was the first among its peers to launch education savings deposits, a product that was enthusiastically welcomed by our customers. As the end of 2002, 4.36 million education savings accounts had been opened with outstanding deposits of RMB 35.2 billion.

became two engines for growth in the market. ICBC took concrete steps towards promoting the mortgage and auto loan business in a bid to drive the consumer lending business as a whole and to aid optimizing our credit structure. As the end of 2002, the outstanding amount of consumer loans increased by RMB 93.1 billion to RMB 303 billion. The number of consumer credit customers reached 2.8 million. In 2002, a total of RMB 187.3 billion consumer loans were extended, up RMB 23.4 billion from the previous year. Consumer credit was characterized by good credit quality, with the NPL ratio being kept below 1%.

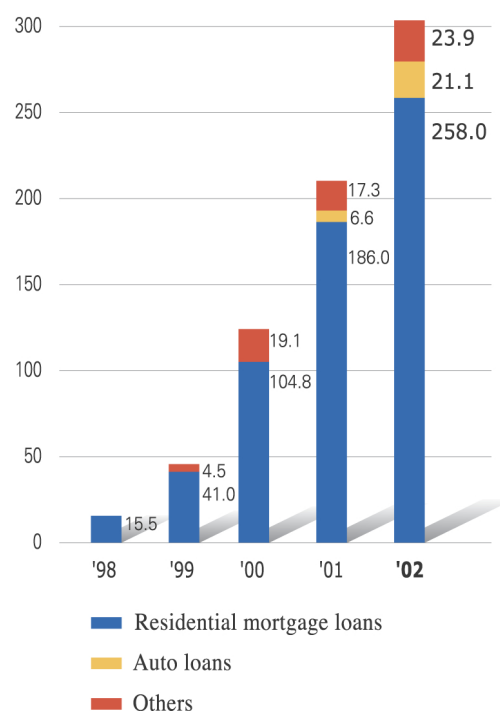
CONSUMER CREDIT

Residential Mortgage Loan

Residential mortgage loans have risen steadily. As the end of 2002, we offered 9 different types of products in our residential mortgage loan portfolio and a total of 1.92 million households received mortgage loans from us, with the outstanding mortgage loan reaching RMB 258 billion, which represents 31% of the mortgage market. We claimed the major residential mortgage bank in China. In 2002, despite intensifying competition from other banks and a 37% increase in loan pre-repayment, we granted a total of RMB 118.5 billion worth of mortgage loans, with the outstanding balance growing by RMB 72 billion.

CONSUMER LOANS

Unit: RMB billion



Auto Loan

Auto loans expanded by leaps and bounds. At the end of 2002, the outstanding amount of auto loans reached RMB 21.1 billion, increasing by RMB 14.5 billion or 220%, representing 16% of the total incremental consumer credit.

PERSONAL INTERMEDIARY BUSINESS

The personal intermediary business has boomed. We now offer agency banking, individual settlement, advisory services, foreign exchange intermediary business, and bank card business to our customers. There are altogether 212 products, falling into 9 major categories. In 2002 we provided payroll services for 64.58 million people, with total payments amounting to RMB 493.5 billion. Individual settlement transactions reached RMB 6.2 trillion. "Remittance Express" becomes a reputable brand of personal remittance. The number of personal remittance transactions for the year reached 39.23 million and the transaction volume reached RMB 332 billion accumulatively. The Bank distributed RMB 16.2 billion worth of life insurance and property insurance products, five times that of the prior year; it collected on an agency basis insurance premiums of RMB 71.6 billion, 1.7 times more than that of the previous year. Also in the same year we launched a number of new businesses such as "purchase of foreign exchange for private purposes" and "Double Gain Deposit" for domestic residents.

WEALTH MANAGEMENT

The year 2002 marked a new phase in the development of our wealth management for private customers. We renovated 1,000 wealth management centers, trained 12,000 wealth management customer relationship managers in a bid to offer a full array of services to our customers and thus built our "Elite Club" into a well-known brand. Since open-ended mutual fund had recently entered into the residents' investment portfolio, we distributed 4 open-ended mutual funds on an agency basis for fund management companies through over 3,000 offices. Altogether we sold 68% of the 4 funds. In June 2002, we were among the first group of approved banks to launch the book-entry T-bonds OTC transactions in Shanghai and Beijing. By the end of 2002, the total transaction volume reached RMB 1,774 million, representing a 44% market share.

BANKING CARD BUSINESS

As of the end of 2002, 79.46 million Peony Cards were on issue and the card spending totaled RMB 68.5 billion, among which 64% was debit card transactions and 36% credit card transactions. Inbound business amounted to RMB 3.43 billion, up 32%. The consumption level per card grew on average by 22% despite a 1.1% decline in the total number of cards resulting from the suspension of a number of low-usage or unused cards. The number of international debit cards and credit cards increased by 60,000 and 30,000 respectively with card spending up by 100% and 40% respectively, while an additional net 500,000 RMB credit cards were issued with 467% growth in card spending. The bank maintained the leading position both in terms of number of credit cards and card spending.

ICBC improved internal operating guidelines for both risk management and business operations. The

Bank placed more emphasis on enhancing quality, profitability and sound operations by measures like simplifying procedures for card-holder identity verification, immediate suspension of cards upon reporting of card-loss as well as abolishing the guarantee requirements for card applications.

The cross-bank card link was on a smooth track. Over the year, ICBC issued 1.07 million China UnionPay (CUP) cards and had the largest cross-bank card transaction volume amongst the domestic banks.

MAJOR DATA FOR BANK CARDS

	2002	2001	Growth	Growth rate(%)
Total number of bank cards issued (in million)	79.46	80.34	-0.88	-1.1
Debit cards	74.48	73.76	0.72	1.0
Credit cards	4.98	6.58	-1.60	-24.3
Annual card spending (in RMB billion)	68.5	56.1	12.4	22.1
Debit cards	43.6	33.8	9.8	29.0
Credit cards	24.9	22.3	2.6	11.7

INTERMEDIARY BUSINESS

CLEARING AND SETTLEMENT

The Bank conducted RMB100 trillion in settlements, up RMB 14 trillion since 2001, yielding RMB 980 million in revenues, which was RMB 220 million more than the previous year. The settlements for corporate clients maintained the leading position amongst its peers. The Bank provided settlement services for over 100 large groups and signed Group Settlement Agreements with a number of group companies. In addition, it handled RMB 254.3 billion worth of banker's acceptance bills and RMB 21 trillion of clearing for other banks and non-banking institutions.

The bank card settlements for both the Bank's own card and cross-bank cards reached RMB 707 billion. ICBC has been the clearing bank for both the Shanghai and the Shenzhen Stock Exchange, and has signed clearing agreements with 3 futures companies. It also provides foreign exchange clearing for the China UnionPay.

CUSTODY BUSINESS

The year 2002 witnessed stable growth in the Bank's fund custody business, in which the Bank maintained the leading position among the domestic banks in all custody performance data. ICBC became the custodian for 4 new funds which made the number of funds under custody increase to 20, including 16 close-ended funds and 4 open-ended funds, with 34.5 billion shares and over RMB 30 billion assets under custody, up by 22% as compared to 2001. The custody of trusted assets, social security funds and pension funds expanded steadily.

In 2002, ICBC received approval from the PBOC for custody licenses for launching custody services for entrusted assets, individual pension fund accounts, social security funds for rural residents, investment-linked insurance funds, receipt and payment account service, and QFII domestic securities investment. The Bank currently provides a full spectrum of specialized custody services with 10 different products covering social security funds, securities, trust funds, insurance and foreign assets.

AGENCY AND TRUST SERVICE

The Bank provided payroll payments for 108 ministerial bodies and other central governmental organizations of 27,000 civil service workers and handled RMB 32 million of monthly payments. As the largest agent for treasury bond issuance, it issued RMB 46.8 billion of bearer treasury bonds, 5.2% more than 2001, taking up a 32% market share, and cashed RMB 55.5 billion of treasury bonds. It had RMB 3.1 billion of funds under administration on behalf of the State Development Bank, handling RMB 5.34 billion of settlements and RMB 3.5 billion of banker's acceptance bills. For the China Ex-Im Bank, ICBC handled RMB 3.65 billion of export credit and RMB 9.6 billion of settlements. In addition, it extended RMB 29.7 billion of trust loans on behalf of corporate clients and made the payment of RMB 430 million in compensation to migrants for the Three Gorges Project.

CASH MANAGEMENT

The Bank actively provides customized cash management services for high-net-worth corporate clients such as multi-national corporations and large domestic companies and has developed various state-of-the-art products such as "Cheque Express" and "Instant Clearing", which integrate RMB and international settlement, e-banking, bank card and financing facilities to satisfy the comprehensive and customized demands of the clients.

BULLION TRADING

ICBC is one of the first member banks of the Shanghai Gold Exchange to provide funds clearing as well as physical bullion storage service. In 2002, the Bank settled RMB 2.05 billion of funds for SGE, taking up 58.6% of the total volume of the four clearing banks. Its storage service and bullion trading for non-members took the leading position in the market. Moreover, ICBC was the first bank to start proprietary bullion trading in China.

BILLS BUSINESS

Despite fierce competition and decreasing interest spreads, the Bank still enjoyed considerable growth in bills business. It handled a total of RMB 875.9 billion of traded bills, up by 35%, with RMB 95.78 billion of outstanding bills advances, up by 44%. The average monthly bills advance balance amounted to RMB 81.6 billion, which was the largest amongst ICBC's peer banks. 30% of all bills transactions were executed through the Bills Discounting Center with daily outstanding of RMB 24.5 billion, generating a total profit of RMB 100 million without incurring any non-performing assets. ICBC's bills business thus maintained remarkable growth, with high asset quality and growing profit.

SYNDICATION AND INVESTMENT BANKING

The Bank has acted as lead arranger, associate arranger in a number of large syndication projects, including the Nanhai Petrochemical Project, Shanghai BP Project, Yangtse BASF, West-to-East Gas Pipeline, West-to-East Electricity Transmission Project and the Three Gorges Project, granting a total of RMB 65.7 billion syndicated loans in 2002 and receiving RMB 89.4 million of arrangement and initiation fees. It designed customized financing structures and fund raising schemes and provided clients with consulting services in mergers and acquisitions, and other capital related operations. It has been the financial advisor for Hainan Airlines, Guangdong Macro Co., Ltd., Kunming Municipality Government's Road Show in Hong Kong. Revenues from advisory services amounted to RMB108.47 million in 2002. The Bank also initiated new measures such as bulk sales and M & A to dispose of non-performing assets and other non-core assets.

E-BANKING

During the year, the Bank developed a full range of electronic self-service banking products, which can be utilized via its internet banking, phone banking, mobile phone banking, corporate banking and self service banking channels. The Bank stayed at the forefront of the electronic banking market by introducing various new innovative products, executed brand building campaigns and focused on improving its service quality, and as a result its banking products were widely accepted and utilized by a large number of corporate and individual clients. Its e-banking transaction volume doubled over the previous year to RMB 8.8 trillion. The internet banking platform was awarded "Bank of the Year 2002 Website" by *The Banker*, and the online corporate banking platform was awarded "Best Internet Bank Award 2002 China" by *Global Finance*.

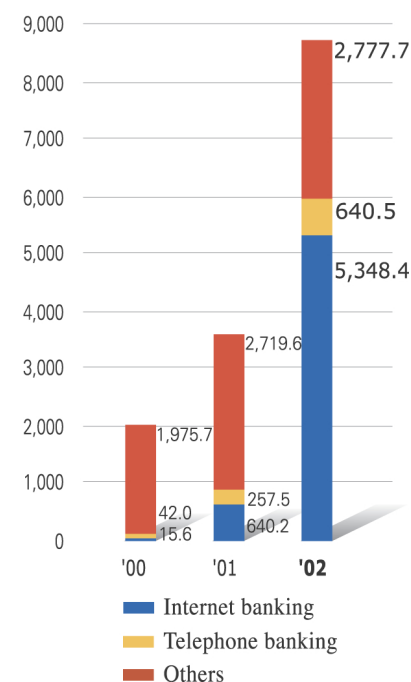
ICBC's internet banking is available in 312 cities across the country and the volume of transactions reached RMB 5.3 trillion in 2002, 8.4 times that of 2001 and also the largest amongst the domestic banks. The number of internet banking corporate clients and individual clients increased to 35,000 and 3.83 million respectively, up by 4-fold and 2-fold respectively as compared to 2001. Besides the unique online settlement services and group financial services designed for corporate clients, the Bank also introduced a series of new products including "Charge Station", agency payments, corporate financial advisory, bank-corporate links and cash management services. For individual clients, it developed new services such as personal remittance, tuition payment, self-service registration, fee payment and e-card services.

Call centers are widespread and located in over 300 cities, and RMB 640.5 billion worth of transactions were conducted via these call centers in 2002, which was 2.5 times that of 2001.

In 2002, the bank installed 1,270 new ATMs and 2,264 POS terminals and set up 106 self-service banking offices, so that

E-BANKING TRANSACTIONS

Unit: RMB billion



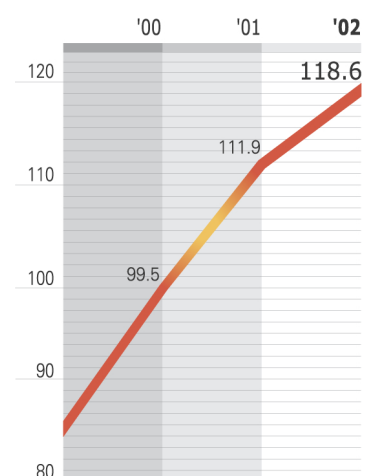
the total number of ATMs, POS terminals and self-service banking offices amounted to 13,000, 72,000 and 413 respectively by the end of 2002. 270.74 million transactions worth a total of RMB162.1 billion were conducted via ATMs, up 34%, and 94.94 million transactions worth some RMB139.6 billion were conducted through POS terminals, up 94%.

INTERNATIONAL BUSINESS

The year 2002 saw stable growth and sound results in our international business. As at the year-end, the ICBC group's total amount of foreign exchange denominated assets reached USD 49.87 billion with USD 33.98 billion held by the Head Office and domestic branches. The business yielded a total profit of USD 422 million, of which USD 298 million was from domestic branches and USD 124 million from overseas branches. The number of overseas branches, subsidiaries and representative offices totaled 71 with total assets of USD 15.89 billion, up 50.4%. The Bank maintains correspondent banking relationships with 1,020 banks across six continents, covering 105 countries. During the year, ICBC introduced a variety of new products such as purchase of foreign exchange for private purposes, factoring, forfeiting and export buyer's credit, which promoted the growth of the Bank's trade finance and international settlement business.

INTERNATIONAL SETTLEMENTS

Unit: USD billion



FOREIGN EXCHANGE DEPOSITS AND LOANS

The foreign exchange deposits outstanding for the group totaled USD 29.4 billion, with USD 24.3 billion taken within the domestic market and USD 5.1 billion from overseas operations. The foreign exchange loans outstanding for the group totaled USD 18.7 billion, of which USD 11 billion was disbursed in the domestic market, up USD 3.3 billion, and USD 7.7 billion disbursed in the overseas market.

INTERNATIONAL SETTLEMENT

ICBC transacted USD 118.6 billion worth of international settlements for all domestic and overseas branches during the year, with USD 26.1 billion handled by overseas branches, and USD 92.5 billion, or 78% by the domestic branches, up USD 15 billion, or 19% over 2001. Trade settlements amounted to USD 71.2 billion, up USD 15 billion, or 27%. Non-trade settlements and settlements under capital items were USD 21.3 billion, a similar level as 2001.

FOREIGN EXCHANGE TREASURY

The Bank stepped up its level of innovation, focusing on services such as "F/X Trading", personal account foreign exchange trading, and financial advisory and risk management for clients. Amounting to USD 88.2 billion, F/X trading for clients' accounts grew by USD 25.9 billion or 42% over 2001. Personal F/X trading reached

a total of USD 28 billion which was 11 times that of the previous year, and the financial advisory and risk management for clients' accounts services transacted USD 2.8 billion, growing by 115%, both of which reported the highest growth rate amongst the Bank's domestic peers. USD 51.8 billion worth of F/X purchases and sales were handled, up by USD 9.5 billion or 22%. The F/X treasury has become an important and profitable core business for the international business activities of the Bank. Various derivative products have been developed, such as structured deposits, structured options, swaps and swaptions.

OVERSEAS HOLDING SUBSIDIARIES

Industrial and Commercial Bank of China (Asia) Ltd. ("ICBC (Asia)")

Despite the economic slowdown in Hong Kong, ICBC (Asia) still maintained remarkable growth in terms of both asset size and profits. Thanks to a strong growth in commission revenue and effective cost control measures, ICBC (Asia) achieved after-tax profits of HKD 482 million, up 46% over 2001's HKD 330 million. Earnings per share grew from HKD 0.56 to HKD 0.70 with ROA and ROE of 1.0% and 10.4% respectively. The amount of loans outstanding and deposits outstanding increased by 16% and 30% respectively. The NPLs reduced by HKD 1.19 billion with the NPL ratio down from 6.8% to 2.3%.

In September 2002, ICBC (Asia) purchased 24.9% shares of Taiping Insurance Company from China Insurance International Holdings Ltd. and China Insurance (Holdings) Ltd., which enhanced the bank's presence in China's insurance market.

Industrial and Commercial International Capital Ltd. ("ICIC")

ICBC completed the acquisition of its Hong Kong-based subsidiary ICIC in May 2002 and now holds 100% of the shares of ICIC. ICIC made a total of HKD 8.45 million operating revenues with HKD 7.14 million profit before provisions and HKD 5.72 million of after-tax profit for the period from May to December 2002. After running in the red for four consecutive years, this was the first time that ICIC reported positive profits. The total loan portfolio increased by 37.8% and the NPL ratio fell by 14.6 percentage points.

Industrial and Commercial East Asia Finance Holdings Ltd. ("ICEA")

ICEA achieved remarkable progress in a number of business lines such as debt financing, equity financing and securities trading. During the year, ICEA, as the financial advisor of Canton-Hongkong Water Supply Company, arranged HKD 14.8 billion of loan swap for the company, which was reported as the largest debt financing deal in Asia that year and also the historically largest single HKD-denominated loan. ICEA enjoys a good reputation in the local primary equity market and has underwritten a total of HKD 164.1 billion for over 50 issues from 1998 to 2002. Securities trading continued to grow in 2002. The number of clients increased to 17,000, making ICEA one of the 15 largest market trader in Hong Kong in terms of trading volume.

Financial Review

PROFIT

ICBC recorded an operating profit of RMB 43,917 million, with total profits of RMB 6,217 million, an increase of RMB 324 million or 5.5% as compared to 2001. Provisions amounted to RMB 25,590 million, and the write-off of interest receivable and non-credit asset loss totaled RMB 12,110 million.

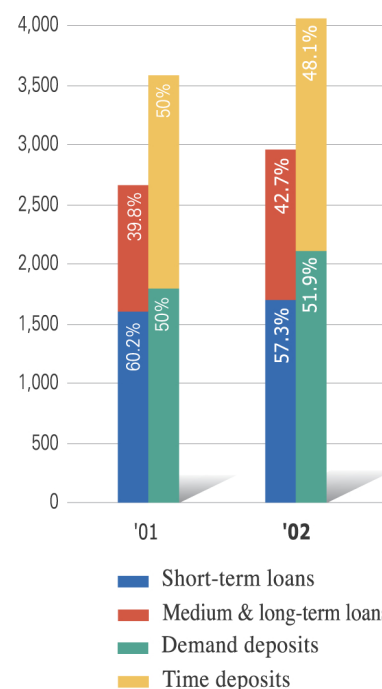
Item (RMB million)	2002	2001
Total profits	6,217	5,893
Provisions	25,590	17,478
Write-off of interest receivable	8,207	7,354
Write-off of non-credit asset loss	3,903	3,659
OPERATING PROFIT	43,917	34,384

NET INTEREST INCOME

At the beginning of the year, the PBOC lowered the benchmark interest rates for both deposits and loans, which resulted in a decline of both interest income and expenses for ICBC. Despite the fact that the decrease of the nominal loan interest rate was double that of the nominal deposit rate, and also that the Ministry of Finance shortened the overdue interest tenor from 180 days to 90 days after which the accrued interest income should be recorded off balance sheet, the Bank still managed to grow its interest income by 2.4%, whilst interest expenses witnessed a slide-down of 15%, increasing the actual net interest spread by 0.17 percentage points. Thereby the Bank achieved a 32.5% growth in net interest income. In addition, both the well optimized tenor structure of the assets and liabilities, with a higher proportion of demand deposits and medium-to-long-term loans, and improved asset quality over the past three years have also contributed to the growth of the interest income.

TENOR STRUCTURE OF DEPOSITS AND LOANS

Unit: RMB billion



NON-INTEREST INCOME

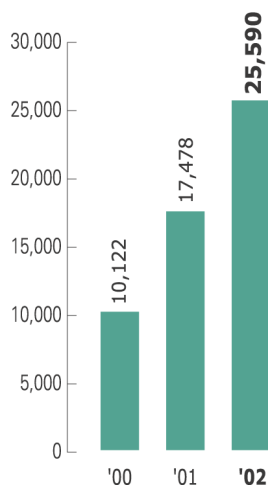
In 2002, ICBC made a total of RMB 7,402 million in non-interest income, up RMB 790 million or 12% as compared with 2001. Of this, 75% was other operating income, including RMB 5,125 million of intermediary business income, up nearly RMB 1.2 billion, or 30%, and RMB 437 million of other income.

OPERATING EXPENSES

Operating expenses for 2002 totaled RMB 40,672 million, an increase of RMB 991 million or 2.5% as compared with 2001, of which fixed-assets depreciation was RMB 6,557 million, up RMB 1,213 million. Due to the reduction of the tax rate, business tax and surcharges reduced by RMB 915 million, or 10.3% as compared with the previous year.

PROVISIONS

Unit: RMB million



PROVISIONS

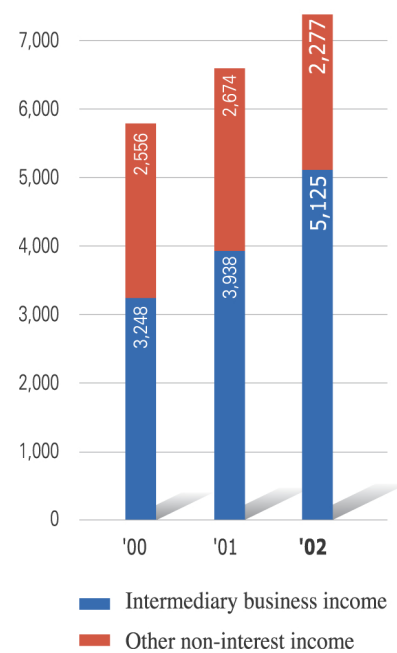
The Bank stepped up its efforts to deal with its non-performing loans. In 2002, the Bank had set aside RMB 25,590 million in provisions, up RMB 8,112 million or 46.4% over 2001. The provision accounted for 28.5% of the operating income and 58.3% of the operating profit respectively.

MAIN CHANGES IN THE BALANCE SHEET

The Bank's total assets amounted to RMB 4,734,236 million, 9.6% higher than 2001, mainly due to 11% growth in loans and 25% growth in investments. The total liabilities were RMB 4,556,381 million, up 10.4%. The increase was mainly due to a 13.3%, or RMB 476,400 million growth in various types of deposits. The paid-in capital decreased by RMB 6,687 million, mainly caused by the following equity transfers: the transfer of RMB 5,934 million worth of debt for equity swap to China Huarong Assets Management Corporation as required by the Ministry of Finance, the delivery of RMB 738 million worth of equity in China Securities Co., Ltd., and four other financial companies at zero value, and also the transfer of RMB 15 million worth of equity in China Financial Data Network Co., Ltd. to China Telecom Group at zero value. The undistributed profit declined by RMB 6,594 million mainly due to the RMB 10.85 billion of specific provision made during the year. Therefore, the change in the paid-in capital and the undistributed profit resulted in a decline of the owners' equity by RMB 13,139 million from the previous year.

NON-INTEREST INCOME

Unit: RMB million



IT Projects

To improve the service and management of the Bank by utilizing modern information technology has been one of ICBC's core strategies over recent years. The Bank has built a world-class centralized production system and, based on an advanced IT infrastructure, developed a series of modern management systems and banking products which helped to enhance the competitiveness of the Bank. The re-engineering of the IT infrastructure, which further pushed management restructuring and business innovation, has consolidated the Bank's efforts in becoming a real modern and operationally centralized commercial bank.

DATA CENTER CONSOLIDATION

Data center consolidation has been a pioneering IT project not only for ICBC, but also for the financial industry as a whole in China. After three years of preliminary work, the project was successfully completed ahead of schedule in October 2002. The original 36 data centers across the country were consolidated into two big centers, at which all the business data of the whole bank can be processed in a standardized way. Eight different types of state-of-the-art techniques such as the "parallel sysplex" were applied for the first time in China, which enhanced the system's efficiency and security. The two newly consolidated centers now conduct the daily data processing for all of the main businesses of the Bank, and handle an average of 90 million transactions with a peak volume of 110 million transactions on a daily basis.

COMPREHENSIVE BUSINESS PROCESSING SYSTEM

The new generation of comprehensive business processing system has been developed to improve the Bank's competitiveness and to cater for increasing market demands. After four years of design and development and three years of pilot application, the integrated version went into full operation at all tier-one branches in May 2002. ICBC was the first bank in China to implement such an integrated and standardized application platform for its core business. The new system is able to provide customer-oriented and one-stop comprehensive services to replace the traditional product-oriented service model and enables the Head Office to better monitor the business across the whole bank through a set of standardized performance indicators. The implementation of the credit information and management sub-system imposes programmed controls to strictly standardize the credit approval working procedures and makes real-time credit risk monitoring possible. These have all contributed to enhancing the credit risk management capabilities of the Bank.

DATA WAREHOUSE CONSTRUCTION

Following the principles of "unified planning and management" as well as through implementation with continuous improvement on an incremental basis, the Bank completed the development, pilot testing and implementation of a Customer Relationship Management System (CRMS) for private customers combined with an integrated statement analysis system. The data warehouse constitutes a technological platform which makes it possible for the Bank to provide customers with personalized services, and also, through improved accurate and efficient management on information, to increase the level of automation in management processes and support decision-making in a more scientific manner.

Risk Management

CREDIT RISK MANAGEMENT

The credit risk management was further enhanced, which was mainly reflected through improved early-warning, monitoring and control of risks, more scientific and systematic internal rating, more diversified credit portfolio, substantial reduction of non-performing loans and prompt recovery of distressed assets.

CREDIT RISK MANAGEMENT SYSTEM

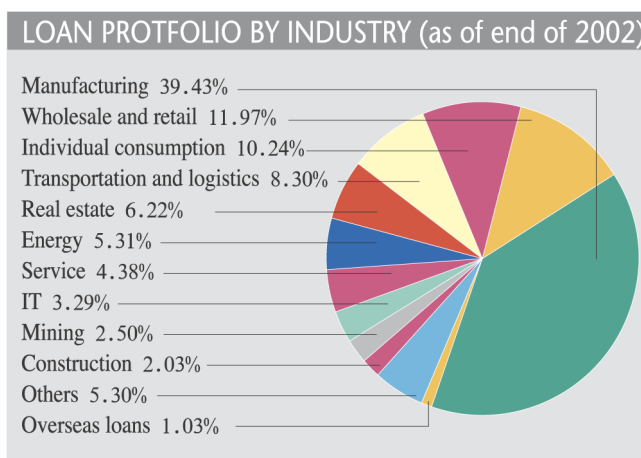
Credit Underwriting Controls	Credit policies and rules	The Bank makes credit decisions by reference to comprehensive review of the client's financial conditions, industry, state policies and the regional economic condition of the area in which the exposure is focused. Accordingly, the Bank classifies its clients into "supportive", "maintained", "to-be-closed-down" and "to-be-exited" accounts and the project loans into four categories from "supportive" to "exit". Credit policies and credit work flow have been formalized with a view to standardizing the credit management process.
	Credit rating	An objective and fair-minded evaluation of clients' creditworthiness which leverages the Bank's Internal Rating Mechanisms and constitutes an important criteria for granting loans.
	Bankwide credit facilities	The Credit-Facility Evaluation Center has been set up internally to grant a ceiling credit facility to single corporate borrowers and a credit facility cap for a corporate group and its related companies.
Loan Approval	Authorization system	Basic authorization, on-authorization and special authorization are granted to domestic branches and business departments and are reviewed on an annual basis.
	Credit assessment and approval	Rigorous credit assessment and approval procedures, properly centralized credit approval systems and clear accountability for credit assessment and approval are all crucial to the improvement of the credit decision-making process. The key credit examiner responsibility system and the Credit Policy Committees are established at all levels. Very large deals and deals for special purposes are subject to the approval of the Credit Policy Committee at the Head Office. Tier-one and tier-two branches can approve credit decisions within their level of authorization.
Post-loan Monitoring	Loan monitoring management	Loan monitoring is accomplished through the credit management information system and specialized credit management reports. New loans are monitored on a daily basis, analysed in terms of industries and regions, and the overall credit allocation is adjusted based on asset quality and the risks perceived.
	Off-site monitoring of asset quality	Loans are monthly monitored following the four-catogary and five-catogary classification systems. Changes in non-performing loans, in both relative and absolute terms, are factors that are taken into consideration in the performance evaluation of the branches.
	On-site inspection	On-site and off-site reviews are carried out to identify existing and potential credit risks. Early warning mechanisms have been established and problem loans are disposed of in accordance with the relevant authority limits and working procedures, as stipulated in the Bank's internal rules, to prevent, control and mitigate risks.

INTERNAL RATING SYSTEM

Drawing on international best practices, ICBC drafted out *Evaluation of Corporate Clients* and other internal rating rules and measures. An internal rating system has been created which rates clients, according to their solvency, from the highest AAA to AA+, AA, AA-, A+, A, A-, BBB, BB and with B being the lowest with reference to market benchmarks based on industry and size of company. This is a three-dimensional system, which takes into account 9 quantitative basic indicators, 11 quantitative amendment indicators and a number of qualitative indicators as well. In addition, the Bank worked out a set of internal rules and measures in 2002, for example, *Rules for Reviewing Financial Statements of Corporate Clients*, *Detailed Measures on Reviewing Financial Statements of Corporate Clients*, and *Rules for Rating Real Estate Developers, Schools, Hospitals and Legal Entities in the Construction Industry*. Software for the computerized reviewing of financial statements has been developed and circulated for widespread use within the Bank, which ensures the accuracy and reliability of the information used for ratings. Ratings were assigned to 260,000 corporate clients in 2002, a significant step forward for the Bank's internal rating systems.

CREDIT RISK EXPOSURES

The Bank maintained its cautious approach towards lending during the past year. Firstly, the Bank increased its loans to infrastructure projects, key fundamental industries, urban construction in large- and medium-sized cities, the IT industry, non-productive circulatory sector, consumer credit and other emerging industries, and meanwhile reduced its exposure to uncompetitive traditional industries with surplus productive capacity and adamantly exited highly risky markets which generated low economic returns. Secondly, the majority of new loans were extended to clients rated at AA or higher; and a moderate proportion of loans were extended to AA-, A+ and A clients, or to A- rated clients after careful scrutiny; outstanding loan exposures were reduced for clients rated at BBB or lower and, in particular, quick collection actions were implemented for those rated at BB, lower or not rated at all. Thirdly, branches in financially developed regions with better risk control capabilities were given differentially more authority in the credit underwriting process.



CREDIT ASSET QUALITY

The year 2002 witnessed a drastic decline in the non-performing loans due to a more optimal credit underwriting structure, improved internal controls and greater efforts in the recovery of existing NPLs. The non-performing ratio fell from 29.78% to 25.69%, down 4.09 percentage points, or RMB32.1 billion according to the five-category classification method; it fell from 25.71% to 22.21%, down 3.5 percentage points, or RMB26.7 billion in accordance with the four-category classification method.

LOAN CLASSIFICATION

Unit : RMB million

ITEM	31-12-2002		31-12-2001	
	Outstanding	%	Outstanding	%
TOTAL LOANS	2,957,837	100.00	2,659,466	100.00
FIVE-CATEGORY CLASSIFICATION				
Performing	1,833,541	61.99	1,447,547	54.43
Special mention	364,418	12.32	419,930	15.79
Non-performing in total	759,878	25.69	791,989	29.78
Substandard	117,781	3.98	169,142	6.36
Doubtful	458,618	15.51	449,716	16.91
Loss	183,479	6.20	173,131	6.51
FOUR-CATEGORY CLASSIFICATION				
Performing	2,300,817	77.79	1,975,717	74.29
Non-performing in total	657,020	22.21	683,749	25.71
Overdue	21,392	0.72	44,679	1.68
Doubtful	593,057	20.05	593,593	22.32
Bad loan	42,571	1.44	45,477	1.71

The retail lending business maintained high credit quality with an NPL ratio (according to five-category classification) of 0.97% for consumer loans and 1.05% for mortgage loans. Against the background of the fast booming mortgage market, the Bank, alert to real estate bubbles, took effective steps to manage underlying risks, and has kept property developing loans to residential mortgage loans at 1:3.5.

In 2002, the Bank, for the first time, disclosed its NPL figures in accordance with the internationally accepted five-category classification method with improved credit quality reporting and information disclosure processes. The five-category classification was introduced and modified in compliance with the People's Bank of China's requirements to accurately reflect asset quality. In addition, the Bank appointed an internationally well-known accounting firm to conduct an across-the-board audit of the financial statements of the Shanghai Municipal and Zhejiang Provincial branches prepared in accordance with International Accounting Standards. The result of the audits indicates that the reported financial condition and the asset quality of the two branches are true and fair. The coverage of the audit will be further enlarged to other branches in 2003.

DISPOSAL OF NPLS

Specialized centers have been created in 15 tier-one branches and 156 tier-two branches for the purpose of the specialized resolution of non-performing loans through cash recovery, merger and acquisition, obtaining guarantees,

seizing assets for repayment of loans, and the charge-off of bad loans. Last year RMB 69.84 billion of non-performing loans were recovered or disposed of, of which RMB 35.76 billion were recovered in cash.

LIQUIDITY MANAGEMENT

RMB LIQUIDITY MANAGEMENT

ICBC established a multi-level liquidity reserve mechanism, which is in compliance with the PBOC's regulations on liquidity management, to ensure that the Bank could meet the demands for deposit payments and business development. ICBC also worked on adjusting the asset structure and increased the proportion of easily liquefiable and high-yield fixed-income investments which bring both liquidity and profitability to the Bank. Given the booming capital and money markets, ICBC has actively involved itself in capital market investment and money market financing, commercial bills and stock financing. In 2002, the Bank invested RMB 89.8 billion in purchasing treasury bonds and bonds issued by financial institutions in the primary market. The transaction volume of open-market treasury bill repo and commercial paper finance totaled RMB 53.5 billion and RMB 875.9 billion respectively.

RMB liquidity is managed in a centralized way. The Head Office keeps a close eye on the liquidity of the branches, following a principle of strict deposit reserve requirements with real-time clearing and centralized monitoring of positions, and with particular attention to the stability of savings deposits, corporate deposits and deposits from other banks. The daily position of each branch is monitored on a real-time basis and managed at the Head Office level.

FOREIGN EXCHANGE LIQUIDITY MANAGEMENT

The Head Office is responsible for foreign exchange liquidity management across the Bank as a whole. Foreign exchange deposits constitute the majority of the Bank's foreign exchange funds. By developing various deposit sources, the Bank has maintained a stable source of long-term foreign exchange funds, which is complemented by financing from the international market. In terms of the management of foreign exchange, apart from the foreign exchange lending business, the Head Office centralizes all foreign exchange operations in the international market and also foreign exchange position management within the branch network. Some of the liquidity management measures include the participation in international inter-bank market activities and investment in highly rated and marketable bonds.

MARKET RISK MANAGEMENT

INTEREST RISK MANAGEMENT

Management of RMB Interest Rate

The interest rates for RMB lending and deposits are regulated by the People's Bank of China, and commercial banks can vary interest rates by a maximum of 30% above and 10% below the basis rate. Inter-bank

lending rates and bond rates are market-determined. With the market trend towards the deregulation of interest rates and in line with building a diversifying portfolio of bank assets, the Bank closely follows, analyses and forecasts changes in RMB interest rates and minimizes the risks involved by matching the basis rates and the maturity of various types of assets and liabilities. Differentiated interest rates are applied to companies in different regions, industries and with different credit ratings. The rational pricing of loans on the basis of total cost management helps bring down interest rate risk caused by changes in interest rate structures.

Management of Foreign Exchange Interest Rate

The Bank carefully monitors the interest rate market and quickly adjusts the rates for large foreign currency deposits and lending in order to prevent mismatches between foreign exchange assets and liabilities and an unstable interest margin. In 2002, an internal transfer pricing mechanism based on market rates helped to enhance the analysis and rebalancing of the maturity structure of foreign exchange assets and liabilities. Interest rate risk was further mitigated by using a variety of derivative instruments.

MANAGEMENT OF EXCHANGE RATE RISK

Exchange rate risk has always been the focus of foreign exchange risk management, and the target is to ensure the matching of currencies between foreign exchange assets and liabilities. In 2002, the Bank managed the risk effectively by rebalancing the foreign exchange assets and liabilities structure in line with the changes in exchange rates in the international market and its business development needs. The branches effectively mitigated their exchange rate risks by entering into currency swap deals as hedges through the Head Office.

OPERATIONAL RISK AND OTHER RISK MANAGEMENT

Operational and other risks are managed by enhanced internal controls with a particular focus on prevention style controls. Comprehensive reviews were conducted on internal controls at one third of the grass root branches in 2002 and theme based internal audits were carried out on areas such as finance, bonds, settled assets, fee revenues, and the financial statement closing process. In 2002, 35,000 rectification proposals were put forward and RMB 22.42 million of problem assets were recovered thanks to over 10,000 auditing initiatives implemented within the Bank. Consequently, the Bank saw a 36.4% decline in financial crimes from the previous year and was strengthened in its ability to resist against such risks.

ANTI-MONEY LAUNDERING MECHANISM

An anti-money laundering program was launched last year. A steering team was organized at the Head Office headed by two Executive Vice Presidents. The team is responsible for investigating money laundering, formulating relevant policies and procedures, and overseeing the implementation of those policies. It also takes care of big and serious cases, and shares experience with domestic and international anti-money laundering organizations and financial regulators across the world.

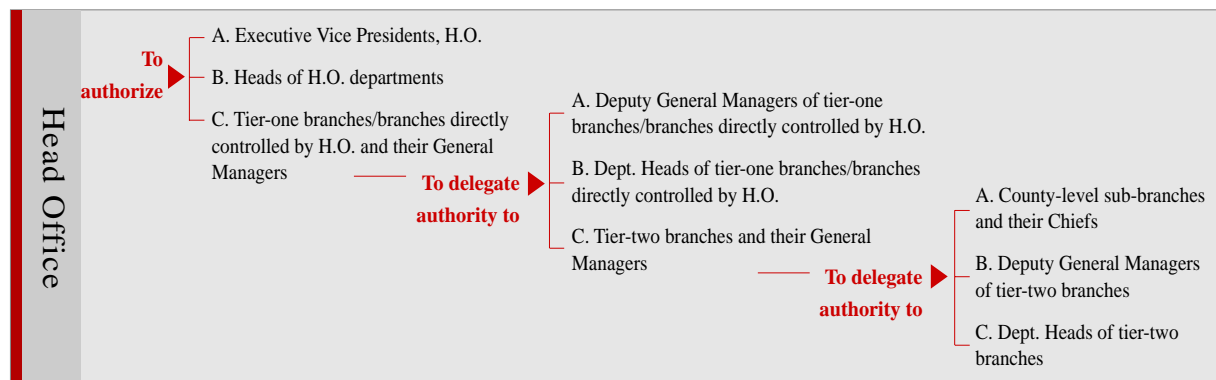
Corporate Governance

ICBC is committed to establishing and perfecting an open and transparent corporate governance framework, which embodies a vertical system of multi-level authorization and decision-making processes, an independent internal auditing and compliance system, and an organizational structure designed to meet the needs of the ever-growing business.

THE AUTHORIZATION MANAGEMENT SYSTEM

ICBC adopts a management system that consists of the Head Office and its branches. The subordinate branches are required to conduct their business and make decisions in accordance with the law and in compliance with the delegation of relevant authority from the upper levels of the organization. Authorization is further defined to include: basic authorization, delegated authorization, and special authorization. The legal department at each branch level is responsible for the management of the authorization system.

AUTHORIZATION FLOW CHART



Special Authorization is the authority granted to the subordinate branch from its upper-levels of the organization that exceeds the original scope, category and limit of the basic authority or delegated authority. The subordinate branch can also apply for such authorization from its superior branches if needed.

INDEPENDENT EXTERNAL AND INTERNAL AUDITING SYSTEMS

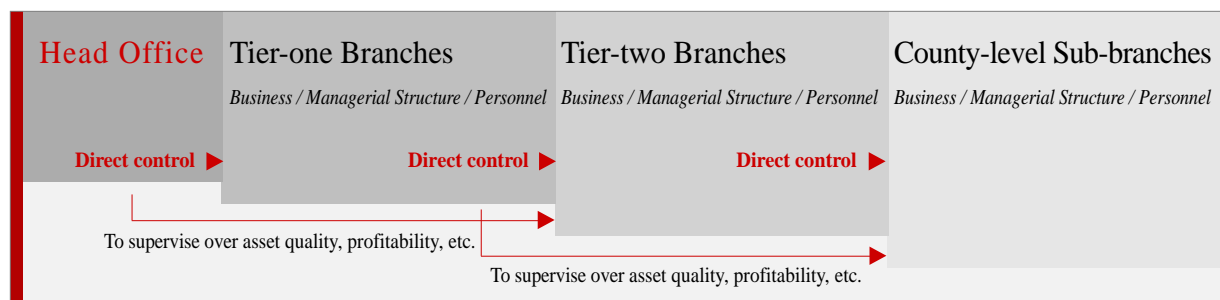
All tier-two branches and above have set up internal control and auditing departments, which are responsible for the internal audit and internal control functions, carrying out all types of auditing at all levels of ICBC, both at home and abroad. To ensure the objectivity, impartiality and independence of auditing, the auditing department of each branch is also required to supervise and review the branches directly under its control. An international accounting firm is appointed to conduct auditing on some of ICBC's branches. On top of all these, the Supervisory Board of ICBC, on behalf of the State, takes up the role of being an external independent monitoring body over the Bank.

REFORM OF THE MANAGEMENT STRUCTURE

REFORM AND DEVELOPMENT OF BRANCH MANAGEMENT

The branch management system with the Head Office having a direct control over the tier-one branches, while monitoring tier-two branch activities and all subordinate branches was further refined. A Branch Management Committee has been established at the Head Office to coordinate the management and supervision of the branches. A process was established for the review of applications to establish new or to close unnecessary subordinate branches. Supervisory rules and regulations for major business product types have also been established.

BRANCH MANAGEMENT FLOW CHART



The Head Office utilizes information technology to enhance its capability to supervise and control the branches. The Head Office not only supervises over the business, the managerial structure and the personnel of the tier-two branches, but also assesses the profitability and asset quality of the tier-two branches using a series of performance indicators, and accordingly gives advice to the tier-two branches on the modification of their managerial structure, business authorizations, resource allocation decisions, appointments of management teams, as well as their rewards and any disciplinary measures. All these measures lay the foundation for a flat management structure supporting the branches in the future.

An internal grading system for subordinate branches is established to grade the branches, based on both performance measures and business scale, the results of which are used as a key reference in resource allocation decisions. In this way, the Bank further strengthens the incentive and control mechanisms, and also reduces bureaucracy amongst the management structure.

ICBC adopted strategies that balance between rationalization and expansion. There were 2,415 inefficient business outlets closed in 2002 and 1,550 new ones opened or upgraded. With all these efforts, the total number of business outlets, schools and other affiliated units was reduced to 25,960 while the efficiency of the organizational structure has been improved.

RESTRUCTURING AT THE HEAD OFFICE LEVEL

At the Head Office level, two new departments, the Institutional Banking Department and the Investment Banking Department, were established. Further set up within the Credit Management Department were a Credit-Limit Center, a Credit Assessment and Approval Center, a Credit Monitoring and Inspection Center and an Industry Analysis Center. All of these helped to strengthen the marketing and risk management functions of the Head Office.

REFORM OF THE LEGAL STRUCTURE OF INTERNAL ORGANIZATIONS

ICBC Card Center

ICBC Card Center was newly founded in May 2002 with the aims of invigorating the Bank's card busi-

ness and strengthening its competitiveness. Born out of the Credit Card Department of ICBC, the Center is the first professional business entity dedicated to the bank card business in China. ICBC Card Center has developed an internal organizational structure and operational processes that meet both the international and the professional standards for a bank card business and the requirements for a separate, legally identifiable corporate management system. Successfully transformed from an extensive operational function to an integrated business role, the Bank's card business has continued to gain energy and competitiveness through such reforms.

ICBC Bills Discounting Department

It was the first nation-wide and professional bills discounting body approved by the People's Bank of China. The founding of the Department signified that the bills discounting business in China has entered into a new phase of professional, standardized and large-scale operations. Ever since its establishment in November 2000, the Bills Discounting Department has generated total profits of over RMB 100 million for three consecutive years, with an average revenue in excess of RMB 1.5 million per staff and with RMB 270.55 billion of accumulated traded volume, without incurring any non-performing assets.

ICBC was the first among its domestic banking peers to have introduced a centralized bankwide approach to run the bank card and bills discounting businesses. In addition, reforms continued around the logistical functions throughout ICBC in a further effort to streamline the core functions of the whole bank.

OVERSEAS EXPANSION STRATEGIES

ICBC is actively engaged in implementing its international business strategy by means of restructuring, merging or acquiring of banks, and opening new overseas branches and offices, in order to establish a global business network that covers all the major international financial centers. ICBC shall further improve the managerial and risk control capabilities of the overseas branches and offices, with enhanced service functions, more innovative products and by further optimizing the allocation of resources, with a view to enhancing the overall competitiveness of the Bank's cross-border business network as the overseas branches continue to play a more important role.

FUTURE GOALS FOR GROWTH

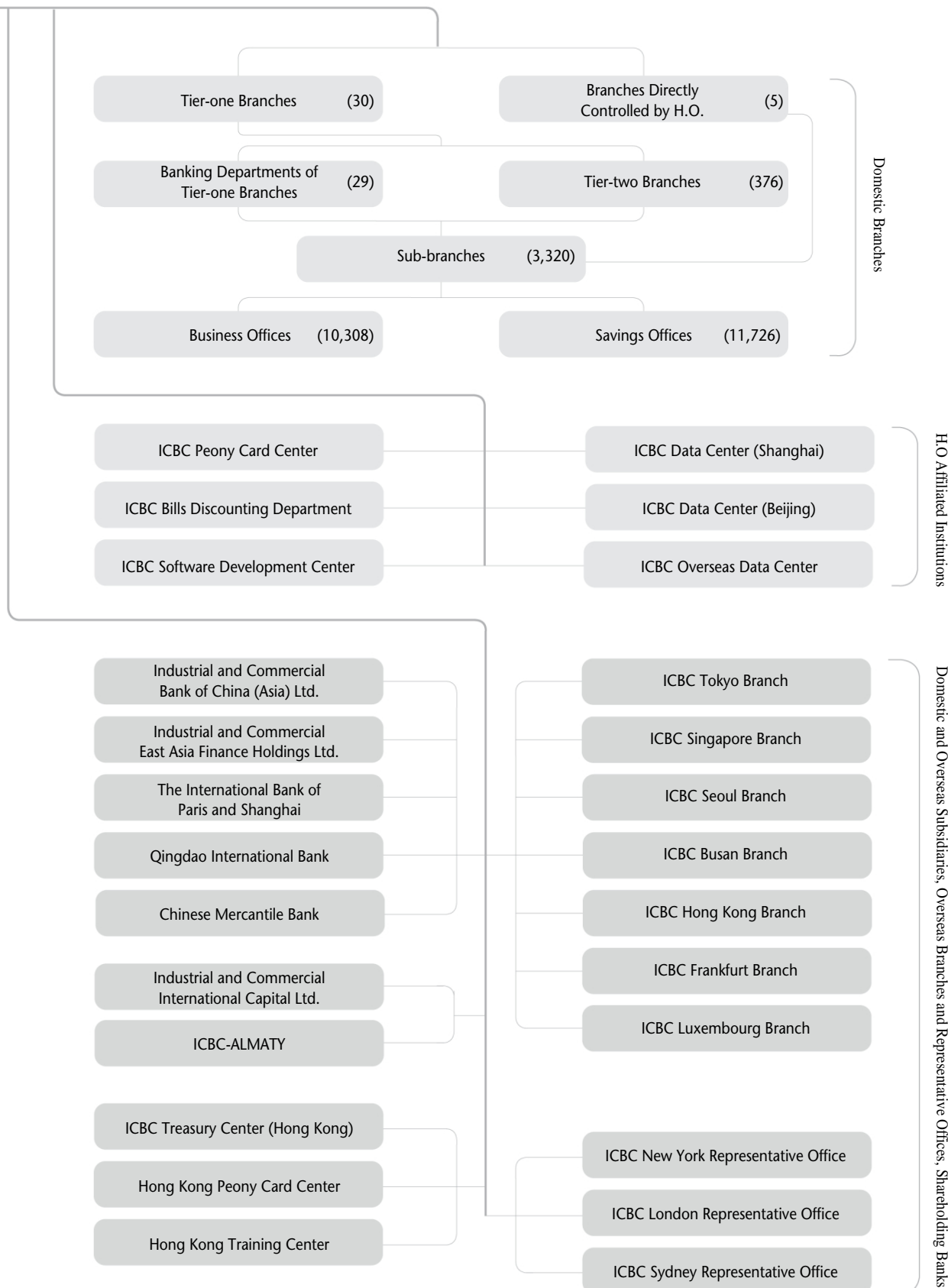
After successfully achieving the three-year profit target by the end of 2002, ICBC will enter into a new stage of development starting from 2003 through to 2010, continuing its reform towards a modern commercial bank. The future growth can be divided into three phases. The first phase, from 2003 to 2006, is to strive to lower ICBC's NPL ratio to below 10% and thus to improve the asset quality and financial conditions of the whole bank; the second phase, from 2007 to 2009, is to focus on building sufficient provisions and making up for the deficiencies in capital adequacy; and in the third phase, the Bank shall strive to further reduce the NPL ratio to 3% to 5% and increase operating profit to around RMB 100 billion and net profits to RMB 80 billion by the end of 2010. This allows the Bank to reach the medium to high level of the international banking standard in terms of operating and financial indicators.

With this accomplished, ICBC should fully meet up with international banking supervision standards and the requirements for an IPO, and thus become a large-scale modern commercial bank with considerable international appeal.

ORGANIZATIONAL CHART



Note: By the end of 2002, the number of organizations of the whole Bank (including business outlets, schools and other affiliated units) totaled 25,960, and the headcount amounted to 405,558.



Human Resources Management

The future competition in the banking sector is, to a certain extent, the war for talented personnel. Fully aware of the significance that human capital development plays in the future growth of the bank, ICBC has launched a series of reforms in its human resources management process over the past few years in order to attract and retain talented personnel and to optimize these rare resources with a view to getting prepared for increased future competition.

SELECTION OF MANAGERIAL PERSONNEL

In 2002, reforms were introduced into the selection process for managerial positions such as Deputy General Managers of some of the Head Office directly controlled branches, Deputy General Managers of some banking departments within the tier-one branches, and Division Chiefs and Deputy Division Chiefs at both the Head Office and the tier-one branches. The candidates were requested to go through a series of open tests that consisted of written examinations, interviews and comprehensive appraisals. A considerable number of high-caliber, creative young talents have thus been selected to these managerial positions, which helped to motivate the overall workforce.

REFORMS IN RECRUITMENT

A scientific, rational and smooth recruiting mechanism was formed through efforts to standardize labor contracts and modify contract terms, and reinforce the legal clauses of the labor contracts. In the spirit of raising efficiency through rationalization, ICBC has reduced the total number of employees to 405,000. Meanwhile, the Bank has encouraged the internal flow of personnel and provided individuals with a set of career development schemes. The fair and competitive environment for personal career development has effectively promoted the optimization and flow of human resources within the Bank.

PERFORMANCE EVALUATION MECHANISM

Having worked with an international consulting firm, ICBC conducted a consulting project relating to the job appraisal and performance evaluation mechanism within the Shenzhen Municipal Branch and the ICBC Card Center. This was an attempt to establish a rational and scientific mechanism and methodology of appraisal indicators for employee performance measurement and evaluation.

EMOLUMENT REFORM

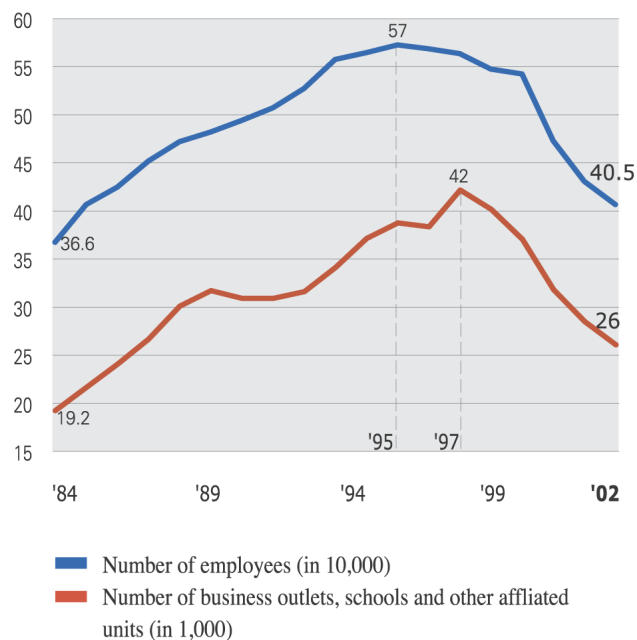
The Bank has strived to establish a rational and transparent remuneration system. An open salary system is being gradually established with reference to market-level salaries, in which reasonable salary differences are created. Pension insurance, unemployment insurance and medical insurance systems are undergoing re-

forms and standardization. Experiments with corporate-profit-related pay schemes are being undertaken at some of the branches.

FULL-SCALE ADVANCED TRAINING PROGRAMS

Aiming at the needs for the long-term development of a modern commercial bank, a multi-level and multi-area training framework, focusing on the development of senior executives, high-caliber professionals versed in financial theory as well as practical operations, has been established in line with the best international practices in developing talent. For instance, a post-doctoral research station has been established at the Head Office; excellent young and middle-aged executives are chosen to attend short- or medium-term advanced training programs in the USA, Canada and Australia; training projects based upon MBA core courses are launched for the Heads of ICBC branches at all levels; IMBA training programmes are sponsored together with the University of Hong Kong and Fudan University; overseas internships for domestic employees are provided; a variety of professional training programmes in the fields of international settlement, marketing, client management and private financial services are also offered. ICBC has also taken the lead to launch a long-distance E-education system amongst the domestic financial institutions and business corporations. The Bank has provided a total of 1,030,000 training experiences in such areas as management and operations, representing some 2.6 training experiences per person on average across the Bank's entire workforce.

HEADCOUNT AND NUMBER OF BUSINESS OUTLETS, SCHOOLS AND OTHER AFFILIATED UNITS



ICBC in the Community



366.15

While constantly attaining better business results and gaining extensive support from its clients, ICBC is an active participant in public welfare activities, upholding the development of the nation's education and sports, and actively contributing to the nation and society at large.

25.92

THE ICBC BENEVOLENCE FOUNDATION

Ever since its founding in 1997, the ICBC Benevolence Foundation has sponsored 59 public welfare programs amounting to RMB10.68 million in total gifts. Under the sponsorship of the Foundation, 45 primary schools for the Hope Project have been founded, 31 bridges have been built and a donation of RMB1.2 million to the Spring Buds Project and RMB 1 million to the National Guarantee Foundation for Student Loans have been made. In 2002, the Bank donated RMB 100,000 from the Foundation to rebuild a bridge over the Puhe River at Simudi Town in Shanxi Province, RMB100,000 for the phase II of the Hope Library Project, to support the establishment or replenishment of the libraries of 30 schools in poverty-stricken areas. In addition to sponsoring RMB 500,000 to initiate funding for the destitute students of Ningxia University, a further RMB 100,000 was donated, and altogether 316 destitute students have been helped using these funds to complete their studies.

PARTICIPATION IN THE PEACE AND HEALTH (AN KANG) PROJECT

The Peace and Health Project is a project aimed at fighting against children's illiteracy, disease, injury and crime, with efforts from all over the community. It was jointly initiated by the Chinese Children's Foundation and the State Economic and Trade Commission in 2002. ICBC fully endorsed the donation plans for the Project, and supported it with the help of its extensive business network all around China and its fast and efficient funds clearing system. ICBC was the first bank to place donation boxes at some 500 business outlets across the country. The Bank's employees have actively donated RMB1.17 million in total to the Project.

PROJECTS TO HELP THE POOR

One of the significant activities that ICBC is engaged in to serve the society is to help the poor in some chosen areas. Chengkou County in Chongqing Municipality, Tongjiang County, Nanjiang County and the City of Wanyuan in Sichuan Province have been chosen by ICBC as the locations for help. By the end of 2002, a total of RMB 366.15 million had been raised for constructing local economic infrastructure and promoting the growth of local businesses. ICBC has dispatched seven teams to help the regions, and donated about RMB 2.14 million, 30,000 pieces of clothing, 6,100 kilograms of grain and 80 tons of fertilizers and seeds. The Bank also helped to establish 8 new primary schools for the Hope Project, rebuild 2 existing ones and donated 25,000 books and 144 personal computers and printers to the schools. In addition, the Bank's employees have voluntarily sponsored 599 children to be educated.

OTHER SPONSORSHIPS

ICBC has provided RMB 8 million since 1997 to set up the Bayi (ICBC) Table Tennis Club together with Bayi Military Sports Association. The Club has attained a superb record in major sports tournaments held both at home and abroad over the last five years, cultivated a considerable number of excellent sportsmen, and contributed to the development of our national sport — the table tennis. ICBC is also the first commercial bank in China to grant National Student Loans. By the end of 2002, ICBC had provided a total cumulative amount of approximately RMB 2 billion of national student loans for 270,000 students suffering from poverty. In addition, the Bank's employees have donated a total of RMB 25.92 million for environmental protection, helping the poor and other charitable purposes.

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**INDUSTRIAL AND COMMERCIAL
BANK OF CHINA**

AUDITORS' REPORT

Z. T. H. Z. (BJ) Audit [2003] No. 053

To Industrial and Commercial Bank of China:

Per your instructions, we have audited the consolidated balance sheet of Industrial and Commercial Bank of China (the "Bank") as at December 31, 2002, the consolidated income statement and the consolidated cash flow statement for the year then ended, together with the balance sheet of the Bank as at December 31, 2002, and the income statement for the year then ended.

These financial statements remain the responsibility of the Bank. Our responsibility is to express an opinion on these financial statements in accordance with the audit scope set out in the audit engagement letter. We conducted our audit in accordance with the Independent Auditing Standards of the Chinese Institute of Certified Public Accountants. During the audit, we carried out those audit procedures which we considered necessary with reference to the specific condition of the Bank.

In our opinion, the financial statements referred to above are in accordance with the Accounting Standards for Enterprises, Accounting Regulations for Financial Institutions, and other related regulations and laws of financial accounting; and present fairly, in all material respects, the financial position of the Bank as at December 31, 2002 and the results of its operations and the cash flows for the year then ended. The adoption of the accounting policies here within conforms to the convention of consistency.

Beijing Zhong Tian Hua Zheng CPA Co., Ltd.



Director Accountant:



Certified Public Accountant of China:



March 25, 2003

CONSOLIDATED BALANCE SHEET

Unit : RMB million

ITEM	31-12-2002	31-12-2001
Assets		
Cash	28,105	25,845
Due from the central bank	411,563	347,945
Due from banks	17,846	35,483
Inter-bank placements	98,355	129,875
Loans	3,002,283	2,688,877
Less: Provisions	13,528	8,686
Account receivable	74,817	120,068
Investments	988,391	799,818
Less: specific provisions	10,850	—
Fixed assets, net	70,631	64,616
Construction in progress	10,103	14,162
Other assets	99,057	120,982
Total assets	4,776,773	4,338,985
Liabilities		
Deposits	4,100,517	3,612,194
Due to banks	232,597	289,054
Inter-bank borrowings	38,496	21,093
Borrowings	21,646	33,404
Remittances	46,463	41,865
Accounts payable	89,630	138,570
Other liabilities	65,418	9,878
Total liabilities	4,594,767	4,146,058
Minority shareholders' interests	3,798	1,674
Owners' equity		
Paid-in capital	160,730	167,417
Capital reserve	1,282	1,148
Surplus reserve	14,768	14,761
Undistributed profits	1,428	7,927
Total owners' equity	178,208	191,253
Total liabilities and owners' equity	4,776,773	4,338,985

CONSOLIDATED INCOME STATEMENT

Unit: RMB million

ITEM	2002	2001
Interest income	154,875	159,631
Less: Interest expenses	70,113	86,582
Net interest income	84,762	73,049
Add: Other operating income	6,749	4,594
Total operating income	91,511	77,643
Less: Total operating expenses, including	81,771	72,075
Operating expenses	41,326	40,280
Fixed assets depreciation	6,617	5,386
Business tax and surcharges	8,024	8,928
Provisions	25,804	17,481
Add: Non-operating income	1,843	2,450
Less: Non-operating expenses	4,681	1,774
Total profit	6,902	6,244
Less: Income tax	153	175
Less: Minority shareholders' interests	222	119
Net profit	6,527	5,950

CONSOLIDATED CASH FLOW STATEMENT

Unit : RMB million

ITEM	2002	2001
1. CASH FLOW FROM OPERATING ACTIVITIES		
Interest income from loans	123,587	123,965
Net increase in placements with financial institutions	3,663	6,154
Income from other operating activities	5,891	4,483
Net change in short-term deposits	633,755	188,725
Net change in medium & long-term deposits	—	157,358
Net change in due to the central bank	—	9,196
Cash received from other operating related activities	40,936	—
Sub-total of cash inflow	807,832	489,881
Interest paid for deposits	61,887	76,074
Cash paid for other operating expenses	21,909	24,464
Cash paid for payroll expenses and employees benefits	18,278	15,701
Net change in short-term loans	87,369	74,198
Net change in medium and long-term loans	226,038	184,017
Net change in medium & long-term deposits	137,050	—
Cash paid for placements with other financial institutions	7,534	19,970
Net change in due from the central bank	10,119	—
Cash paid for miscellaneous taxes	8,318	9,545
Cash paid for other operating related activities	9,546	57,901
Sub-total of cash outflow	588,048	461,870
Net cash flow from operating activities	219,784	28,011
2. CASH FLOW FROM INVESTING AND FINANCING ACTIVITIES		
Cash received from bond interests	24,210	16,246
Cash received from dividends or shared profits	881	209
Sub-total of cash inflow	25,091	16,455

Unit : RMB million

ITEM	2002	2001
Cash paid to acquire fixed assets, intangible assets and other long-term assets	7,226	—
Cash paid to acquire equity investments	12,541	9,111
Net increase in long-term bond investments	52,147	5,593
Debt repayments	1,639	32,097
Sub-total of cash outflow	73,553	46,801
Net cash flow from investments and financing activities	-48,462	-30,346
3. NET CASH FLOW FROM EXTRAORDINARY ITEMS	-2,981	750
4. NET INCREASE IN CASH AND CASH EQUIVALENTS	168,341	-1,585
Add: opening balance of cash and cash equivalents	680,885	682,470
5. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	849,226	680,885
of which: Cash and bank deposits	28,105	25,845
Due from the central bank	411,563	347,944
Due from banks	17,639	12,701
Short-term investments in securities	391,919	294,395

BALANCE SHEET

Unit : RMB million

ITEM	NOTE III	31-12-2002	31-12-2001
Assets			
Cash		28,055	25,759
Due from the central bank		411,470	347,917
Due from banks	1	16,645	35,803
Inter-bank placements	2	99,532	145,688
Loans	3	2,957,837	2,659,466
Less: Provisions	4	12,698	8,046
Accounts receivable	5	74,062	122,995
Investments	6	992,890	794,452
Less: specific provisions	14	10,850	–
Fixed assets, net	7	69,508	63,675
Construction in progress		10,103	14,163
Other assets	8	97,682	116,199
Total assets		4,734,236	4,318,071
Liabilities			
Deposits	9	4,056,898	3,580,470
Due to banks	10	242,434	293,235
Inter-bank borrowings	11	29,950	31,994
Borrowings	12	21,646	32,726
Remittances		46,463	41,865
Accounts payable	13	88,357	138,160
Other liabilities		70,633	8,627
Total liabilities		4,556,381	4,127,077
Owners' equity			
Paid-in capital		160,730	167,417
Capital reserve		1,282	1,147
Surplus reserve		14,768	14,761
Undistributed profit		1,075	7,669
Total owners' equity	14	177,855	190,994
Total Liabilities and owners' equity		4,734,236	4,318,071

Notes to the accounts form an integral part of the financial statements.

INCOME STATEMENT

Unit : RMB million

ITEM	NOTE III	2002	2001
Interest income	16	153,778	158,243
Less: Interest expenses	16	69,547	85,823
Net interest income	16	84,231	72,420
Add: Other operating income	17	5,562	4,164
Total operating income		89,793	76,584
Less: Total operating expenses, including		80,824	71,423
Operating expenses		40,672	39,681
Fixed assets depreciation		6,557	5,344
Business tax and surcharges	18	8,005	8,920
Provisions	4	25,590	17,478
Add: Non-operating income		1,840	2,448
Less: Non-operating expenses		4,592	1,716
Total profit		6,217	5,893
Less: Income tax		43	90
Net profit		6,174	5,803

Notes to the accounts form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. BRIEF INTRODUCTION OF THE BANK

The Industrial and Commercial Bank of China (ICBC) is a state-owned commercial bank founded on January 1, 1984, and authorized by the State Council and the People's Bank of China ("PBOC"). The registered address is No.55 Fuxinmennei Dajie Xicheng District, Beijing. The official legal representative is the President, Mr. JIANG Jianqing.

As of Dec 31st, 2002, ICBC had established tier-one provincial branches in 30 provinces (including Autonomous Regions and Municipalities), 5 branches directly under the Head Office, 7 overseas branches, 2 subsidiary banks and 5 holding institutions.

The business scope includes RMB deposits, loans and consumer credit, residential savings, various settlement services, issuing and the related agency services of issuing securities, various agency services entrusted by other banks, foreign exchange savings, foreign exchange loans, foreign exchange remittances, trade and non-trade settlement, exchange of foreign currencies and notes, foreign exchange guarantees and related services, overseas foreign exchange borrowings, foreign currency bills discounting, issuing and agency services relating to foreign currency securities, agency services relating to forward or spot foreign exchange trading, credit evaluation and consulting services, buyer's credit, on-loans for international financial institutions or foreign governments, and other businesses authorized by the PBOC.

II. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Adoption of accounting standards and regulations

ICBC adopts the General Financial Principles of Enterprises, Accounting Standards for Enterprises, Financial Regulations for Finance and Insurance Companies, Accounting Regulations for Financial Institutions, and the related supplementary regulations.

2. Accounting period

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

3. Currency of record

The books and records of the Bank are maintained and prepared in Chinese Renminbi (RMB).

4. Principle for book keeping and valuation

Unless stated otherwise, the accrual basis is used as the basis for book keeping, and the accounts are compiled in accordance with the historical cost accounting concept.

5. Types and scope of loans

Loans include short-term loans, medium and long-term loans, discounted bills and import and export documentary bills.

According to the nature of the guarantee method, loans are classified as credit, guarantee, mortgage, or pledged loans.

According to "The Principle on Loan Risk Classification Guidance" issued by the PBOC, and based on the level of risk, the loans are classified as either performing, special mention, substandard, doubtful or loss loans.

6. Provision

For the domestic entities of the Bank, rules on the provision and the utilization of the provision are issued by the Ministry of Finance of the PRC and have been applied herein. The overseas entities of the Bank follow the provisions and regulations of the relevant bodies of the host countries or regions where they are domiciled.

7. Accounting for investments

Equity investments and other investments are valued at their investment cost at inception. The domestic entities use the cost accounting method. The foreign domiciled entities are accounted for using either the cost or equity accounting method according to the requirements in place in the relevant host country. Bond investments are valued at the actual cost when acquired.

8. Accounting for fixed assets and depreciation

Fixed assets are included at the actual cost at the time of acquisition. Depreciation is provided, using the straight-line method, based on the following fixed asset types, estimated useful lives and expected residual values (3% of original values):

CATEGORY	USEFUL LIFE	ANNUAL DEPRECIATION RATE
Properties and buildings	30 years	3.23%
Transportation facilities	4 ~ 6 years	24.25% ~ 16.17%
Electronic devices	3 ~ 5 years	32.33% ~ 19.40%
Others	5 years	19.40%

9. Valuation and amortization of intangible assets

Intangible assets are valued at actual cost, and amortized equally over the expecting period of their useful lives.

10. Amortization of deferred assets

The pre-operating expenses are amortized equally over five years starting from the month of commencing operations; leasehold improvements are amortized equally over the leasehold period; other deferred expenses are amortized equally over their useful economic lives.

11. Accounting for interest payable

Interest payable is accounted for on an accrual basis.

12. Principle of revenue recognition

Revenue is recognized, when it is probable that the economic benefits will flow to the Bank and when the revenue can be measured reliably, on an accrual basis.

When loan interest is overdue for more than 90 days, whether the loan principal is overdue or not, the accrued interest income of the loan shall cease to be recognized as interest income for the year, and shall be recorded off balance sheet. In the case where the principal or interest of any such loans is already overdue for more than 90 days, the interest previously accrued should be written off against the interest income already recorded in the income statement and such interest income is thereafter only recognized upon receipt.

13. Accounting for income tax

Corporate income tax is accounted for using the tax payable method.

14. The scope and preparation of consolidated financial statements

The consolidated financial statements include the financial statements of ICBC and its subsidiaries where more than half of the equity capital or voting rights are held by ICBC. In the process of consolidation, internal transactions such as investments and current accounts between ICBC and its subsidiaries are eliminated, and the minority shareholders' interest and due benefits are calculated.

The institutions consolidated include the domestic branches and the overseas branches, ICBC Almaty, ICBC (Asia) Ltd., ICEA Finance Holdings Ltd., Industrial and Commercial International Capital Ltd., International Bank of Shanghai and Paris, Qingdao International Bank, and China Mercantile Bank.

15. Foreign currency translation

ICBC maintains a multi-currency ledger for foreign currency business. At the year end date, financial statements for such relevant entities are prepared in their original underlying currencies and are translated into RMB at the exchange rates ruling at the balance sheet date. Foreign exchange differences are dealt with in the income statement. The exchange rate of USD to RMB as at the end of 2002 is USD1.00 = RMB 8.2780.

16. Taxes

TYPE OF TAX	BASE FOR TAXATION	TAX RATE
Business tax	Income from financial operations	6%(see note)
Corporate income tax	Taxable income	33%
Miscellaneous tax items	Make payments according to the actual situation	—

Note: According to the (2001) 21st document issued by the MOF and the State Administration of Taxation of China, starting from 2001, the business tax rate of financial and insurance companies will be reduced by 1% every year until it reaches 5%. Therefore, the current year business tax rate is 6%.

The types of tax, basis of tax computation and tax rates of the overseas entities follow the requirements of the local tax laws and regulations in effect in those jurisdictions.

III. NOTES TO THE SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS

1. Due from Banks

ITEM	31-12-2002	31-12-2001
Overseas banks	8,297	20,194
Domestic banks	8,348	15,609
TOTAL	16,645	35,803

2. Inter-Bank Placements

ITEM	31-12-2002	31-12-2001
Overseas banks	80,226	121,754
Domestic banks	19,306	23,934
TOTAL	99,532	145,688

3. Loans

a. Loans classified by types of collateral

ITEM	31-12-2002	31-12-2001
Credit loans	743,595	732,579
Guarantee loans	1,046,331	751,592
Mortgage or pledge loans	1,167,911	1,175,295
TOTAL	2,957,837	2,659,466

b. Loans classified by tenor

ITEM	31-12-2002	31-12-2001
Short-term loans	1,696,210	1,599,904
Medium and long-term loans	1,261,627	1,059,562
TOTAL	2,957,837	2,659,466

c. Loans classified by risk grading

ITEM	31-12-2002	PERCENTAGE (%)
Performing	1,833,541	61.99
Special mention	364,418	12.32
Total non-performing loans	759,878	25.69
Substandard	117,781	3.98
Doubtful	458,618	15.51
Loss	183,479	6.20
TOTAL LOAN OUTSTANDING	2,957,837	100

d. Loans classified by industry

ITEM	31-12-2002	PERCENTAGE (%)
Manufacturing	1,166,142	39.43
Wholesale and retail	354,191	11.97
Individual consumption	302,986	10.24
Transportation and logistics	245,646	8.30
Real estate	184,039	6.22
Energy	157,148	5.31
Service	129,592	4.38
Information technology	97,390	3.29
Mining	73,933	2.50
Construction	59,985	2.03
Others	156,695	5.30
Overseas	30,090	1.03
TOTAL	2,957,837	100.00

4. Provision

ITEM	31-12-2002	31-12-2001
Provision for the year	25,590	17,478
Write-off during the year	21,034	19,810

5. Accounts Receivable

ITEM	31-12-2002	31-12-2001
Interest receivable	43,258	51,465
Other receivables	30,804	71,530
TOTAL	74,062	122,995

6. Investments

ITEM	31-12-2002	31-12-2001
Bonds	922,328	781,782
Including: Government	297,556	292,884
Financial institutions	484,646	458,517
Others	140,126	30,381
Others	70,562	12,670
TOTAL	992,890	794,452

7. Fixed Assets, Net

ITEM	31-12-2002	31-12-2001
Original value:	95,021	84,077
Including: Properties and buildings	66,205	60,694
Transportation facilities	5,961	6,031
Electronic devices	14,323	14,132
Others	8,532	3,220
Less: Accumulated depreciation	25,513	20,402
NET BOOK VALUE	69,508	63,675

8. Other Assets

ITEM	31-12-2002	31-12-2001
Deferred assets	4,768	5,321
Intangible assets	2,560	2,483
Other assets	90,354	108,395
TOTAL	97,682	116,199

9. Deposits

1. Classified by depositors

ITEM	31-12-2002	31-12-2001
Corporate deposits	1,771,724	1,564,635
Individual deposits	2,285,174	2,015,835
TOTAL	4,056,898	3,580,470

2. Classified by types of deposits

ITEM	31-12-2002	31-12-2001
Demand deposits	2,107,090	1,791,897
Time deposits	1,949,808	1,788,573
TOTAL	4,056,898	3,580,470

10. Due to Banks

ITEM	31-12-2002	31-12-2001
Overseas banks	256	26
Domestic banks	242,178	293,209
TOTAL	242,434	293,235

11. Inter-Bank Borrowings

ITEM	31-12-2002	31-12-2001
Overseas banks	19,653	19,741
Domestic banks	10,297	12,253
TOTAL	29,950	31,994

12. Borrowings

ITEM	31-12-2002	31-12-2001
Loans payable to the central bank	17,556	27,675
Others	4,090	5,051
TOTAL	21,646	32,726

13. Accounts Payable

ITEM	31-12-2002	31-12-2001
Interest payable	22,372	21,874
Other payables	65,985	116,286
TOTAL	88,357	138,160

14. Owners' Equity

The balance of paid-in capital as at 31 December 2002 decreased by RMB 6,687 million compared with the prior year. The main reason is the Bank has taken the following measures during the year according to the provisions issued by the MOF: transferred RMB 5,934 million worth of corporate shares which were previously the subject of debt for equity swaps, and were previously entrusted with China HuaRong Asset Management Corporation, to China HuaRong Asset Management Corporation; transferred the shares of 5 finance companies, including China Securities Co., Ltd., worth RMB 738 million in total, at zero value; and, transferred the shares of China Financial Data Network Company Limited (CHINA FINET), which were worth RMB 15 million to China Telecom Group, at zero value. Undistributed profit decreased by RMB 6,594 million as at the end of the year compared with the prior year end. The decrease is mainly due to the charging of specific provisions amounting to RMB 10.85 billion, and the increase of capital reserves and surplus reserve of RMB 142 million. All the above resulted in the decline of the owners' equity by RMB 13,139 million from the previous year.

15. Capital Adequacy Ratio

ITEM	31-12-2002	31-12-2001
Core capital	177,855	190,994
Supplementary capital	23,548	8,046
Deductible items	42,571	58,147
Adjusted capital	158,832	140,893
Total risk weighted assets	2,865,549	2,446,059
Capital adequacy ratio - Core capital (%)	5.46	5.76
Capital adequacy ratio (%)	5.54	5.76

16. Interest Income, Interest Expenses and Net Interest Income

ITEM	2002	2001
Interest income	153,778	158,243
Interest earned from loans	117,863	115,107
Interest earned from inter-bank activities	11,705	19,023
Interest income from bonds	24,210	24,113
Interest expenses	69,547	85,823
Interest expenses on customer deposits	61,752	72,760
Interest expenses on inter-bank activities	7,795	13,063
Net interest income	84,231	72,420

17. Other Operating Income

ITEM	2002	2001
Income from intermediary business	5,125	3,938
Other income	437	226
TOTAL	5,562	4,164

18. Business Tax and Surcharges

ITEM	2002	2001
Local business tax	5,937	5,751
Central government business tax	1,443	2,548
Miscellaneous surcharges	625	621
TOTAL	8,005	8,920

19. Important Off-Balance Sheet Items

ITEM	31-12-2002	31-12-2001
Banker's bills of acceptance	75,253	61,986
Issued letters of credit and letters of guarantee	112,648	109,887
TOTAL	187,901	171,873

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