2004
ANNUAL REPORT

ICBC

中国工商银行

INDUSTRIAL AND COMMERCIAL BANK OF CHINA

Index

Financial Highlights

Unit: RMB million, %

Item	ICBC Group[1]			ICBC		
	2004	2003	Growth Rate	2004	2003	Growth Rate
Operating Results						
Operating profit	74,608	63,544	17.41	73,679	62,603	17.69
Total profit	2,927	2,658	10.12	2,105	2,110	-0.24
Interest income	180,506	162,839	10.85	178,195	161,452	10.37
Interest expense	67,357	64,297	4.76	66,535	63,845	4.21
Net interest income	113,149	98,542	14.82	111,660	97,607	14.40
Non-interest income	16,389	11,496	42.56	16,071	10,888	47.60
Balance Sheet Items						
Total assets	5,670,521	5,279,120	7.41	5,589,904	5,239,963	6.68
Loans	3,705,274	3,392,937	9.21	3,635,281	3,346.923	8.62
Total liabilities	5,503,585	5,106,167	7.78	5,427,189	5,069,824	7.05
Deposits	5,060,718	4,606,202	9.87	5,000,019	4,568,164	9.45
Owner' s equity	162,983	170,501	-4.41[2]	162,715	170,139	-4.36
Ratios (%)			Change in percentage points			Change in percentage points
Operating profit/total assets	1.36	1.26	0.10	1.36	1.26	0.10
Operating profit/owner's equity	44.74	36.45	8.29	44.27	35.98	8.29
Interest income from loans/total income	70.55	71.69	-1.14	70.76	71.90	-1.14
Interest expenses on deposits/total expenses	32.13	33.74	-1.61	32.21	33.73	-1.52
Cost/Income Ratio[3]	41.98	46.71	-4.73	41.81	46.73	-4.92
NPL Ratio (Five-Category Classification)	18.99	21.24	-2.25	19.33	21.51	-2.18

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

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

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

Address by the President

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

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

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

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

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

Rapid on-going business and technical innovation helped to enhance the competitiveness of the Bank. Based on modern business models, advanced technology and integrated development of various business lines, ICBC's traditional deposit business maintained a steady growth rate with the total balance of all deposits in local and foreign currencies rising by RMB 454.5 billion, and the year-end balance exceeding RMB 5 trillion. The intermediary business achieved a leap-forward in growth, thus making ICBC the first commercial bank in China to earn a revenue exceeding RMB 10 billion from its intermediary business. The major key performance indicators of new businesses such as investment banking, bank cards, bullion trading and the fund management business, provided solid evidence of the Bank's leading position amongst its peers in China. Total assets under custody of the Bank reached over RMB 100 billion and the E-banking business innovation maintained its leading position. Local and foreign currency business systems for internet banking have also taken shape. A large number of high value-added, high-tech products such as cash management, Elite Club accounts, and Banking@Home further enhanced their market position. The ongoing business interaction between domestic and overseas branches and the integration of local and foreign currency businesses led to a marked operation advantage, and thereby the degree of internationalization of the Bank was further promoted. The consolidation of data centers has been completed and resulted in a safer, more intensive and efficient data operational platform. The multi-functional banking system, as the comprehensive business operation platform of the entire bank, has been constantly fine-tuned and enhanced. The Bank's competitive advantage in technology has substantially increased the competitiveness of the Bank.

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

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

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

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

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

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

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

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

姜建清

Jiang Jianqing

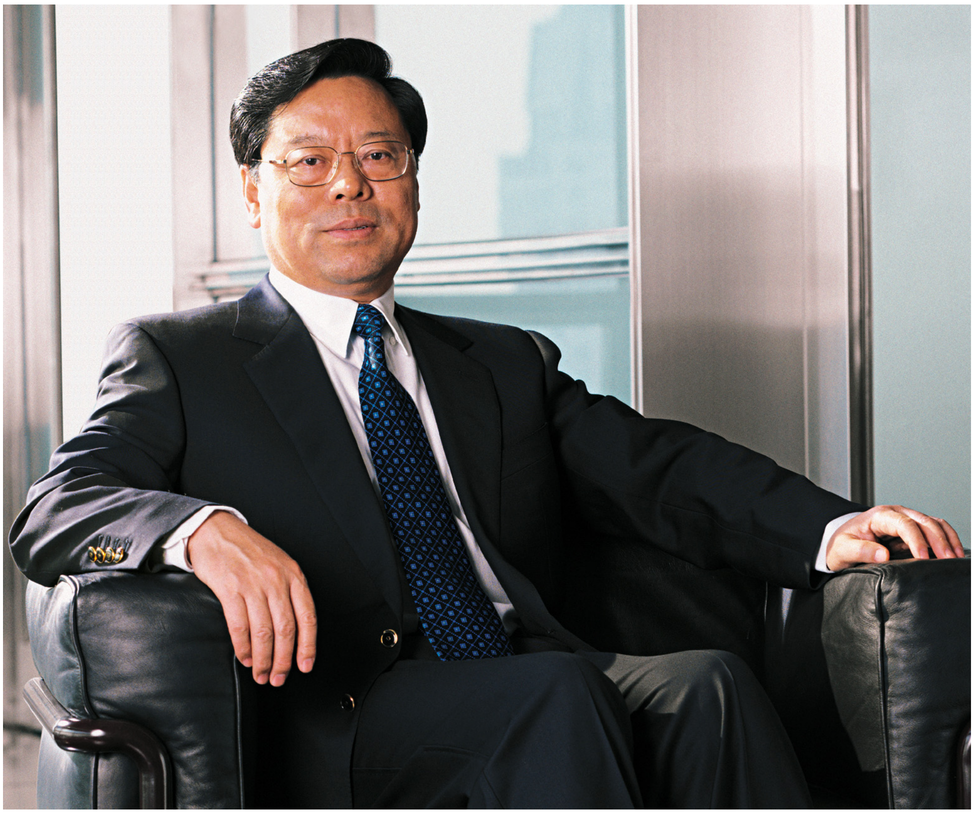
Chairman and President

January 1, 2005

Executive Board

Mr. Jiang Jianqing (center)	Chairman and President
Mr. Yang Kaisheng (fourth from right)	Vice Chairman and Executive Vice President
Mr. Chen Keru (third from left)	Member of the Board
Mr. Zhang Furong (third from right)	Member of the Board and Executive Vice President
Mr. Zhang Qu (second from left)	Member of the Board and Executive Vice President
Ms. Wang Lili (second from right)	Member of the Board and Executive Vice President
Mr. Niu Ximing (first from left)	Member of the Board and Executive Vice President
Mr. Li Xiaopeng (first from right)	Member of the Board and Executive Vice President

Supervisory Board

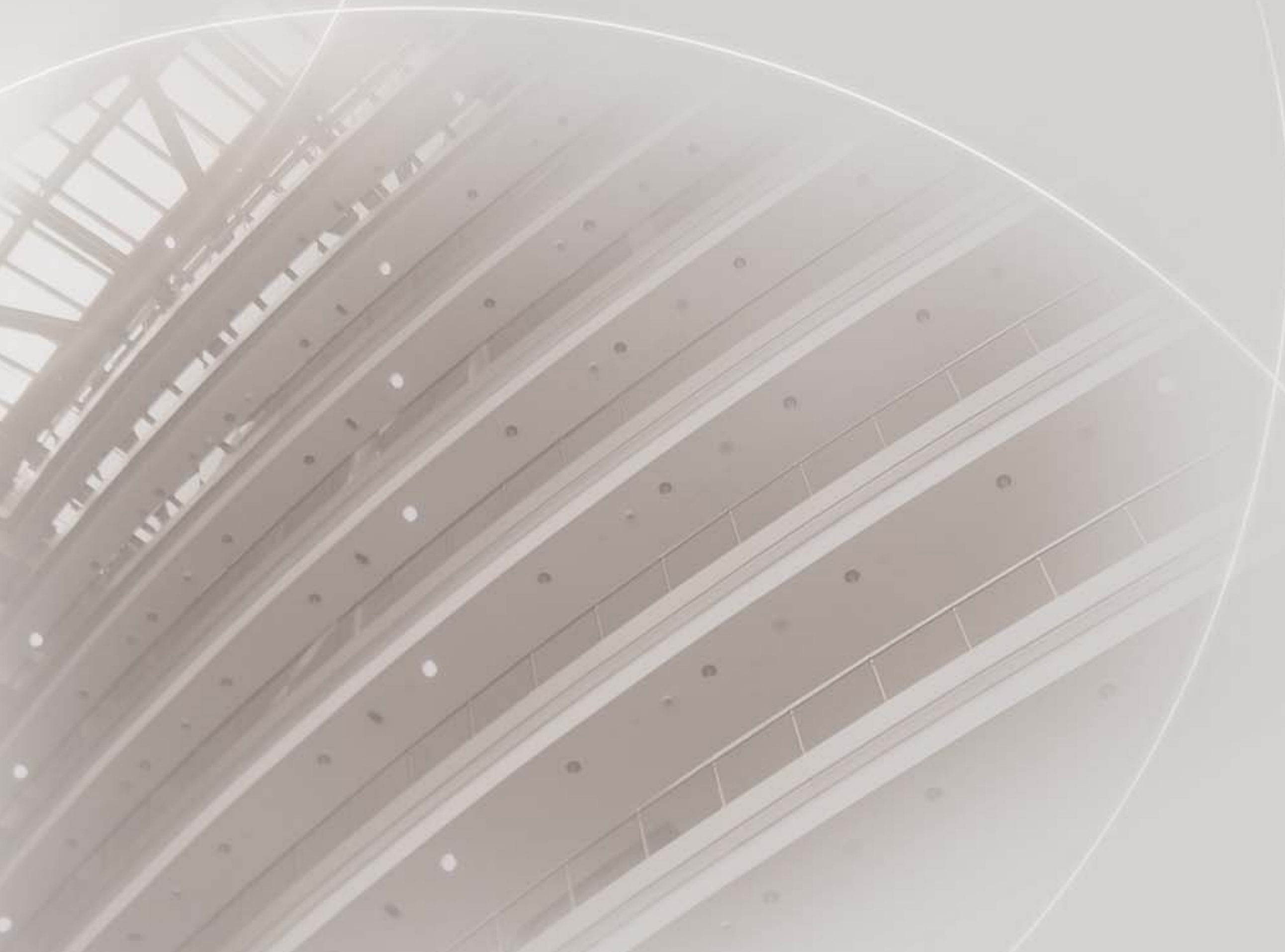


Mr. Wang Weiqiang, Chairman of the Supervisory Board

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

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

Management's Discussion & Analysis



中国工商银行

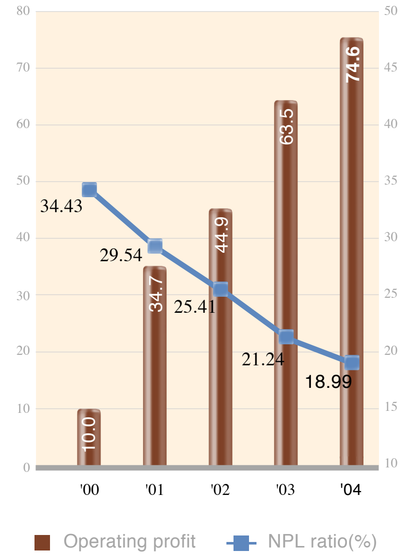
INDUSTRIAL AND COMMERCIAL BANK OF CHINA

Core Business

In 2004, the world economy showed signs of an overall recovery and the Chinese economy maintained a both steady and rapid growth. Favorable results have been achieved from the measures taken by the government to strengthen and improve its macro economic management, and the tendency for an excessively fast growth of investment has been reined in. In 2004, China's GDP reached RMB 13.7 trillion, up by 9.5% over the previous year. The financial system had a stable operation with money supply growth having a rollback and loan growth at an adequate level. At the end of 2004, the total balances of deposits and loans of all financial institutions amounted to RMB 25.3 trillion and RMB18.9 trillion, up by 15.3% and 14.4% respectively, and the growth rate of loans dropped by seven percentage points compared to the previous year.

OPERATING PROFIT AND NPL RATIO TREND

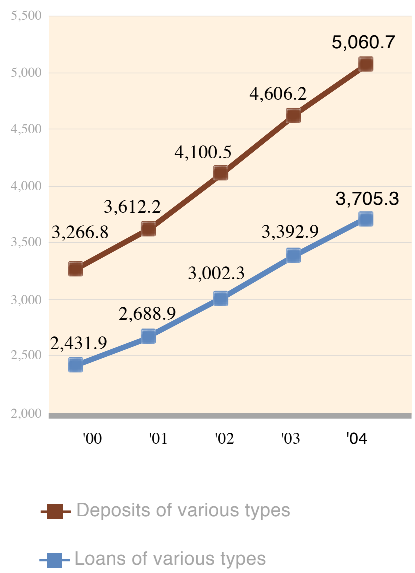
Unit: RMB billion %



In 2004, the total operating profit of ICBC Group was RMB 74.6 billion, up by RMB 11.1 billion, or 17.4% as compared to the previous year. All the domestic tier-one branches were profitable and the overseas branches earned a total of USD 170 million in operating profit. In 2004, the income mix was further enhanced. The total operating income was RMB 126.7 billion, up by 17.8% over the previous year, including net interest income of RMB 113.1 billion and intermediary business income of RMB 12.3 billion, up by 14.8% and 44.5% respectively compared to 2003. Intermediary business income accounted for 9.71% of the total operating income, up by 1.79 percentage points from 7.92% in the previous year.

DEPOSITS AND LOANS BALANCES GROWTH

Unit: RMB billion



Based on a strict and truthful implementation of the five-category classification standard for assessing loan quality, ICBC achieved a reduction in both its NPA balance and NPA ratio. The balance of NPAs declined by RMB 42.4 billion, while the NPA ratio dropped to 14.32%, down by 1.87 percentage points as compared to the previous year. The balance of NPLs declined by RMB 17.1 billion and the NPL ratio decreased to 18.99%, down by 2.25 percentage points compared to the prior year. The NPL ratio for loans granted since 1999 was 1.57%, comparable to the leading international banks' levels.

At the end of 2004, outstanding loans amounted to RMB 3,705.3 billion, up by RMB 312.3 billion or 9.21% over the prior year, but RMB 78.4 billion less than the increase in 2003. This was considered as an adequate growth. With regards to portfolio structure, short-term loans increased by RMB 57.1 billion while medium to long-term loans increased by RMB 255.2 billion; corporate loans increased by RMB 235.9 billion while consumer loans increased by RMB 76.4 billion; project loans grew by RMB 172.5 billion and housing mortgage loans grew by RMB 79.6 billion; short-term bills financing increased by RMB 154.7 billion and other loans decreased by RMB 94.5 billion. The balance of total deposits reached RMB 5,060.7 billion, up by RMB 454.5 billion or 9.9% over the previous year, but RMB 51.2 billion less than the increase in 2003. Specifically, short-term and long-term deposits increased by RMB 305.5 billion and RMB 149.0 billion respectively. The loan-to-deposit ratio at the year end stood at 67.05%, which was considered reasonable.

WHOLESALE BUSINESS

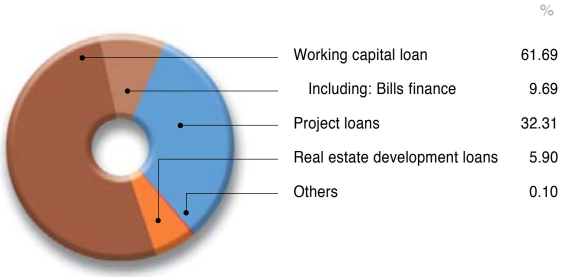
In line with both the state macro-economic policies and the sound commercial banking business principles, ICBC imposed a stringent control over the granting of loans to those industries identified as "over-invested" and small scale surplus construction projects. In the mean time, ICBC increased its lending to those major projects and enterprises which were in accordance with the government's industrial policies and market focuses, including coal, power, oil and petrochemical, transportation, water supply etc. In doing so, ICBC successfully helped reduce the bottlenecks on national economic growth. The Bank accomplished an overall adequate growth in its credit business on top of a detailed credit portfolio structural optimization.

During the year, the Bank continued to explore new businesses and products catering for customer demands in order to provide quality financial services to corporate customers, taking advantage of coordinated marketing initiatives, unified local and foreign currency services, nation-wide customer relationship basis and strong service network. ICBC accomplished breakthrough in its marketing and sales to key industry sectors, which directly assisted the improvement of the Bank's customer profile and loan portfolio structure. ICBC established an "exchange visits" mechanism with the senior management of multinational enterprises, and signed "Bank-Enterprise Comprehensive Cooperation Agreements" with several multinational enterprises. The Bank further improved its services to small enterprises with emphasis on exploring credit policies, credit scoring and credit line granting processes which were tailored to the business features of these enterprises. This was implemented on a pilot basis in nearly 100 cities where private sector had been growing rapidly.

• Corporate Deposits and Loans

At the end of 2004, the balance of corporate deposits was RMB 2,196.2 billion, 43.4% of all deposits and up by RMB 209.3 billion or 10.5% over the previous year. Specifically, short-term corporate deposits amounted to RMB 2,162.6 billion, up by RMB 205.4 billion, taking up 98% of the total increase in the amount of corporate deposits. The balance of corporate loans was RMB 3,221.3 billion, up by RMB 235.9 billion, accounting for 75.5% of the total increase in loans.

STRUCTURE OF CORPORATE LOANS BALANCES



The increase in corporate loans was mainly concentrated on project loans and bills finance, which added up to RMB 327.2 billion. The balance for syndicated loans was RMB 97.4 billion, up by RMB 27.1 billion or 38.5% over the previous year. In 2004, adapting to companie's increasing demands for working capital loans through bills financing, the Bank promoted the standardized development of bills financing business and continuously launched new short-term financing products customized for logistics and trading businesses and increased the level of working capital revolving loans and domestic factoring business with good-quality enterprises. It also selectively introduced international trade finance products into the domestic market.

• Institutional Banking

Insurance agency business continued its rapid growth in 2004. During the year, the total amount of agency insurance policy sales, premium collections and claims settlement payments handled by ICBC reached RMB 74.8 billion, and the Bank yielded an income of RMB 745 million in banc-assurance business and maintained the top position amongst its peers with a 30% market share in the banc-assurance market. In 2004, ICBC first launched its "Bank-Insurance Link" system allowing insurance policies to be issued at ICBC business outlets directly. Cooperation with securities and futures companies advanced steadily with this business providing centralized asset management, financing, "Bank-Securities Link", guarantees for bond issuance, funds clearance etc. ICBC has established a formal correspondent relationship with thirty-three domestic banks including eight new domestic banks, which helped to further extend the cooperation with its peers. The state's treasury funds agency payment and clearing services kept on growing. ICBC provided direct payment and authorized payment agency services for a large number of central governmental organizations. The "Bank-Customs Express Pass" business experienced a rapid growth and the transaction volume hit RMB 1.06 billion, with 919 customers having signed agreements with ICBC. The Bank's cooperation with tax authorities also made a breakthrough as it became the exclusive agent bank for the state's vehicle purchase tax funds.

• Intermediary Business

While solidifying its competitive advantage in business areas such as local currency settlement, international settlement and agency business, ICBC has made additional efforts in exploring the emerging intermediary businesses such as cash management, investment banking, asset custody and different kinds of wealth management services, which all have a high growth potential, use advanced technology and add value to the Bank.

Payment and Settlement

The total amount of RMB settlements for 2004 reached RMB 150 trillion, RMB 30 trillion more than the previous year with a market share of 45%, ranking No.1 among its peers. The total income yielded from the settlement business for the year was RMB 1.18 billion. The Bank handled 5.24 million payments and settlement transactions for 11,960 financial institutions, amounting to RMB 1.4 trillion and yielding an income of RMB 90 million for ICBC.

Cash Management

As a product line with multiple services including collection and payment, account management, investment and financing, the cash management business has been utilized by a wide range of customers in different industries and with different ownership structures. By the end of 2004, ICBC had signed agreements with more than 3,700 customers, whose 19,600 upstream/downstream or affiliated companies had benefited from ICBC's cash management services. The cash management business has now entered a phase of rapid growth.

Agency and trust service

The agency and trust service continued to grow steadily in 2004. During the year, the Bank provided agency service to the State Development Bank in monitoring loans and in settling transactions totaling RMB 9.42 billion and RMB 14 billion respectively. For China Export & Import Bank, ICBC handled RMB 1.91 billion of export seller's credit and other settlement funds of RMB 11.5 billion. As an agent, the Bank also made payment of RMB 1.83 billion for "compensation to migrants for the Three Gorges Project". In addition, during 2004 ICBC extended RMB 46.57 billion of trust loans as the agent bank for a number of large group company customers and multinational corporations, and earned RMB 75.01 million in commission, up by 57.32% and 12.28% respectively compared to the previous year.

Bullion Trading

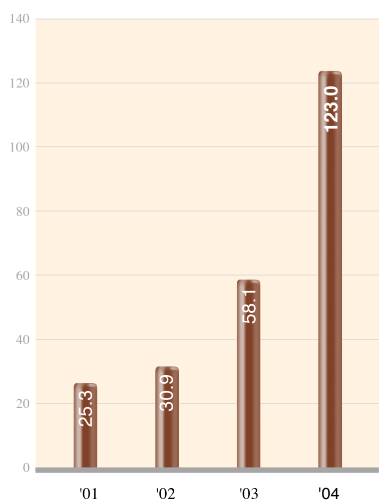
During the year, ICBC provided funds clearing agency services for 81 out of a total of 128 members of the Shanghai Gold Exchange, settling amounts totaling RMB 40 billion, and ranked top in terms of funds clearing volume for the Gold Exchange. Meanwhile, it also provided bullion trading and platinum trading agency services for 118 non-member entities. The total volume of trading amounted to 33.6 tons of gold and 2.9 tons of platinum, both positioned as the largest agent transaction volume for the Gold Exchange.

Custodial Business

ICBC strengthened its leading position in the securities investment fund custodial business. It became the custodian of the first Listed Open-end Fund ("LOF") and Exchange Traded Fund ("ETF") in China and established the most diversified securities investment fund product lines amongst all the custodian banks. Custodial services for entrusted assets focused on pension assets and insurance assets. ICBC signed asset custody agreements with a couple of insurance companies such as Huatai Property Insurance Company, and signed annuity business cooperation agreements with South China Power Grid Corporation and other companies. An enterprise annuity business center has been established at the Head Office, specializing in offering annuity trust consulting services and account management services for customers. The Bank also enhanced its QFII custodial service. Credit Suisse First Boston Ltd. and Daiwa Securities have

CUSTODIAL ASSETS SIZE GROWTH

Unit: RMB billion



consolidated QFII custodial relations with the Bank and have actively started domestic securities investment. ICBC also became the QFII custodian for Dresdner Bank.

At the end of 2004, total assets under the custody of ICBC amounted to RMB 123 billion, yielding a total income of RMB 181 million in custody fees, up by 103.4% over the previous year. In total, there were forty securities investment funds under custody with total fund assets amounting to RMB 112.8 billion, up by 34.8% in market share. Both the number of funds and the size of assets under custody remained the top amongst all domestic custodial banks for seven successive years, over which time the Bank's leading position has been further solidified.

Investment Banking

Income from investment banking business reached RMB 1.24 billion for 2004, up by 55% over the prior year, representing 10% of the total intermediary business income. The Bank has preliminarily formed a diversified investment banking product range composed of enterprise asset management consulting and credit rating services, M&A and restructuring advisory services, structured finance, syndicated loans, loan transfer and asset securitization businesses, as well as IPO, bond issuance advisory and asset management services. In 2004, the Bank offered restructuring advisory services for some famous companies such as the Triangle Group and worked as the lead arranger in some large-scale syndicated loan projects such as the Shanghai SVA-NEC Liquid Crystal Display project, responsible for the structuring of the loan and financing arrangements. The Bank also cooperated with Credit Suisse First Boston and other institutions to successfully complete the pilot project of NPL securitization in its Ningbo Branch. Being one of the firsts in China, ICBC launched and completed over RMB 30 billion of loan transfer business, which pioneered a new way for commercial banks to manage their asset liquidity. In general, investment banking business has played an important role in winning good-quality customers, disposing of NPAs and promoting the growth of deposits, loans and intermediary businesses.

RETAIL BUSINESS

• Personal Banking

Faced with the fierce market competition and the increasingly diversified customer needs, ICBC adhered to the principles of being customer-centered and market-oriented with appropriate risk management and focused on quality customers. The Bank strengthened its customer service team and achieved a rapid growth in various personal banking product lines. These factors together have led to an enhanced competitiveness for the Bank in the personal banking business market.

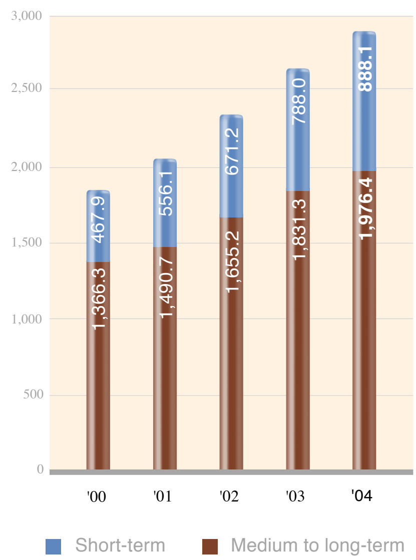
Savings Deposits

ICBC successfully competed with peers for quality customers, actively developed all types of personal wealth management products and strengthened the promotion of foreign exchange transactions, structured savings deposits and callable wealth management products. ICBC's savings deposits maintained a steady growth so that at the end of 2004, total savings deposits of the Bank amounted to RMB 2,864.5 billion, up by

RMB 245.2 billion or 9.4%, but 3.2 percentage points less than the growth rate of the previous year. Total savings deposits in RMB amounted to RMB 2,702.7 billion representing a market share of 22.3%, once again maintaining the leading position amongst its peers. Savings deposits in foreign currency amounted to USD 19.5 billion.

SAVINGS DEPOSITS GROWTH

Unit: RMB billion



Consumer Credit

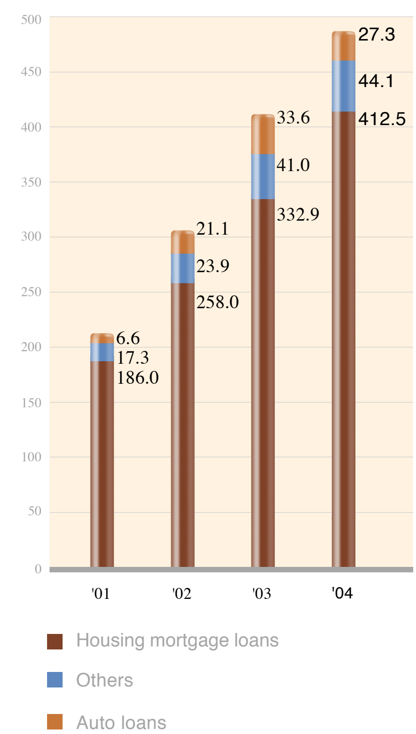
At the end of 2004, ICBC's consumer credit customers reached a total of 3,970,000 with the outstanding loans amounting to RMB 483.9 billion, up by RMB 76.4 billion or 18.7% over the prior year. The percentage of consumer loans as a proportion of total loans is constantly rising. Consumer credit accounted for 24.5% of the total newly granted loans in 2004, which played an important role in the credit portfolio structure diversification of the Bank.

Housing mortgage loans continued to rise steadily and the "Sweet Home" brand name of housing mortgage products has built a favorable image among customers. Total housing mortgage loans granted during 2004 amounted to RMB 170.8 billion, and the balance as at the year end amounted to RMB 412.5 billion, up by RMB 79.6 billion. ICBC's housing mortgage loan balance as at the end of 2004 and the increase in the amount during the year accounted for 25.8% of the total housing mortgage loan balance and 19.6% of the increase for all the financial institutions in China in 2004. ICBC remained as the largest mortgage bank in the country.

Affected by more stringent credit approval criteria and a relatively weak consumer market, the growth of other consumer credit products slowed down. At the end of the year, the balance of auto loans was RMB 27.3 billion, down by RMB 6.3 billion while the balance of other consumer loans was RMB 44.1 billion, up by RMB 3.1 billion over the previous year.

PERSONAL CONSUMER LOANS

Unit: RMB billion



Personal Intermediary Business

Focusing on personal wealth management services and constantly enriching the product range, ICBC achieved rapid growth in its personal intermediary business. During the year, total income from personal intermediary business was RMB 3.96 billion, up by 33.6% and accounting for 32.2% of total intermediary business income, 3.9 percentage points higher than that of 2003, indicating that this area has the potential to deliver strong future growth. The main sources of income included personal settlements, personal insurance agency services, Moneylink bank cards, securities agency services, collection and payment agency services, and personal foreign exchange and wealth management services.

Personal Wealth Management

Promotion of "Elite Club" accounts has produced noticeable effects. Personal wealth management service teams composed of customer managers and wealth management specialists have been established, and in cooperation with external fund management firms and securities companies they have organized a series of wealth management workshop discussions. ICBC has provided professional wealth management services to a large number of quality customers and enhanced the attractiveness of the Bank to quality customers in the personal wealth management services area as proved by the fast increase in the numbers of "Elite Club" accounts. At the end of 2004, the total number of "Elite Club" customers reached over 1,240,000, increasing by 730,000 as compared to the previous year.

The scope of personal foreign exchange wealth management products continued to expand including US dollar, EURO and HK dollar denominated products. Products offered include fixed interest, interest step-up, daily range accrual and other products linked to foreign currency interest rate, principal-protected products linked to foreign exchange rates, dual-currency deposit product as well as combinations of the above products. During the year, the Bank earned a total income of RMB 213 million from personal foreign exchange and wealth management business, up by 18.05% as compared to the previous year.

Agency Business

Income from the securities agency business increased significantly. During 2004, total income reached RMB 790 million, up by 44.5% over the prior year. The total amount of treasury bonds sold amounted to RMB 81.1 billion, 33.7% of the market, and the total amount of insurance premiums sold amounted to RMB 24.4 billion. As an agency bank, ICBC also issued fifteen open-end funds, representing 27.3% of all the new funds issued during the year and the total fund issuance amounted to nearly RMB 30 billion with a 33.1% market share, and ranked first amongst all the agency banks. In the collection and payment agency business, following the principle of profit maximization, the Bank exited from certain low-profit businesses and hence business income went up steadily. During the year, the total income from collection and payment agency business amounted to RMB 449 million, up by 21.2% as compared to the previous year.

• Bank Card Business

The bank card business continued its healthy and rapid development. By the end of 2004, the total of bank cards issued reached 111.38 million, up by 16.1% over the prior year. Bank card transaction volume rose quickly with the accumulated customer spend during the year reaching RMB 158.6 billion, up by 63%. At the same time, risk management was further enhanced with the non-performing overdraft ratio standing at 3%. The fee structure and profitability of the business was further optimized and total revenue from the bank card business reached RMB 3.06 billion, up by RMB 530 million or 21%.

Meanwhile, the Bank strengthened its cooperation with airline companies to issue Peony- Shanghai Airlines co-branded cards and Peony-Hainan Airlines co-branded cards. In response to the demand for high quality and highly efficient services for high end customers, the Bank issued the first Master Peony Platinum Card in China in order to offer a set of VIP services to those cardholders. The Peony Express Card, in cooperation with the American Express Corp., was formally launched in December 2004. The Bank also introduced the "VISA verification" service in cooperation with VISA International for on-line shopping security assurance, which supports the security verification amongst merchants, issuers and cardholders and allows the cardholders to do secure on-line shopping on all business websites carrying the "VISA verification" service mark around the world.

KEY MEASURES FOR THE BANK CARD BUSINESS

Item	Year 2004	Year 2003	Growth in number	Growth %
Total number of Peony Cards issued (in ten thousand)	**11,138**	**9,595**	**1,543**	**16.1**
Debit cards	10,513	8,974	1,539	17.1
Credit cards	625	621	4	0.6
Peony Card total spending volume (RMB billion)	**158.6**	**97.3**	**61.3**	**63.0**
Debit cards	104.8	63.4	41.4	65.3
Credit cards	53.8	33.9	19.9	58.7
International card in-bound acquiring (RMB billion)	**5.2**	**3.5**	**1.7**	**48.6**

TREASURY BUSINESS

During the year, ICBC strengthened the management of funds allocation, decreased excess reserves with the central bank, improved the efficiency of funds usage and took full advantage of available financial instruments in the money market, bills market and bond market, through multiple channels to further support the treasury business. The Bank moved forward in different aspects of the money markets, maintained a reliable funding operation and improved the efficiency of the treasury operations. Following the principle of "aggregating total funds, centralizing funds allocation, and differentiating pricing by business lines", the Bank carried out a restructuring of the funding management process, adopted an internal funds transfer pricing mechanism, and improved the efficiency of central risk management.

• Bond and Placement Business

In 2004, the Bank raised RMB 1,466.1 billion through the money market. Of the total, the out-flow of funds amounted to RMB 1,346.5 billion through placement, repurchase of bonds and credit assets, and the in-flows of funds amounted to RMB 119.6 billion, leading to interest income of RMB 910 million. The central bank related instruments underwriting and transaction volumes reached RMB 347.7 billion, up 53% over the previous year, and earned RMB 2.19 billion in investment income. Total transaction volumes of current bonds was RMB 262.7 billion and the income earned was RMB 280 million.

• Bills Business

Although facing difficult market conditions including increasingly intense market competition, the Bank still advanced in this area and achieved steady growth on the basis of centralized operation and strict risk management. Total volume of bills financed by the Bank amounted to RMB 780.5 billion in 2004, of which bills discounting reached RMB 379.2 billion, up by 14.7% and purchase of re-discounted bills reached RMB 383.9 billion, up by 49.6% over the previous year. The total outstanding of bills financed as at the year end was RMB 312.3 billion, RMB 154.7 billion more than that of the prior year, and the market share rose from 16.92% in 2003 to 27.22%.

• Bond Investments

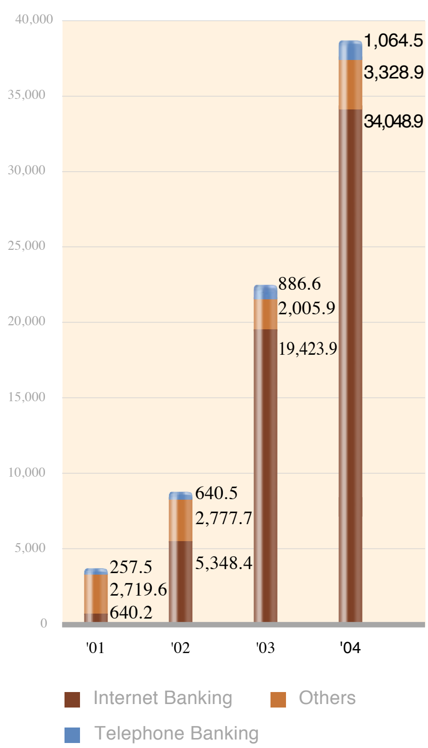
At the end of 2004, the balance of bond investments stood at RMB 1,235.4 billion, accounting for 21.8% of the total assets, an increase of 143.6 billion over the previous year. To reduce interest rate risks and to improve the matching of the term structures of the assets and liabilities of the Bank, new bond investments in 2004 mainly composed of medium and short term bonds, and in addition to the original investment types of treasury bond and policy bank financial bonds, new types of bonds such as subordinated bonds were included in the investment portfolio. Bond investments played a critical role in improving the asset portfolio structure, lowering overall risk levels and enhancing the return on assets.

E-BANKING BUSINESS

The E-banking business of ICBC continued its rapid growth with accelerated product innovation driven by a "customer-centric" philosophy and increased efforts in marketing and promotion. E-banking transaction volume reached RMB 38.4 trillion, up by 72.3% over the prior year, of which internet banking transactions reached RMB 34.0 trillion, up by 75.3%, and telephone banking transaction volume amounted to RMB 1.06 trillion, up by 20.1% over the prior year. Total revenue earned amounted to RMB 235 million, up by 106% as compared to the previous year. The website hit rate reached 215 million times, 3.6 times that of the previous year. Online payment transaction volume reached RMB 5.7 billion, 2.85 times of that of the prior year, making ICBC the biggest E-commerce online payment service provider in China. The Bank was awarded "Best Consumer Internet Bank in China" by *Global Finance* of the U.S. for the second time in a row.

E-BANKING TRANSACTION VOLUME GROWTH

Unit: RMB billion



ICBC maintained its position as the leading product innovator amongst the Chinese banks. In 2004, the Bank launched a generic-version of its corporate internet banking service tailored to small and medium-sized enterprises, and introduced multiple new services including group company multi-tier fund aggregation, on-line letters of credit, foreign exchange remittances, call deposits and transfers between the Bank and some futures company accounts. The Bank further optimized the internet banking system structure with emphasis on customization and user-friendliness of the services. It successfully completed the business integration of the websites of five branches with the Head Office's and further strengthened the degree of centralization of the internet banking operations and management to allow better economies of scale. The Bank was the first among its peers to realize nationwide roaming for tele-banking in multiple locations, and the interactive roaming between Hong Kong and the Mainland, which has made possible the development of a new unified call center with multiple access modes, diversified transaction functions and strong dial-out processing capabilities. The Bank also successfully launched a mobile phone banking system based on the short message model and offered 24-hour professional service and management of the online BBS.

INTERNATIONAL BUSINESS

At the end of 2004, ICBC's total assets denominated in foreign currencies reached USD 49.5 billion, up by USD 300 million over the previous year. Total pre-tax profits of the international business of the Bank reached USD 382 million, of which USD 235 million was from domestic branches and USD 147 million was from overseas branches. The international intermediary business recorded an income of RMB 2.48 billion from the domestic market, up by 45%. The balance of non-performing foreign-currency denominated loans measured by the five-category classification standard decreased by USD 410 million and the NPL ratio dropped to 10.93%.

• Foreign Currency Deposits and Loans

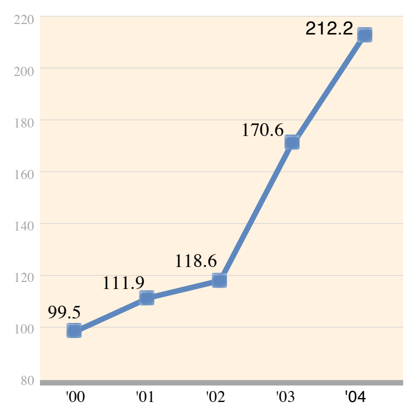
The year-end balance of foreign currency deposits totaled USD 30.9 billion, with USD 23.1 billion received from the domestic market and USD 7.8 billion from overseas operations. The year-end balance of foreign currency loans totaled USD 28.4 billion, of which USD 16.7 billion was lent to the domestic market, up by USD 700 million over the prior year and USD 11.7 billion was lent to overseas markets. The outstanding balances of foreign currency deposits and loans ranked as the second highest amongst its peers in the country.

• International Settlements

The market share of the Bank's international settlements business was further consolidated. Total international settlements business volume reached USD 212.2 billion during the year, up by USD 41.6 billion or 24.4%. Of the total, USD 177.5 billion was executed by domestic branches and USD 34.7 billion was handled by overseas branches, up 29.7% and 2.9% respectively. Of the domestic settlements, trade related settlements amounted to USD 136.3 billion while non-trade related settlements amounted to USD 23.6 billion. Settlement made relating to capital items amounted to USD 17.6 billion.

INTERNATIONAL SETTLEMENT GROWTH

Unit: USD billion



• Foreign Exchange Trading for Customers

The volume of foreign exchange trading for customers totaled USD 148.9 billion, up USD 30.8 billion or 26%. Foreign exchange purchases and sales reached USD 95.5 billion, up 30%; foreign exchange trading for customers reached USD 44.9 billion, up 19%, of which personal foreign exchange trading amounted to USD 33.4 billion, up 12%, and foreign exchange wealth management and risk management for customers'accounts totaled USD 8.4 billion, up 18%.

• Overseas Share Holding Institutions

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

ICBC (Asia) is a Hong Kong listed bank controlled by ICBC. At the end of 2004, the total assets of ICBC (Asia) amounted to HKD 99.3 billion, up 32% over the previous year. In 2004, the net profit of ICBC (Asia) was HKD 760 million, up 46%. Basic earnings per share reached HKD 0.80 and if the effects of an allotment of 9.9% of shares to the Fortis Group during the year were excluded, it represented a 13% growth over the previous year. The average return on equity to the common shares and the average return on assets were 10.3% and 0.9% respectively. The capital adequacy ratio was 17.4% and the NPL ratio was 1.3%.

After the acquisition of Fortis Bank Asia HK, ICBC (Asia) strengthened its competitiveness in the retail business segment with its retail network expanding from twenty outlets to forty-two outlets and with five additional medium and small-sized enterprise business centers acquired. Its retail customers increased sharply from 40,000 to 120,000, and its ranking by total assets amongst the listed banks in Hong Kong jumped to No. 6 from No. 10.

In 2004, ICBC (Asia) was given an A2 rating by Moody's and issued for the first time, USD 400 million of 5-year guaranteed bonds in international capital markets in September. As its long-term growth and business operational strategies have been widely accepted by the market, the bonds received an avalanche of subscriptions and were five times oversubscribed. This bond issuance not only expanded the financing channels of ICBC (Asia) and supported its future business growth, but also laid a solid foundation for its future financing in the capital markets.

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

In 1998, the Bank jointly with Bank of East Asia in Hong Kong, established ICEA with ICBC holding a 75% share of the entity through acquisition of National Westminster Securities' securities business in Asia. ICEA now offers a wide array of services covering main board listings, GEM board listings, share placings and mergers and acquisitions. ICEA had made breakthrough progress in major business lines including debt finance, equity finance and securities trading. In 2004, ICEA achieved good progress in developing its secondary market business and recorded excellent financial performance with a profit of HKD 78.76 million, up 26% as compared to the previous year.

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

ICIC is a wholly owned subsidiary of ICBC in Hong Kong. At the end of 2004, the total assets of ICIC amounted to USD 170 million, down by 20 million over the previous year and its NPL ratio was 1.97%, down by 6.53 percentage points, which indicates that the asset quality of ICIC is comparable to that of the leading banks in Hong Kong. Affected by the shrinkage of credit assets and the narrowing of interest spread, the pre-tax profit of ICIC was USD 1.45 million in 2004, down by USD 0.51 million or 26% compared to the previous year.

Industrial and Commercial Bank of China, London Limited ("ICBC (London)")

Founded in September 2003, ICBC (London) is a wholly owned subsidiary bank of ICBC. At the end of 2004, its total assets amounted to USD 270 million, up by 170.6% over the previous year. In 2004, it recorded a loss of USD 430,000, USD 1.15 million less than that of the prior year. During the year, ICBC (London) continued to improve its corporate governance framework and its internal control systems were affirmed by the British supervisory bodies. Actively exploring the local market, devoting great efforts to developing intermediary business, and continuously launching innovative products into the market, ICBC (London) realized a substantial increase in its trade finance business and improved its profitability.

Industrial and Commercial Bank of China (Almaty) ("ICBC (Almaty)")

ICBC (Almaty) is a wholly owned subsidiary bank of ICBC in Kazakhstan. At the end of 2004, its total assets amounted to USD 24.03 million, up USD 10.74 million or 80.8% over the previous year. The rapid growth was due to an increase of USD 9.66 million in the year-end balance of deposits as compared to the previous year. The increase in deposits was mainly used for inter-bank deposits, placements and bond investments. Affected by a decrease in foreign currency conversion related earnings, the pre-tax profit for 2004 amounted to USD 130,000, down by USD 680,000 as compared to the prior year.

In general, ICBC has implemented its international operational strategy in accordance with the principle of "expansion in Asia, consolidation in Europe and making breakthroughs in America", and continued utilizing multiple methods including opening new operations, acquisition and integration to expand its overseas operations. In 2005, the Bank will aim to establish branches in Indonesia and Russia, and to consolidate its operations in Europe.

IT Projects

SAFE OPERATION OF THE IT SYSTEMS

The Bank further strengthened its integrated operation platform and its technological capabilities were seen as comparable to that of leading large international banks. Adapting to the new conditions after the nationwide consolidation of data centers, the Bank further refined its operation management processes, perfected its business contingency planning and ensured the reliability of the operations of the IT systems across the entire bank. During the year, the average usability rate of the data center information systems was 99.82%, and the average daily transactions processed reached 34,760,000, with the daily peak number over 50,000,000, which provided strong support to the normal operations of more than 20,000 business outlets, over 17,000 ATMs and 116,000 POS machines bankwide.

DATA CENTER CONSOLIDATION PROJECT

The “data center consolidation project” has successfully completed the physical moving of the data center’s mainframe, and achieved consolidating the operation and management of the Bank’s information systems into one data center. ICBC was the first among its peers to implement the moving of a super-large sized database. At the same time, the Bank carried out redesign of the disaster back-up of its systems, which will ensure the continuity of all business operations. The consolidation of the data centers provides the Bank with a better-quality, more efficient IT platform.

MULTI-FUNCTION BANKING SYSTEM (NOVA)

NOVA, the Bank’s multi-function banking system, was fully installed, with versions 1.1 through 1.4 all placed smoothly into the operating environment. Accordingly, the system’s functionality became more and more diversified and the quality of the software products was significantly improved. The NOVA system supports innovation and development of all types of banking businesses. The development of projects such as the accounting system redesign, personal banking processes reengineering, bank card business centralization, inter-bank payments, international settlements and foreign exchange accounts clearing brought the business processes to a new level of development. The introduction of performance value management, financial reverting and apportioning system, comprehensive bills management and parameter management systems also effectively promoted the reform of the Bank’s operation and management.

COMPLETION OF KEY IT PROJECTS

The Bank’s general control center service platform was launched and implementation of a storage management project was successfully completed. A centralized monitoring project was introduced bankwide and the unification and integration went smoothly. All of the above has remarkably enhanced the automatic supervision of the Bank’s operations. Improvement of the bank-wide backbone network and the tier-one branches’web address alteration made the Bank’s internet infrastructure safer and faster. The upgrading of overseas branches’ centralized application system made steady progress and ICBC (Asia)’s core business processing system went into operation at the overseas data center, which also offered more functionality.

Awards Achieved in 2004

THE BANKER, named ICBC “Bank of the year 2004 China”

EUROMONEY, named ICBC “Best Bank in China”

GLOBAL FINANCE, named ICBC “Best Consumer Internet Bank in China”

ASIA MONEY, named ICBC“Best Domestic Commercial Bank in China” and “Best Custodian Bank in China”

FINANCE ASIA, named ICBC “Best Local Bank in China”

THE ASIAN BANKER, named ICBC “Best Retail Bank in China”

EMERGING MARKETS, named ICBC “Best Trade Finance Bank in Asia” and “Best Project Finance Bank in Asia”.

ECONOMIC OBSERVER, named ICBC “The Most Respectable Corporation of China”, and “Excellence in Marketing for ‘Elite Accounts’ ”

Financial Review

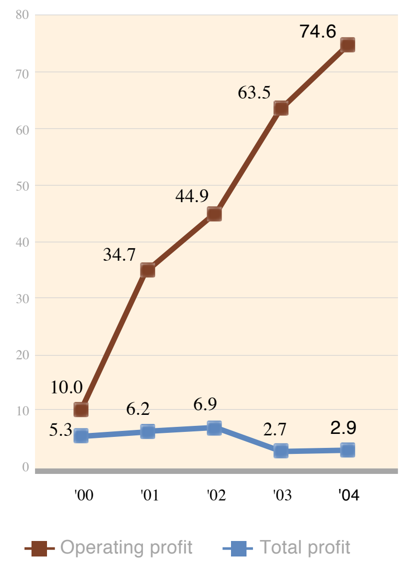
REVIEW OF INCOME STATEMENT ITEMS

• Profit

During 2004, ICBC Group achieved an operating profit of RMB 74,608 million, up RMB 11,064 million or 17.41% over 2003. The total profit was RMB 2,927 million, RMB 269 million more than 2003. All domestic tier-one branches were profitable while the overseas operations earned USD 170 million in operating profit. The income structure was further diversified. Total operating income for the year amounted to RMB 126.69 billion, up 17.84% over the prior year, with net interest income reaching RMB 113,149 million and other operating income reaching RMB 13,541 million, up 14.82% and 50.94% respectively. In 2004, the Bank further increased its levels of loan provisioning, which was RMB 15.87 billion more than 2003. The Average Return on Assets and Average Return on Equity were both improved gradually. The ratio between operating profit and total assets and that between operating profit and owners'equity went up by 0.10 percentage points and 8.29 percentage points respectively, compared to the previous year.

GROUP PROFIT GROWTH

Unit: RMB billion



RETURN ON ASSET AND RETURN ON OWNER's EQUITY

Unit: %

Item	Year 2004	Year 2003	Increase in percentage points
Operating profit/total assets	1.36	1.26	0.10
Operating profit/owners'equity	44.74	36.45	8.29

Note: Average of the beginning-of-the-period amount and end-of-the-period amount of total assets and owners's equity was used in the above calculation.

• Operating Income

Net Interest Income

Total interest income in 2004 was RMB 180,506 million, RMB 17,667 million more than that of 2003, up by 10.85%. Of the total, interest income on loans and amounts due from banks and other financial institutions both increased over 10%. In terms of the interest income structure, interest income on loans still accounted for a dominant share at 76.96%, up 0.21 percentage points, while interest income from bond investments accounted for 14.90%, down by 0.22 percentage points as compared to 2003. Interest income on amounts due from banks and other financial institutions accounted for 8.14% of the total interest income.

Total interest expense amounted to RMB 67,357 million, up by RMB 3,060 million or 4.76% over the prior year. Interest expense on customer deposits was RMB 62,529 million, up 7.84%. Due to the adequate sources of fund and flexible funding allocation, interest expense on amounts due to banks and other financial institutions reduced by RMB 1,486 million, or 23.54% to a total of RMB 4,828 million.

The growth of net interest income benefited from the steady improvement in the quality of new loans, the better term structure management of deposits and loans as well as the increased efforts in funds allocation. In 2004, the return on interest-bearing assets rose by 0.09 percentage points as interest spread between the effective interest rates of the interest-bearing assets and the interest-paying liabilities widened by 0.09 percentage points.

NET INTEREST INCOME

Unit: RMB million

Item	Year 2004	Year 2003	Increase	% of Increase
Interest income on loans	138,909	124,976	13,933	11.15
Interest income on amounts due from banks and financial institutions	14,698	13,235	1,463	11.05
Interest income on bond investments	26,899	24,628	2,271	9.22
Total interest income	**180,506**	**162,839**	**17,667**	**10.85**
Interest expense on customer deposits	62,529	57,983	4,546	7.84
Interest expense on amounts due to banks and financial institutions	4,828	6,314	-1,486	-23.54
Total interest expense	**67,357**	**64,297**	**3,060**	**4.76**
Net interest income	**113,149**	**98,542**	**14,607**	**14.82**

INTEREST SPREAD ANALYSIS

Unit: %

Item	Year 2004	Year 2003	Increase in percentage points
Average interest rate of the interest-bearing assets	3.43	3.41	0.02
Average interest rate of the interest-paying liabilities	1.31	1.38	-0.07
Average spread	2.12	2.03	0.09
Net interest margin	2.15	2.06	0.09

Note: Interest-bearing assets include due from the central bank, due from and placement with banks and other financial institutions, loans and investments (except equity investment). Interest-paying liabilities include customer deposits, due to and placements from banks and other financial institutions, borrowings and bonds issued.

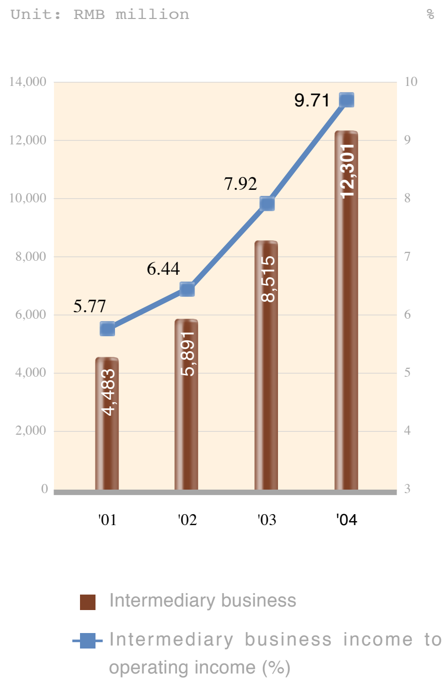
Other Operating Income

During 2004, ICBC realized other operating income of RMB 13,541 million, up by RMB 4.57 billion or 50.94% as compared to 2003. Of the total, intermediary business income reached RMB 12,301 million and other income reached RMB 1.24 billion, up by RMB 3,786 million and RMB 784 million over the prior year respectively. Other operating income accounted for 10.69% of the total operating income, as compared to 8.34% in 2003. Sources of income were gradually extended from the traditional source of loans to other non-credit products.

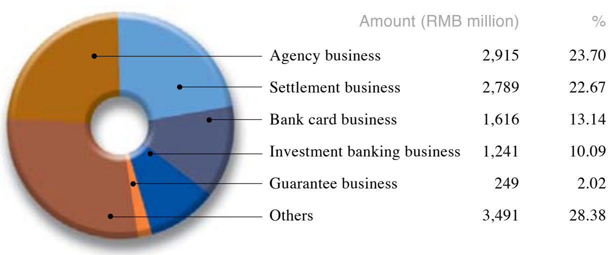
Intermediary Business Income

Intermediary business carries the characteristics of having a low risk profile and zero capital costs and has been viewed as a key focus for the Bank's business development during recent years. In 2004, intermediary business income amounted to RMB 12,301 million, up by RMB 3,786 million or 44.46% over the previous year with income from settlements, agency business, bank cards and investment banking business composing the majority. Income from custodial service, E-banking, bank cards and investment banking business experienced the most rapid growth. In general, the traditional businesses continued to grow steadily while emerging businesses recorded stronger growth.

INTERMEDIARY BUSINESS INCOME GROWTH



STRUCTURE OF INTERMEDIARY BUSINESS INCOME



• Total Operating Expenses

OPERATING EXPENSES

Unit: RMB million

Item	Year 2004	Year 2003	Increase	% of Increase
Staff expenses	24,209	22,124	2,085	9.42
Business expenses	21,014	20,523	491	2.39
Depreciation charges	7,956	7,567	389	5.14
Total	**53,179**	**50,214**	**2,965**	**5.90**

The operating expenses for 2004 amounted to RMB 53,179 million, RMB 2,965 million more than for 2003 or up 5.9%. Of that amount, staff expenses reached RMB 24,209 million, up by RMB 2,085 million and accounted for 45.52% of the operating expenses, up by 1.46 percentage points over the prior year. In 2004, according to relevant policies of the state, the Bank further standardized its expenses for social security including the employee basic pension insurance and medical insurance, and enlarged the applicable scope of annuities. It also adjusted the accounting and management for staff welfare expenses including housing fund and housing allowance. In addition, ICBC increased efforts in implementing performance evaluation and rewarding mechanism following the principle of linking compensation to the performance of staff. Due to the above reasons, staff expenses increased over the previous year.

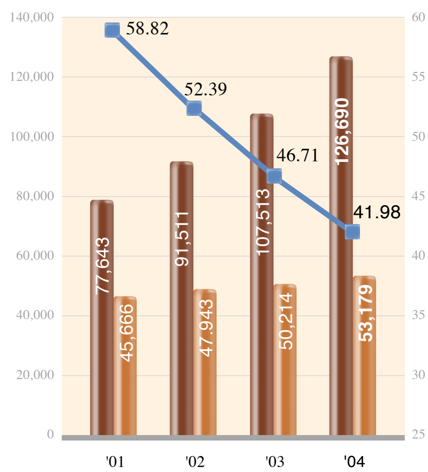
Owing to effective cost control measures, the cost/income ratio dropped significantly to 41.98% for 2004, 4.73 percentage points lower than that of the prior year.

Provisions

ICBC made extra efforts to strengthen its loan provisioning and the charge-offs of loan losses. Loan provisioning amounted to RMB 50,173 million, and accounted for 67.25% of operating profit, RMB 15,870 million more than 2003. In addition, the charge-off of loan losses amounted to RMB 50,534 million, RMB 23,848 million more than the previous year. The year-end balance of reserves for loan losses reached RMB 21,191 million.

COST TO INCOME RATIO TREND

Unit: RMB million %

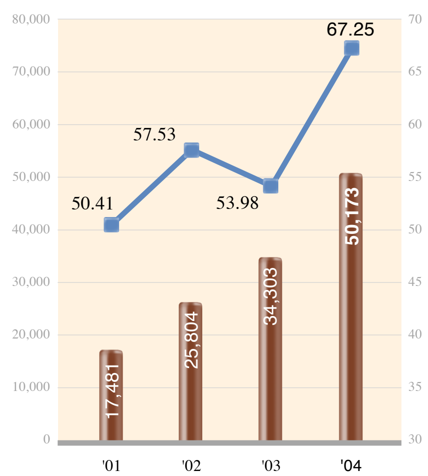


• Non-operating Items

The non-operating expenses amounted to RMB 15,025 million, down by RMB 572 million over 2003. Charge-offs for non-credit risk assets were RMB 14.22 billion, accounting for 94.64% of total non-operating expenses. The charge-offs included amortization of losses resulted from non-business premises in accordance with relevant policies of the state, losses from the disposal of settled assets, and other miscellaneous losses. Total non-operating income in 2004 amounted to RMB 2,837 million, up RMB 312 million over the previous year.

LOAN LOSS PROVISION GROWTH

Unit: RMB million %



REVIEW OF BALANCE SHEET ITEMS

The total assets of the Group at the end of 2004 reached RMB 5,670,521 million, up by RMB 391,401 million or 7.41% over 2003. The increase was mainly due to the increase of loans and investments, up by RMB 312,337 million and RMB 82,789 million, or 9.21% and 7.06% respectively. The total liabilities balance was RMB 5,503,585 million, which was RMB 397,418 million or 7.78% higher than that of 2003. The increase was mainly due to the increase in deposits by RMB 454,516 million or 9.87%. The owner's equity balance decreased by RMB 7,518 million, with a decrease of RMB 1.98 million in paid-in capital (mainly resulting from the fact that ICBC transferred to China Huarong Asset Management Corporation its paid-in capital), an increase of RMB 119 million in capital reserve, an increase of RMB 8 million in surplus reserves and a decrease of RMB 7,643 million on retained earnings. On the basis of a realized net profit of RMB 2,311 million for the year, the decrease of retained earnings was mainly attributable to ICBC adopting relevant regulations of the Ministry of Finance in accruing a "Specific Provision for Non-Performing Assets Disposition Losses" for China Huarong Asset Management Corporation bond investment losses of RMB 7,042 million against retained earnings and to write off accrued interest of RMB 2,509 million on special government bonds against retained earnings.

KEY BALANCE SHEET ITEMS

Unit: RMB million

Item	December 31,2004	December 31,2003	Increase	% of Increase
Total assets	**5,670,521**	**5,279,120**	**391,401**	**7.41**
Including: Due from banks and placements with banks	81,802	82,997	-1,195	-1.44
Loans	3,705,274	3,392,937	312,337	9.21
Receivables	41,145	45,252	-4,107	-9.08
Investment	1,255,550	1,172,761	82,789	7.06
Total Liabilities	**5,503,585**	**5,106,167**	**397,418**	**7.78**
Including: Deposits	5,060,718	4,606,202	454,516	9.87
Due to banks and borrowing from banks	253,245	257,122	-3,877	-1.51
Minority shareholder's equity	**3,953**	**2,452**	**1,501**	**61.22**
Total owner's equity	**162,983**	**170,501**	**-7,518**	**-4.41**

• Loans

At the end of 2004, the total loan balance amounted to RMB 3,705,274 million, up by RMB 312,337 million or 9.21% when compared to the prior year. This was RMB 78,317 million less than the increase in 2003, but represented adequate growth. In terms of credit terms, medium to long term loans increased by RMB 255,216 million, accounting for 81.71% of the total increase. In terms of product types, project loans, bills financing and housing mortgage loans contributed most of the increase, the sum of the three accounting for 130.25% of the total increase. Other working capital loans and personal consumer loans (excluding housing mortgage loans) had a net decrease of 6.29% and 4.32% respectively. In terms of loan quality, the NPL balance was RMB 703,644 million, accounting for 18.99% of the total loan balance, down by RMB 17,113 million or 2.25 percentage points compared to the previous year.

• Investments

At the end of 2004, the total investment balance amounted to RMB 1,255,550 million, up by RMB 82,789 million as compared to the prior year. Of the total, bond investments accounted for 98.40% and other investments including reverse repurchase of bills and equity investments accounted for 1.60%, respectively. Bond investments were mainly composed of government bonds, financial bonds and commercial bank bonds with relatively high credit ratings; financial bonds were mainly composed of bonds and bills issued by the central bank, policy bank bonds and China Huarong Asset Management Corporation bonds. In 2004, while the increase of investments in government bonds slowed down to a certain extent, more emphasis was put on financial bonds, especially bills issued by the central bank, which made the year-end balance of financial bonds increase by RMB 164,593 million, or 26.89%.

INVESTMENT BREAK-DOWN INFORMATION

Unit: RMB million

Item	December 31,2004	December 31,2003	Increase	% of Increase
Bond investment	1,235,419	1,091,781	143,638	13.16
Government bonds	324,907	316,425	8,482	2.68
Financial bonds	776,679	612,086	164,593	26.89
Other bonds	133,833	163,270	-29,437	-18.03
Other investments	20,131	80,980	-60,849	-75.14
Total	**1,255,550**	**1,172,761**	**82,789**	**7.06**

• Deposits

At the end of 2004, the total deposit balance amounted to RMB 5,060,718 million, increasing by RMB 454,516 million or 9.87% as compared to the prior year, which was 2.46 percentage points less than the increase of 2003. In terms of term structure, the proportion of short-term deposits continued to rise with new short-term deposits accounting for 67.22% of the total new deposits and the year-end balance accounting for 60.28% of total deposits, as compared to 59.60% in 2003. In terms of customer structure, due to rise of the consumption price index and diversification of investment channels, growth of savings deposits slowed down. At the end of 2004, total savings deposits amounted to RMB 2,864,495 million, up RMB 245,242 million over the prior year, which was RMB 47,606 million less than the growth for 2003.

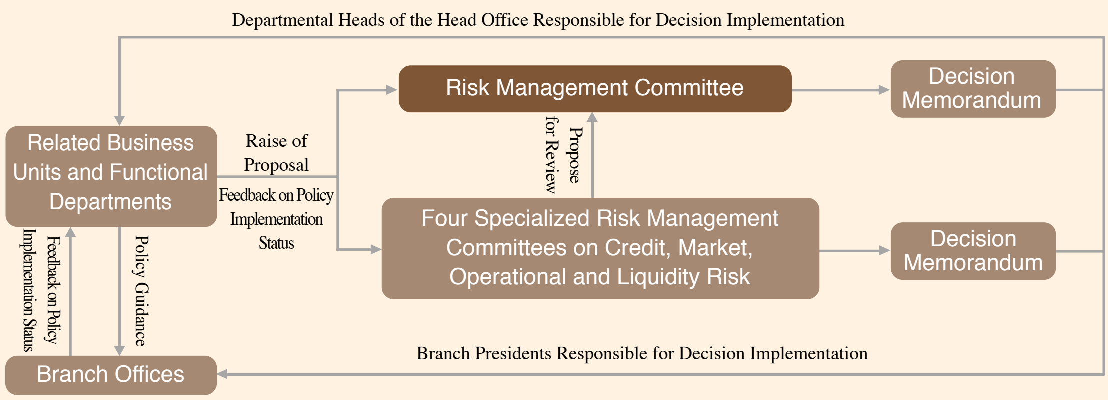
Risk Management

RISK MANAGEMENT MECHANISM

In 2004, ICBC restructured its Risk Management Committee and implemented a comprehensive risk management system covering credit risk, market risk, operational risk and liquidity risk as well as functions throughout the entire process of risk identification, measurement, monitoring, control and remediation. Besides, ICBC also perfected its accountability mechanism for risk management. The Risk Management Committee is the Bank's primary decision-making body for issues related to risk management. The Committee is collectively responsible for enacting risk management guidelines, policies, general strategies and objectives, and for research on risk management motivation, control mechanisms, performance evaluation systems, and methods of allocating economic capital to all business units. The Risk Management Committee is composed of four specialized sub-committees: Credit Risk, Market Risk, Operational Risk and Liquidity Risk Committees. All of these sub-committees adopt a voting mechanism, supplemented by debates and expert consultation mechanism.

The Risk Management Committee fully examined the Bank's credit risk, interest rate risk, liquidity risk, operational risk and off-balance sheet business risk management reports in 2004, and demanded all departments implement effective and practical risk-prevention and control measures. The Risk Management Committee has played a leading role in the Bank's risk management.

DECISION-MAKING AND IMPLEMENTATION SYSTEM STRUCTURE OF THE RISK MANAGEMENT COMMITTEE



Notes: 1. Related business units and departments make risk management proposals in accordance with risk management requirements and relevant rules. The proposals are then submitted to specialized sub-committees or the Risk Management Committee, for their review based on the different duties and responsibilities of these bodies.

2. Based on the nature of the topics, the Credit, Market, Operational and Liquidity Risk Management Committees use voting, debate and expert consultation methods, and either directly review the proposals to make decisions or submit the proposals to the Risk Management Committee for further discussion according to terms of reference.

3. Memorandums of the decisions made by the Risk Management Committee are signed by the Chairman or Vice Chairman entrusted by the Chairman, and memorandums of the decisions made by specialized sub-committees are signed by the leading committee members. These memorandums are then distributed to branches, business units and departments to implement and for them to provide feedback based on the actual execution.

4. Principle of the proposal review by the Risk Management Committee meetings is that committee members thoroughly discuss and if no-objections are raised, the proposal is treated as passed.

5. The President of ICBC has the ultimate right to veto the proposals passed by the specialized sub-committees; yet the President does not have the right to approve proposals that are not passed or rejected by the specialized sub-committees, but can demand for a re-discussion among the Risk Management Committee or specialized sub-committees. However, the President does not have the right to approve proposals that are not passed or rejected upon re-discussion.

CREDIT RISK MANAGEMENT

Risk Management of Corporate Customer

The Bank continuously improved the head office-centered systems for industry analysis, credit line management, credit approval, monitoring and inspection. It segregated the front office and back office functions in the credit business, strengthened supervision and control, and made use of the computerized comprehensive credit management system to perform real time, loan by loan monitoring. ICBC also rolled out a credit approval qualification certification system, improved responsibility identification and investigation mechanisms for new NPLs and established duty files. Both the Head Office and the branches have established post-lending supervision and inspection centers, and have strengthened the supervision and inspection on post-lending management. The Bank continued to strictly implement the rule of credit business suspension, imposing penalties such as warnings and rectifications on the business, and even suspensions of business on the branches with problems discovered upon field inspection and off-site monitoring, and strengthened the supervision and control of branches and risky customers. On the basis of improving the truthfulness and standardized management of the five-category classification system of credit related assets, the Bank introduced a new twelve-category classification system on a trial basis.

Credit Policy

ICBC adopted a cautious approach to treat its credit customers differentially, either to increase, reduce exposure or to exit. According to the state's macro-economic management requirements, the Bank strictly controlled the credit support provided to certain industries identified as "over-invested" such as steel, aluminum and cement production. The Bank issued relevant policies and rules on a timely basis, clearly requiring that no loan should be granted to the projects listed below:

- Projects that were not in compliance with the state's industrial policies and market admittance criteria;
- Projects that had not met the capital requirements of relevant regulations of the state;
- Projects that were not approved by relevant investment approval authorities for construction;
- Projects that were not approved by the environmental protection authorities and the Ministry of Land and Resources; and
- Projects that did not have production license issued by the quality inspection authorities.

At the same time, the Bank continued to provide credit support to infrastructure projects including coal, power, oil and petrochemical, transportation and water supply industries. In order to better control the direction of credit support provided and prevent industry concentration of credit risks, the Head Office formulated credit policies and guidelines for over twenty industries. In addition, based on nature of the industry risks and quality and structure of the loans, ICBC revised and perfected the existing industry credit policies to enhance the process of industry risk identification and control.

Corporate Credit Management

ICBC continued its implementation of a credit business authorization management system which combined annual basic authorizations, sub-authorizations and special authorizations for domestic branches. The Bank improved the management of sub-authorizations by adopting proportion control on sub-authorization limits based on total loan volume, quality and management level of the branch, which enabled matching of credit business authorization with the branch's operational size, quality and management level.

ICBC established a customer financial statements examination system, and strictly examined the financial information of all customers to reduce the negative impacts of false customer financial information on the Bank's credit decisions. The Bank also established a system for corporate credit, requiring the branch responsible for the examination and approval to determine the validity period of the approval during the examination and approval procedure. The branch responsible for handling the credit business could only process within that period of validity. The Bank also started a corporate customer credit approver qualification certification system on a pilot basis, requiring that all staff engaged in the credit business examination and approval work must have sufficient qualifications, so as to enhance the quality of credit approvals.

Risk Control on Real Estate Loans

In 2004, the government further strengthened the macro-economic control measures on the real estate industry, and strictly controlled land supply and imposed more stringent loan approval criteria for real estate companies. Given these circumstances, ICBC further standardized and strengthened the management of real estate development loans; strengthened real time tracking, monitoring and risk reminder mechanisms for real estate credits, to set up a risk prevention firewall; strengthened business plan management of real estate credit business and strictly controlled the total amount of, and progressing of, high-risk land based loans, commercial building loans and college student apartment loans. The Bank also actively managed a comprehensive review of credit lines granted to large real estate enterprises and selected ten large real estate companies that operated in different regions or had relatively big outstanding loan balances as customers for centralized credit line review. At the end of 2004, the NPL ratio of real estate development loans was 6.83%.

Risk Control on the Bills Business

During the year, ICBC enhanced risk management around the bills financing business and implemented a customer acceptance control system on institutions engaging in bills financing business. The Bank adopted the five-category classification standard for bills related assets, carried out audits and inspections on bills businesses across the whole bank, strengthened the standardization of the bills businesses operations and took measures to strictly control new risks in the bills market. The Bank utilized the comprehensive management system for bills business in order to establish regular off-site monitoring and to strengthen risk based early warning processes and guidance using multiple risk criteria. It also standardized the bills transfer and storage, and implemented limits for the balance of bills held as inventory by branches. Any excesses must be sold to the Bills Discounting Department of the Head Office within a prescribed time period. This helps to manage the level of risks existing in the bills related assets of the whole bank on a timely and accurate basis. As at the end of 2004, the non-performing ratio for the bills financing business was 0.02%.

Risk Control on Group and Large Exposures

In 2004, ICBC took effective policies and measures in strengthening the risk control on large loans and exposures to related companies within one group by establishing the mechanism of having designated person responsible for risk monitoring of major customers with large loan balances. The Bank utilized the credit management system to perform real time monitoring and analysis on new loans granted every day and the operational status of those enterprises. Under this system, the Head Office was responsible for tracking and controlling of borrowers with loan balances over RMB 500 million while the tier-one branches were responsible for borrowers with loan balances over RMB 100 million, with branch presidents or deputy presidents overseeing credit business responsible for the risk monitoring of those customers . The Bank adopted a centralized credit line review mechanism and a centralized management of related companies within one group, strengthened analysis of who were the real controlling shareholders of the related companies, reinforced investigation of where funds were sourced, enhanced the management of related-party guarantees and controls around cross default as a precaution against related-party transaction risks. Meanwhile, through granting syndicated loans, the Bank enlarged the scope of inter-bank information sharing and lowered the amount of portfolio loan concentration.

Risk Management of Personal Customer

The Bank carried out a thorough separation of front and back offices through processes re-construction to meet the management needs triggered by the large-scale development of consumer credit business. Operation model gradually changed from granting loans at sub-branch level to centralized approval handled by consumer credit approval centers at the second-tier branches. The Bank imposed qualification certification requirements on staff working in the consumer credit business to promote the level of professionalism. The Bank strengthened the monitoring and inspection of large-balance personal loans, multiple loans borrowed by the same borrower and key risk factors, and also firmly levied penalties such as warning, rectification and even suspension of business on branches with management deficiencies and escalating risk levels. At the end of 2004, the NPL ratio of personal consumption loans was 1.4%.

Risk Control of Housing Mortgage Loans

The Bank implemented and improved a number of guidelines relating to the housing mortgage loan business and further enhanced the standardized operation of processes and computer monitoring systems, which enabled the Head Office to perform off-site inspection on loans, collateral, payments and default status of any borrower in over 3,000 housing mortgage business outlets of the Bank. ICBC established various risk control mechanisms including strict market entrance and exit, early warning systems, rectification and suspension of business, authorization limits, credit underwriting and risk provisioning processes. It also put in place penalties including warnings, rectification and suspension of business on operations whose NPL ratio for new housing mortgage loans exceeded certain monitoring indices in order to prevent excessive risk accumulation. The Bank organized a full inspection of the housing mortgage loan business, during which files of 2,540,000 loans as of the end of April, 2004, had been checked for completeness and accuracy on a loan by loan basis to identify problems and remediate weaknesses. As of the end of 2004, the NPL ratio of the housing mortgage business was 1.2%.

Risk Control of other Personal Consumer Loans

In 2004, the Bank slowed down its pace in granting auto loans, general-purpose personal consumer loans and other personal loans. Due to the fact that robust management and risk control mechanisms had not been formed for consumer credit business, non-performing loans increased to a certain extent. At the end of 2004, the NPL ratio of personal consumer loans, housing mortgage loans excluded reached 2.55% while the NPL ratio of auto loans hit 5.28%, up by 4.36 percentage points. ICBC optimized and reengineered the business processes to address the weaknesses in risk management, and strengthened the client acceptance and underwriting controls and monitoring of any intermediaries including auto brokers and guarantee companies. It also strictly executed the warning, rectification and suspension of businesses as penalties, and remained determined to contain the risks from spreading and expanding. The Bank carried out internal audits and inspections and rectification of specific business lines to promote risk management improvement in all branches.

● Credit Risk Exposure

Distribution of Loan Balances

DISTRIBUTION OF LOAN BALANCES ACCORDING TO TERM STRUCTURE

Unit: RMB million

Item	December 31,2004		December 31,2003	
	Balance	(%)	Balance	(%)
Short-term loans	1,869,428	50.45	1,812,307	53.41
Medium to long term loans	1,835,846	49.55	1,580,630	46.59
Total loans	**3,705,274**	**100.00**	**3,392,937**	**100.00**

At the end of 2004, the total loan balance reached RMB 3,705,274 million, up by RMB 312,337 million or 9.2% as compared to the previous year, indicating a solid and sufficient growth.

By term structure, the outstanding balance of short-term loans amounted to RMB 1,869,428 million, up by 3.15%, while medium to long term loans totaled RMB 1,835,846 million, up by 16.15%. The weight of medium to long term loans in total loans rose by 2.96 percentage points as compared to last year. The major reason for the increase was that of the total new loans during the year, project loans and housing mortgage loans which had relatively longer terms accounted for a larger share than short-term loans.

DISTRIBUTION OF LOAN BALANCES ACCORDING TO INDUSTRY

By industry, loans granted to Transportation & Logistics and Energy industries and to individuals experienced a major increase, altogether contributing 74.19% of the total increment. While Manufacturing, IT, and Wholesale & Retail industries witnessed a net decline in outstanding loans.

Unit: RMB million

Item	December 31,2004		December 31,2003	
	Balance	(%)	Balance	(%)
Manufacturing	1,184,009	31.96	1,211,012	35.69
Transportation and Logistics	392,139	10.58	302,233	8.91
Wholesale & Retail	373,840	10.09	375,831	11.08
Energy	269,209	7.27	203,418	6.00
Real Estate	240,980	6.50	234,451	6.91
Service	173,643	4.69	162,897	4.80
Information Technology	106,102	2.86	109,558	3.23
Mining	93,284	2.52	78,436	2.31
Construction	85,740	2.31	75,744	2.23
Others	279,374	7.54	217,544	6.41
Overseas Lending	14,926	0.40	5,802	0.17
Loans to Individuals	492,028	13.28	416,011	12.26
Total	**3,705,274**	**100.00**	**3,392,937**	**100.00**

DISTRIBUTION OF LOAN BALANCES ACCORDING TO LOAN TYPES

Unit: RMB million

Item	December 31,2004		December 31,2003	
	Balance	(%)	Balance	(%)
Corporate loans	**3,221,326**	**86.94**	**2,985,388**	**87.99**
Working capital loans	1,987,179	53.63	1,944,871	57.32
Including: Bills financing	312,274	8.43	157,613	4.65
Project loans	1,040,862	28.09	868,338	25.59
Including: Syndicated loans	97,366	2.63	70,307	2.07
Real estate development loans	190,085	5.13	168,559	4.97
Other corporate loans	3,200	0.09	3,620	0.11
Personal consumer loans	**483,948**	**13.06**	**407,549**	**12.01**
Housing mortgage loans	412,526	11.13	332,905	9.81
Auto loans	27,323	0.74	33,645	0.99
Other personal loans	44,099	1.19	40,999	1.21
Total loans	**3,705,274**	**100.00**	**3,392,937**	**100.00**

In 2004, the credit product portfolio structure of the Bank was further refined. Working capital loans (including bills financing) increased by RMB 42,308 million and its weighting in the total loan balance dropped by 3.69 percentage points. Project loans increased by RMB 172,524 million, and were mainly granted to infrastructure construction projects such as coal, power, oil and transportation industry related projects, which supported those industries identified as bottlenecks preventing national economic growth, and in good-quality projects that were in compliance with the state industrial policies. Meanwhile, the Bank made extra efforts to grow consumer credit business with personal consumer loans increasing by RMB 76,399 million, of which housing mortgage loans increased by RMB 79,621 million, accounting for 25.49% of the total loan increase.

At the end of 2004, the loan balance of ICBC's largest borrower was less than 10% of the balance of equity, which complied with China Banking Regulatory Commission ("CBRC")'s requirement.

Loan Quality

At the end of 2004, the balance of non-performing loans amounted to RMB 703,644 million, RMB 17,113 million less than the previous year, and the NPL ratio was 18.99%, down by 2.25 percentage points. Normal and doubtful loans increased by RMB 371,462 million and RMB 6,866 million respectively, while the other three categories all decreased in different degrees with the largest decrease found in the special mention category, which was RMB 42,012 million less than the prior year. Substandard and loss loans declined RMB 12,208 million and RMB 11,771 million respectively.

DISTRIBUTION OF LOAN BALANCES ACCORDING TO RISK CLASSIFICATION

Unit: RMB million

Item	December 31,2004		December 31,2003	
	Balance	(%)	Balance	(%)
Total loans	**3,705,274**	**100.00**	**3,392,937**	**100.00**
Normal	2,720,363	73.42	2,348,901	69.23
Special mention	281,267	7.59	323,279	9.53
Non performing loans	**703,644**	**18.99**	**720,757**	**21.24**
Substandard	61,189	1.65	73,397	2.16
Doubtful	467,458	12.62	460,592	13.58
Loss	174,997	4.72	186,768	5.50

ASSET RISK CLASSIFICATION PROCEDURES AND METHODS

According to relevant regulatory stipulations on credit asset risk classifications, the Bank has developed definite rules about the criteria, methods, procedures, organization structure, statistical analysis, monitoring and inspection, and evaluation.

Credit asset risk classification-criteria and methods: *Based on the borrower's solvency status, repayment history, willingness to repay, guarantees and the legal obligation to repay the debt, the Bank comprehensively analyzes and judges the probability that the borrower will repay the principal and interest in full on a timely basis and fulfill his obligations as agreed in the contract, and classifies the credit accordingly into five categories: normal, special mention, substandard, doubtful and loss, the last three categories being collectively called non-performing loans. For detailed loan classification standards according to the degree of risk, please refer to page 65 "Important accounting policies and accounting estimates": Loan classification.*

Credit asset risk classification-organization and procedures: *Credit asset risk classification is initially performed based on the Bank's standard criteria, methods, the division of work between different departments and procedures, and is approved and verified in accordance with authorization limits and processes as prescribed. The detailed process of credit asset risk classification includes:*

1. *Customer relationship manager prepares relevant documents and completes preliminary classifications;*
2. *The examiner proposes his opinion after examination, and in case more than one department is involved, examiners of respective departments put forward review conclusion after discussion;*
3. *The approver gives the approval opinion, and in the case that it is over his approval authorization, the classification is then submitted to a higher level approver for further review until an approver with the right authorization level gives a final verification on the classification results.*

Credit asset risk classification-statistical analysis, monitoring and inspection, and evaluation: *Branches at different levels are responsible for the real time monitoring and tracking of the changes in credit asset risks; preparing monthly statistics of the risk classifications; supervising and inspecting subordinate branches' risk classification work based on the Bank's relevant rules; and evaluating the subordinate branches and related staff's risk classification work based on the monitoring and inspection results.*

AGING OF DELINQUENT LOANS

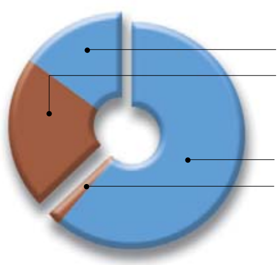
Unit: RMB million

Item	December 31,2004	
	Balance	(%)
Non-delinquent loans	2,946,279	79.52
Delinquent loans	758,995	20.48
Including: Overdue 0-90 days	55,388	1.49
Overdue 90-180 days	40,313	1.09
Overdue 180-270 days	45,747	1.23
Overdue 270-360 days	33,337	0.90
Overdue more than 360 days	584,210	15.77
Total	**3,705,274**	**100.00**

Quality of New Loans Granted Since 1999

New loans granted since 1999 amounted to RMB 2,731,584 million as at the end of 2004, accounting for 73.72% of the total loan balance. The amount of non-performing loans related to these new loans was RMB 42,992 million, accounting for 6.11% of the total non-performing loans. The NPL ratio of the new loans was 1.57%, comparable to the level of leading international banks.

QUALITY OF NEW LOANS



	Balance (RMB million)	%
Quality of loans granted before 1998	973,690	
Performing loans	313,038	32.15
Non-performing loans	660,652	67.85
Quality of loans granted since 1999	2,731,584	
Performing loans	2,688,592	98.43
Non-performing loans	42,992	1.57

Note: Non-performing loans refer to the last three categories of the five-category classification standard, which include the substandard, doubtful, and loss. Performing loans refer to the top two categories which include normal and special mention.

NPL RATIO TABLE

unit: %

Item	Loans extended prior to 1998	Since 1999	Since 2000	Since 2001	Since 2002	Since 2003	Since 2004
NPL ratio	67.85	1.57	1.14	0.81	0.60	0.45	0.14
Corporate customers	68.01	1.62	1.11	0.75	0.58	0.43	0.15
Retail customers	9.61	1.38	1.30	1.07	0.74	0.54	0.11

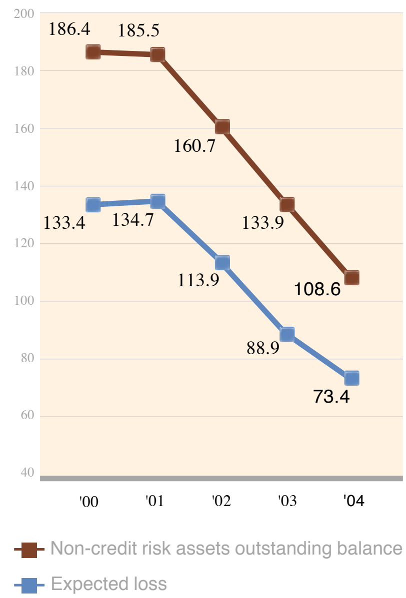
● Non-credit Risk Asset Management

In the entire process of using capital, apart from investing in credit assets, all the other forms of usage of capital constitute non-credit assets. The non-credit risk assets mainly include advances for interest receivables, settled assets, assets received to be liquidated, and housing reform losses to be disposed and so on. At the end of 2004, the total balance of non-credit assets at risk amounted to RMB 108,641 million, with a projected loss rate of 67.54%. The formation of these non-credit assets at risk is mainly due to policy changes (such as advances for interest receivables resulting from the change in accounting policies, losses arising from housing reforms, etc.) and operational factors (potential losses on settled assets, losses related to investments and placements, etc.).

In 2004, the Bank further improved its non-credit risk asset management and accounting systems and used strictly controlled approvals in the management. ICBC established a responsibility identification and accountability process and strengthened the file management processes after the non-credit risk asset losses have been charged off with responsibilities being clearly defined and collections and recourse being properly followed up in order to safeguard the due rights and interests of the Bank. ICBC also accelerated the process of cleaning up of its long-term investment and trust assets with their disposition being the main task, and managing the overdue placements and borrowings according to their respective types using techniques such as cash collections, signing repayment agreements based on installments etc. in order to resolve the assets. In 2004, total non-credit risk assets recovered and disposed of by the domestic branches amounted to RMB 52,271 million, including cash and settled assets collections of RMB 26,776 million, and total charge-offs reached RMB 25,495 million by means of loan loss provisions, non-operating expenses and interest receivables written-off. At the end of 2004, the balance of non-credit risk assets was RMB 25.3 billion less than the previous year.

NON-CREDIT RISK ASSETS

Unit: RMB billion



NON-CREDIT RISK ASSET BREAKDOWN

Unit: RMB million

Item	December 31,2004	December 31,2003	Increase /decrease	% of increase/decrease
Interest receivable	22,840	31,537	-8,697	-27.58
Settled assets	36,039	36,996	-957	-2.59
Assets received to be liquidated	11,702	17,266	-5,564	-32.33
Entrusted shares	10,074	13,074	-3,000	-22.95
Housing reform losses to be disposed	7,984	11,081	-3,097	-27.95
Accounts receivable to be disposed	7,938	7,811	127	1.63
Placements to banks to be liquidated	7,065	8,481	-1,416	-16.70
Long-term investments to be liquidated	3,288	4,755	-1,467	-30.85
Bonds to be liquidated	1,471	2,418	-947	-39.16
Others	240	522	-282	-54.02
Total	**108,641**	**133,941**	**-25,300**	**-18.89**

Asset Quality

As of the end of 2004, the total NPAs of the Bank amounted to RMB 812,285 million, a reduction of RMB 42,413 million from the prior year and the NPA ratio decreased by 1.87 percentage points to 14.32%. Specifically, non-performing loans decreased by RMB 17,113 million, while non-credit risk assets decreased by RMB 25.3 billion. The NPL ratio and the non-performing non-credit risk asset ratio decreased by 2.25 percentage points and 1.55 percentage points from the prior year, respectively.

ASSET STRUCTURE

Unit: RMB million

Item	December 31,2004		December 31,2003		December 31,2002	
	Balance	%	Balance	%	Balance	%
Total assets	**5,670,521**	**100.00**	**5,279,120**	**100.00**	**4,776,773**	**100.00**
Credit assets	3,684,083	64.97	3,371,950	63.87	2,988,755	62.57
Non-credit assets	1,986,438	35.03	1,907,170	36.13	1,788,018	37.43

Note: Credit assets are net of provisions for credit losses, non-credit assets are net of specific provisions for non-performing asset disposition losses.

NON-PERFORMING ASSETS

Unit: RMB million

Item	December 31,2004	December 31,2003	December 31,2002	December 31,2001
Non-performing assets	**812,285**	**854,698**	**921,600**	**977,489**
Non-performing loans	703,644	720,757	760,883	791,989
Non-credit risk assets	108,641	133,941	160,717	185,500
Non-performing asset ratio (%)	**14.32**	**16.19**	**19.29**	**22.53**

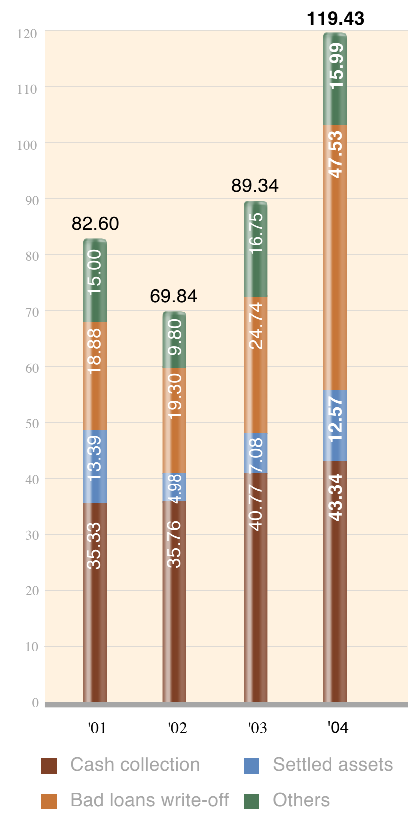
● Recovery of Assets

During 2004, total non-performing assets recovered and disposed of amounted to RMB 171.7 billion, of which RMB 119.43 billion were non-performing loans, an increase of RMB 30.09 billion over the prior year. The ratio of recovery and disposal of NPLs to total NPLs was 16.6%, up by 4.9 percentage points compared to the previous year. Of the total NPLs recovered and disposed of , cash collections reached RMB 43.34 billion, up by 6.3% ; write-offs of bad loans amounted to RMB 47.53 billion, up 92.12%; resolutions in the form of settled assets reached RMB 12.57 billion, up 77.54%; resolutions through restructuring and other means reached RMB 15.99 billion. In 2004, the asset recovery process mainly benefited from the adoption of refined management processes for NPLs and the usage of multiple methods in the disposition of NPLs.

Under the focused management of NPLs, the Bank conducted full investigations, present value calculations, and detailed classifications in order to formulate disposal plans and innovative resolution strategies for the NPLs. During the year, the Bank performed due diligence on all the corporate customers who had NPL balances higher than RMB 1 million by doing complete and

NPL DISPOSAL

Unit: billion



systematic analysis of the current status of the loan, operating assets of the borrower, solvency and repayment potential. The Bank also conducted NPL evaluation pilot programs in nine branches. Meanwhile, ICBC cleared up the NPL problems with 73,000 enterprises who had small NPL balances in a centralized manner, reducing the number of customers with NPLs by one third, which was effective in saving management resources.

ICBC continued to cooperate with local governments in disposing of NPLs in bulk. Following the breakthrough cooperation between ICBC Tianjin Branch and the local municipal government in NPL bulk disposition in 2003, the State Council approved ICBC Chongqing Branch to engage in bank-government cooperation to dispose of NPLs in bulk. Those two branches totally disposed of NPLs amounting to RMB 16.3 billion, accounting for 14% of the total disposed NPLs of the Bank

The Bank also cooperated with various business partners in NPL resolution. ICBC Ningbo Branch cooperated with Hangzhou Branch of China Huarong Asset Management Corporation to dispose of NPAs using commercial methods for the first time. And ICBC Ningbo Branch's NPL securitization pilot project has been completed successfully in cooperation with Credit Suisse First Boston, which is the first securitization pilot project among the Chinese commercial banks and a successful innovation in the current domestic policy framework and market environment.

From 2001 to 2004, ICBC has cumulatively disposed of and made recoveries from NPLs totaling RMB 361.2 billion, of which cash settlements amounted to RMB 155.2 billion or 43%, write-offs RMB 110.5 billion or 31%, settled assets RMB 38 billion or 11%, and other means of disposal RMB 57.5 billion.

LIQUIDITY RISK MANAGEMENT

• RMB Liquidity Management

The asset quality of the Bank continued to improve and the level of deposits continued to grew steadily, which guaranteed that the Bank's liquidity needs and the overall liquidity of both assets and liabilities was sufficient. However, factors such as changes in the macro economic environment, competition from funds, bonds and other products, movements in interest rates, and changes in residents' future income expectations and wealth management philosophy, have certainly impacted on the stability and growth rate of deposits. Meanwhile, the tendency to lend long and borrow short term also put forward higher demands for effective liquidity management.

In 2004, the Bank further improved the liquidity measurement and monitoring system, established layered liquidity reserves and regular liquidity status report analysis and forecasting systems; reasonably deployed total amount structure and term structure of bank-wide non-credit assets, and established liquidity risk early warning and emergency response systems.

• Foreign Currency Liquidity Management

The Bank has adopted "centralized operations and management" in foreign currency risk management and the Head Office is responsible for the centralized management of the Bank's foreign currency liquidity risk. In the first half of 2004, as the exchange rates of major foreign currencies like the US dollar were at historical lows, foreign currency deposits slightly dropped while demand for foreign currencies was brisk, which led to a foreign currency liquidity shortage. Through centralizing the approval and pricing of foreign currency loans from branches to the Head Office, ICBC effectively contained credit demands. At the same time, authorizing branches with more freedom in pricing foreign currency deposits, the Bank put more efforts into promoting personal foreign currency wealth management products, which helped to stabilize and increase the level of foreign currency deposits. On top of these measures, as approved by the State Administration of Foreign Exchange, ICBC purchased USD 2 billion in operating funds, which fundamentally soothed the foreign currency liquidity pressure. In the second half of the year, the US dollar entered a cycle of interest rate rises and foreign currency deposits returned to their normal growth levels and foreign currency liquidity therefore further improved.

LOAN/DEPOSIT RATIO AND LIQUIDITY RATIO

Unit:%

Item	December 31,2004	December 31,2003
Loan / deposit ratio	67.05	70.24
In RMB	65.68	69.18
In foreign currency	92.77	90.11
Liquidity ratio	38.72	39.85
In RMB	39.32	39.50
In foreign currency	36.59	44.16

MARKET RISK MANAGEMENT

Interest Rate Risk Management

RMB Interest Rate Risk Management

At the end of 2004, short and medium-term deposits accounted for 60.28% of the total deposit balance, which resulted in a relatively high sensitivity to repricing risk on the liabilities side of the balance sheet and generally speaking, interest rate risk would be relatively high when interest rates were rising. Nevertheless, the adjustment in interest rates for current account deposits is less than that for loans, and long-term loans mainly carry floating interest rates, which significantly lowers the interest rate risks in the balance sheet. Along with the establishment and improvement of the interest rate risk management processes, and the effective use of the centralized management of funds and an internal transfer pricing yield curve, interest rate risks are better controlled and managed.

During 2004, the People's Bank of China ("PBoC") continued to steadily advance the interest rates liberalization reform and issued a series of interest rate policies: liberalized the loan interest settlement methods with monthly, quarterly or yearly settlements all being allowed; adopted more flexible upper limits for deposit interest rates whilst maintaining lower limits for loan interest rates; changed the penalty interest rates from the original fixed rates to floating upper range interest rates based on the contract interest rate; and increased both deposit and loan interest rates. These policies enabled the commercial banks to better decide their interest income cash flow and loan pricing cycles according to their own asset and liability term structure characteristics, and made it possible for the matching of the term structures of both assets and liabilities. Banks are now able to decide their loan interest rates based on customer risks and cost, which makes loan interest rates a better cover for the risks taken.

Interest Rate Risk Management for Foreign Currencies

In 2004, the degree of liberalization of China's foreign currency interest rates was further increased with commercial banks allowed to decide on their own interest rates for two-year, small-amount deposits in USD, EURO, JPY and HKD. Accordingly, the Head Office of ICBC strengthened its analysis of international financial market interest rate trends, and timely adjusted the interest rates of its loans and deposits according to the market status to ensure a stable interest spread between assets and liabilities. It also strengthened the sensitivity analysis of interest rate exposures, utilized many types of financial derivatives to match the asset and liability term structures and effectively reduce interest rate risks. In addition, the Bank implemented a bank-wide foreign currency bond trading system, and therefore the Head Office was able to gain real time supervision of all foreign currency bond investment portfolios in all branches around the world including the Hong Kong Foreign Exchange Transaction Center.

● Exchange Rate Risk Management

During the year, the Bank strengthened its analysis of exchange rate trends and statistical analysis of the Bank's cash positions in performing the settlement and sales of foreign exchange. It strictly controlled the size of outstanding positions for settlement and sales of foreign exchange in order to lower the RMB exchange rate fluctuation risk. The Bank strengthened management of agency foreign exchange business by means of management of currency exposures, stop-loss limits, stop-loss levels and transaction amounts; it was able to close out exposures on a timely basis, which significantly lowered exchange rate risk. ICBC also strengthened the matching of currencies for asset and liability management purposes, and by using transactions such as currency swaps it was able to adjust the currency structure of such assets and liabilities to lower the mismatch risk on a timely basis. The Bank successfully launched a centralized settlement system for foreign exchange transactions and forward settlement and sales of foreign exchange transactions, and therefore realized real time, centralized management of the entire bank's foreign exchange transactions and forward settlement and sales of foreign exchange exposure positions at the Head Office. While enhancing efficiency of the treasury business, the Bank also lowered the exchange rate risks due to treasury transaction exposures.

OPERATIONAL RISK AND OTHER RISK MANAGEMENT

Operational risk refers to the risk of potential losses that result from problems in the internal control or corporate governance processes, staff errors or fraud in the processing of business transactions, and risks occurring in information management system caused by the system itself or human factors.

In 2004, the Bank formulated the "Operational Risk Management Framework" internal document, which was part of the "Industrial and Commercial Bank of China Comprehensive Risk Management Framework". This symbolized that ICBC became the first Chinese financial institution that formally included the supervision and management of operational risks into its agenda. Management of operational risks is composed of the management of seven major loss events, which are internal fraud; external fraud; risk events brought by employment contracts and working conditions; risk events brought by customers, products and business activities; losses of tangible assets; operational break-down and system errors; and risk events related to implementation, execution and transaction process management. In 2004, the Bank conducted a bank wide questionnaire survey on operational risks and the results showed that credit, bills, personal banking and accounting and settlement will be the key areas of operational risks control. Meanwhile, the Bank further improved the internal control system for anti-money laundering and established the doubtful transaction reporting system and an important anti-money laundering events reporting system, which improved the doubtful transaction information reporting process and strengthened analysis and research on doubtful transactions. In general, the measures introduced in the area of operational risk management, control and precaution proved to be effective with the occurrence of operational risks contained to a limited scope.

DECISION-MAKING AND MANAGEMENT SYSTEM

• Committees and functions:

DECISION-MAKING COMMITTEES:

Risk Management Committee	is the decision-making organ of the Bank's risk management, responsible for enacting the Bank's risk management guidelines, policies, general strategies and objectives, researching the risk management motivation processes and performance evaluation systems, and researching the methods for economic capital allocation to different business units.
Asset and Liability Management Committee	is responsible for the planning, control and management of the balances and structures of all assets, liabilities and capital, in order to realize the long-term and periodic business objectives of the Bank.
Financial Audit Committee	is responsible for the auditing, analyzing, and monitoring of significant financial matters of the Head Office and its subordinate units, and to give considerations to matters of financial expenditure.
Credit Policy Committee	is responsible for reviewing and discussing the credit operating guidelines and credit policies; for the discussion of credit reports and proposals on key industries, key areas and key products; for reviewing the credit marketing strategy and key customer sales service plans in certain periods; and for the discussion of customers' annual general credit underwriting plans as well as approving large credit exposures.
Credit Evaluation Committee	is responsible for evaluating important credit positions; and for investigating and researching into the theory and practice of credit evaluation.
Intermediary Business Management Committee	is responsible for the research and analysis on the influence of economic and financial trends, laws, regulations and policies upon the intermediary business; for helping formulate the strategy for the intermediary business, for establishing the authorization standards and mechanisms for the branches; for centrally coordinating, guiding, and resolving important issues in the process of developing, marketing and managing the intermediary business.
Branch Management Committee	is responsible for organizing and coordinating the management and monitoring of all the branches of the Bank (especially tier-two branches), including the monitoring and analysis of the operational status, internal ratings for the branches, guidance on the distribution of resources, management and monitoring of branch office personnel, and research on the redesigning of the branch management network.
Technology Approval Committee	is responsible for deciding technology development strategies and technology investment plans; for analyzing and discussing important IT projects for the whole bank; and for organizing, analyzing and evaluating the results of the development and implementation of important projects, as well as to research into new technologies.
Internal Audit Committee	is responsible for reviewing and discussing with management and the external auditors about the truthfulness, completeness and compliance with legal and regulatory requirements of the disclosed financial statements; for leading the coordination of external audit related matters, conducting internal audits and ensuring internal auditors are properly involved in the financial reporting process; for evaluating the effectiveness of internal control.

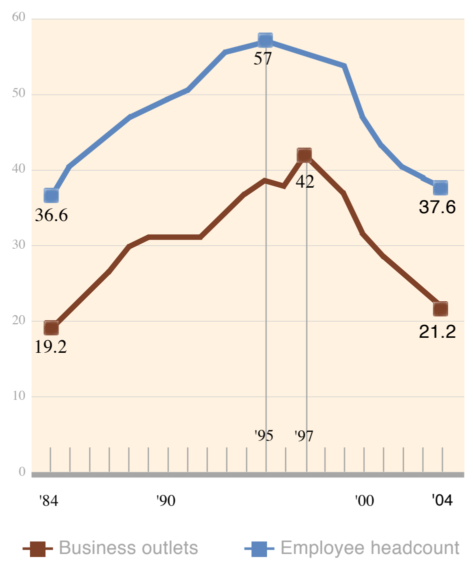
Branch Office Management System

Driven by the task of modernizing the Bank's branch, ICBC targeted to redesign the branch network into a slim and highly efficient framework. In 2004, a total of 2,800 outlets with low productivity were merged or closed, at the same time 1,200 grass root business outlets with good development potential were expanded to become sub-branches, thereby realizing a goal of realigning the resources in the network. With regard to rationalization of the management hierarchy, the focus was placed on giving the tier-two branches more direct management of the business outlets in order to flatten the control and shortened the vertical management chain.

During the year, the Bank firstly improved the supervision system of "managing the direct next tier branches and monitor the next level sub-branches" which is appropriate to a large-sized commercial bank's management requirements, and based on that further advanced the use of the early-warning, rectification and suspension of business based penalty system. The Bank improved efficiency of communication of policies and effectiveness of control over the entire system. It strengthened the vertically-layered authorization management system and adhered to the four principles of limiting authorizations, segregation of authorizations, ongoing review of authorization limits and accountability when authorized powers have been exceeded. ICBC increased the level of financial accountability by changing the basic accounting unit from outlets to sub-branches, which reduced the basic number of accounting units from over 20,000 to over 4,500 and significantly enhanced effectiveness of the financial accounting management of the whole bank. The Bank also completed the construction of a management accounting platform, built a cost accounting system by location, department and product respectively, which strengthened the total cost management process. In addition, ICBC rolled out a centralized purchasing system with both the Head Office and branches setting up centralized purchasing departments. During 2004, the total centralized purchases of the Bank reached RMB 10 billion, accounting for 44% of the total purchases made, which remarkably cut down cost of purchases.

CHANGES IN NUMBER OF EMPLOYEES AND BUSINESS OUTLETS

Unit: Ten Thousand persons
Thousand units



Personnel Changes in Senior Management

In 2004, Mr. Yang Kaisheng became Vice Chairman and Executive Vice President; Mr. Li Xiaopeng, former Executive Assistant President was promoted to be Executive Vice President. Mr. Tian Ruizhang, former Executive Vice President retired from office upon retirement age.

Organizational Structure Adjustment

During recent years, through a top-down driven internal structure redesign, the original business processes which were established around products and departments have been broken down and a customer-centered product development and marketing system has been perfected. The front and back offices of the business operations have been thoroughly segregated, and a pattern has been basically formed whereby the front office directly faces the market and becomes a general-purpose function while the back office handles business processing and becomes a specialized and centralized function. The major structure adjustments in 2004 are as follows:

Set up the Restructuring Office: In order to smoothly push forward the restructuring of the Bank, the Head Office established a decision-making and coordinating process and an office responsible for the day to day work, i.e., the Restructuring Steering Team and the Restructuring Office. The Restructuring Office is responsible for the overall management and the organization, coordination and implementation of the day to day work of restructuring.

Actively drove forward the restructuring of the supervisory and audit management systems, and restructured the Internal Audit Committee: The Bank restructured the Internal Audit Committee and established an Internal Audit Department at the Head Office and set up ten regional internal audit branches that are managed vertically by the Head Office. At the same time, an Internal Control Compliance Department was established at the Head Office, responsible for the internal control and regular audit of the whole bank, and will expand their compliance management functions.

Established the Enterprise Annuity Center: In May 2004, the "Enterprise Annuity Implementation Method (Provisional)" and "Enterprise Annuity Fund Management Method (Provisional)" came into force formally. ICBC captured this opportunity and rapidly established the Annuity Center, which allowed ICBC to be actively involved in trust consulting and account management business at an early stage in the development of China's annuity business. This enabled ICBC to take a proactive stand and gain an upper hand so that it can become a custodian and provide integrated services to annuity customers once permitted by laws and relevant policies in future.

Consolidated the Accounting Settlement Department and the Clearing Center: To strengthen the business connections and communication between the Accounting Settlement Department and the Clearing Center, and to unify the accounting management systems of the Head Office and branches, the Bank merged the Accounting Settlement Department and the Clearing Center into a new Accounting Settlement Department. Functions of the former Clearing Center were added into the Accounting Settlement Department in entirety and the center, as a secondary department, was responsible for the clearing work of the whole bank.

Advanced the reform of the logistics systems and closed the Head Office's Administrative Service Center: To improve logistics service quality and efficiency while lowering service cost, the Bank reformed its internal logistical services and management systems by separating the logistic service functions out of the Head Office and closing the operations of the original administrative service center at the Head Office.

INDEPENDENT INTERNAL AND EXTERNAL AUDITING

Internal Audit

According to the "Commercial Bank Internal Control Guidelines" issued by the PBoC, the Bank has essentially established a supervision system covering all the operations and management activities.

ICBC further deepened the restructuring of the internal audit system. It separated the management functions of internal audit and internal control compliance and restructured the original Head Office Supervision Committee into the current Internal Audit Committee with the Head Office Internal Audit Department and ten cross-regional branches being established. The Internal Audit Committee is led by the Head Office and will directly report to the Board of Directors after the restructuring. The Internal Audit Department is independent from the management of the Head Office and branches, and directly reports to the Internal Audit Committee. The cross-regional Internal Audit Department branches directly report to the Internal Audit Department at the Head Office.

Functions of the Internal Audit Committee include supervising financial reporting process, ensuring audit quality and evaluating internal controls. To strengthen independence and authority of the internal audit department, the Bank established set of principles and mechanisms, e.g., the regional internal audit office will not audit an ICBC branch in the same region and a rotation arrangement has been put in place for different regional internal audit offices to change the audit targets on a regular basis. Moreover, the Bank has set up an independent expenses assurance system, independent internal audit reporting systems and regular communication systems between the Internal Audit Committee and the senior management.

External Audit

In 2004, ICBC appointed Ernst & Young to audit the 2003 financial statements of sixteen branches, being Beijing, Shanghai, Zhejiang, Jiangsu, Shandong, Guangdong , Sichuan, Fujian, Yunnan, Guizhou, Gansu, Xinjiang, Shenzhen, Ningbo, Dalian and Xiamen. The audited assets accounted for 63% of the Bank's total assets. The results of the audit, which was carried out in accordance with international auditing standards, auditing methods and the internationally recognized five-category loan classification standard, indicated that the NPL ratio of those sixteen branches at December 31, 2003 was 1.74 percentage points different from ICBC's own data. The difference in Zhejiang Branch was only 0.01 percentage points. Ernst &Young issued unqualified opinions for all of those sixteen branches. In 2005, Ernst & Young will further extend their audit scope to cover the entire bank.

Targeting the various irregularities discovered by the inspection of the State Audit Bureau in 2003, and on the basis of an in-depth investigation and responsibility identification, and following the Party's principles, disciplines and ICBC regulations, the Bank imposed serious punishment on those accountable for the problems and those directly involved and the related managerial personnel and executives. During the year, the Bank totally penalized three hundred and sixty-eight people, including forty-two people who were sacked, eighteen demoted, eighty-one warned and ten laid off. In the second half of 2004, CBRC performed a field inspection on ICBC's internal controls, commercial bills business and the subsequent situation following the 2003 inspection. Targeting at the issues discovered in CBRC's inspection in the previous year, the Bank implemented rectifications and reported the relevant penalty impositions across the Bank as a warning reminder. Rectifications focused on certain business areas, branches and management measures. For areas with weak management and high risk, risk management and internal controls were strengthened and the Bank formulated and improved more than twenty internal principles including *Industrial and Commercial Bank of China Authorization Management Methods* and *The Opinion Regarding Strengthening the Credit Management of Related-Party Companies within One Group*.

IMPROVED INFORMATION TRANSPARENCY

In 2004, the Bank further improved the transparency of information disclosure. On the basis of detailed analysis and research of information disclosure policies, and following the principle of advancing gradually step by step, the Bank formulated detailed improvement measures and perfected related processes and the division of responsibilities to ensure the completeness and accuracy of the disclosures in the annual report. The annual report of 2003 for the first time used the ICBC Group information as the basis of the disclosed financial statements, notes and main business data, which thereby increased the depth and breadth of the annual report data coverage. More details about non-performing assets, quality of new loans, non-credit risk assets, related-party transactions, significant lawsuits and arbitrations were added to the annual report, especially the disclosure of non-credit risk assets and the quality of new loans, which was the first amongst the state-owned banks. In order to improve the quality and level of information disclosure of the annual report, the Bank hired Ernst & Young as the annual report compilation advisor.

THE SUPERVISORY BOARD

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

According to the "Provisional Rules for Supervisory Board in State-Owned Key Financial Institutions", the Supervisory Board mainly performs the following four functions: to supervise the implementation of the state's financial and economic laws, rules and regulations; to examine the truthfulness and legitimacy of the accounting and treasury reports; to oversee the operational efficiency, profit distribution, appreciation and management of the state's assets, and funding; to oversee the activities of the senior executives and assess the operational performance of ICBC, and put forward proposals for the promotion or demotion, recognition and punishment of senior management.

The Supervisory Board fulfills the above duties mainly through listening to reports, studying materials, organizing internal audit assignment and engaging independent external audits, and for new issues and problems, it also carries out special inspections and investigations. The Supervisory Board delivers an annual supervisory report and special supervisory report to the State Council. The Supervisory Board has the responsibility to supervise the internal audit and other supervisory functions. The purpose of the Supervisory Board is to promote the management and profitability of ICBC in its growth into a world-class commercial bank.

PERSONNEL MOTIVATION AND MANAGEMENT

In 2004, the Bank enhanced the level of the personnel motivation and management systems. It continued to improve the performance evaluation system based on operational efficiency and asset quality and further enhanced the connection between salary and performance at the branch level. The Bank started a process of branch management compensation reform which closely linked compensation with the inherent value of the management position, as well as the capabilities and performance of the local management. These reforms fully motivated branch management to work proactively, and through a process of deferred payment of part of their performance-based compensation, and an increased weighting of long-term welfare, the Bank motivated them to keep their personal performances in line with the long-term interests of the Bank. During the year, ICBC smoothly completed and formulated a detailed roll out plan for its Zhejiang Branch's Employee Performance Evaluation System, which utilized a standardized and commercialized compensation management system, a position sequence system and a performance management system.

Meanwhile the Bank augmented the foundations of the human resources management and built up an HR management platform. It strengthened the personnel management system and initially set up a job specification management system. On the basis of deepening various employment reforms, ICBC continued to reduce the total number of headcount and accelerated the redeployment of employees. Taking into consideration the business development situation, the Bank completed its human resources planning to attract talent. In addition, it deepened the front desk staff employment reform and accelerated the socialization process of front desk staff employment.

In 2004, through the combination of both domestic and overseas training, regular and qualification directed training, face to face and technology enabled education, the Bank continued to increase the level of training to all levels of managerial personnel, business line staff and employees working in the front office. During the year, the Bank provided 3,514,000 person/day training sessions and on average, each employee received 9.35 days of training. The strengths and quality of the Bank's employees were hence improved and enhanced. ICBC launched the Personnel Training Project. Through multiple channels, the Bank provided training to different levels of senior managers, expert-type senior financial specialists and employees working in the front office, and supported job qualification certification training in some specialized areas. ICBC accelerated the redesign of the training schools and institutions, enhanced their training capacity and quality, and initially established the criteria of "Scientific, Standardized and Unified Training" for training quality management. Schools and institutions of the Bank completed training assignments totaling 191,600 people/ times. Meanwhile, the Bank developed its on-line training by organizing seventeen bank-wide on-line training programs, which provided training to a total of 92,000 people/times cumulatively. Registered students of the Bank's network tele-education system reached 100,000 and the on-line education courses reached over ninety with course structures being further refined. The Bank also implemented "Tele-Education Investment Return Project" to establish a scientific tele-education cost and benefit evaluation model.

The post-doctoral research team recruited a second batch of post-doctoral research personnel, which increased the research strength of the team. Post-doctoral researchers combined theoretical research with the practice to aid in the Bank's reform and development, and this has made outstanding achievements in some strategic topics such as risk management, corporate governance and operations accounting.

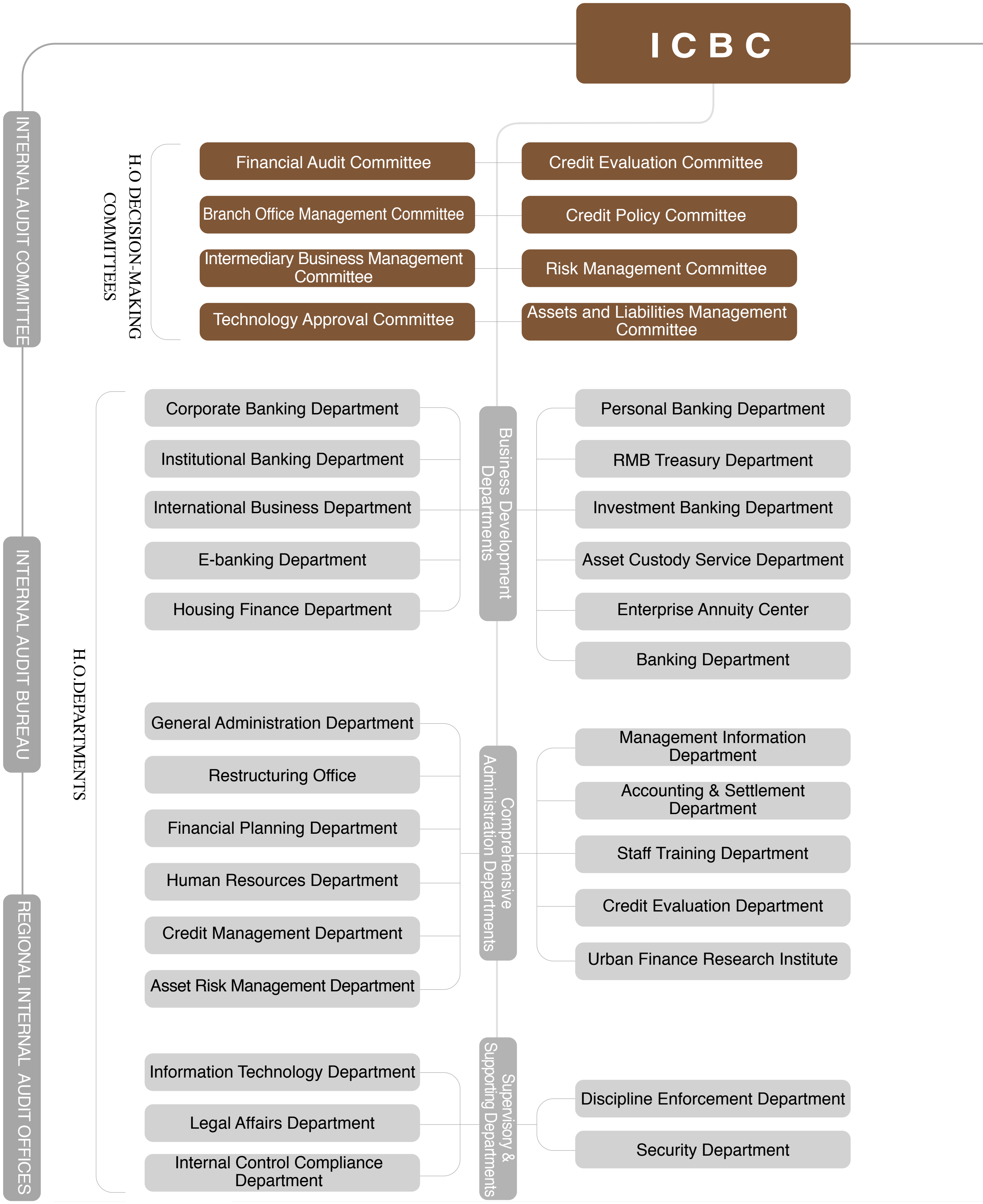
ICBC IN THE COMMUNITY

During the year, the Bank continued to support the fight against poverty. It stuck to development-related and poverty alleviation projects and continued to provide more assistance to selected areas including Wanyuan City, Nanjiang County and Tongjiang County in Sichuan Province, e.g., donating RMB 150,000 to thirty excellent high school graduates as their college tuition. The Bank also hosted the second "Good Teacher in Rural Areas, ICBC", in which it donated RMB 60,000 to sixty excellent teachers who had devoted themselves to basic education in rural areas for a long time. Besides, the Bank donated one hundred and twenty computers to four "Hope School"s in Bazhong City, Sichuan Province to improve their schools' equipment. Staff at the Clearing Center of the Accounting Settlement Department of the Head Office also donated cash and other assets valued at RMB 66,600 to the "Hope School"s and poor students.

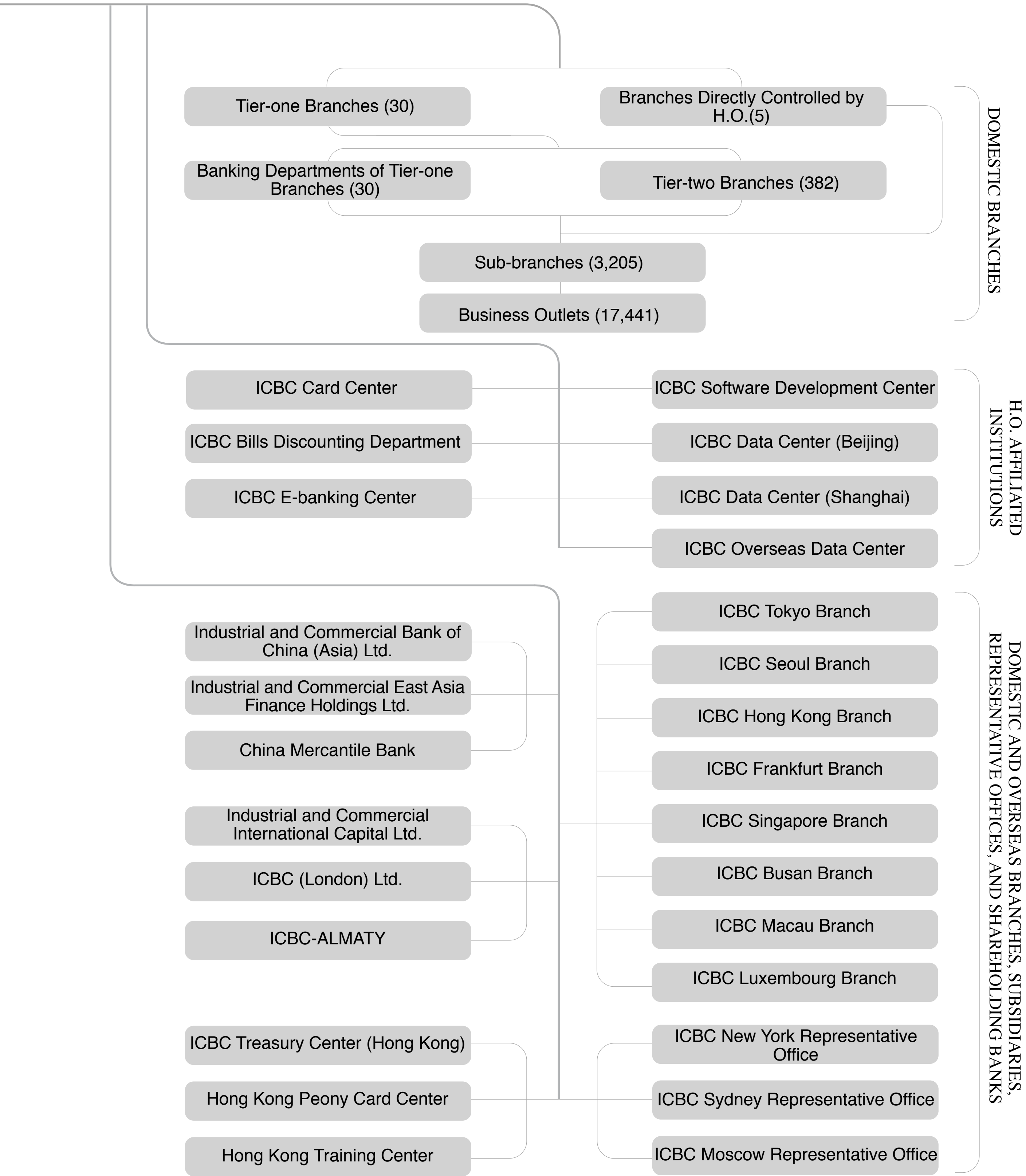
The Bank also organized *"Sending Warmth against Poverty"* activities. According to the requirements of the Central Government and Beijing Municipal Government, ICBC Head Office organized donation activities to help the poor with donations totaling RMB 20,643 in cash and 1,641 items of clothes and quilting, which were all sent to the disaster-inflicted areas and undeveloped regions in Jiangxi Province, Inner Mongolia Autonomous Region as well as Beijing to provide warmth to poor people during the winter.

Another activity called *"click the mouse and contribute your love"* was organized by the Bank in cooperation with the Red Cross and Beijing Youth Development Fund, which was an on-line charity donation activity that helped to promote the development of domestic charities.

Organization Chart



Note: By the end of 2004, the Bank had 21,223 domestic outlets, 100 overseas branches and offices and a total headcount of 375,781.


Tier-one Branches (30)
Branches Directly Controlled by H.O.(5)
Banking Departments of Tier-one Branches (30)
Tier-two Branches (382)
Sub-branches (3,205)
Business Outlets (17,441)
DOMESTIC BRANCHES
ICBC Card Center
ICBC Bills Discounting Department
ICBC E-banking Center
ICBC Software Development Center
ICBC Data Center (Beijing)
ICBC Data Center (Shanghai)
ICBC Overseas Data Center
H.O. AFFILIATED INSTITUTIONS
Industrial and Commercial Bank of China (Asia) Ltd.
Industrial and Commercial East Asia Finance Holdings Ltd.
China Mercantile Bank
Industrial and Commercial International Capital Ltd.
ICBC (London) Ltd.
ICBC-ALMATY
ICBC Treasury Center (Hong Kong)
Hong Kong Peony Card Center
Hong Kong Training Center
ICBC Tokyo Branch
ICBC Seoul Branch
ICBC Hong Kong Branch
ICBC Frankfurt Branch
ICBC Singapore Branch
ICBC Busan Branch
ICBC Macau Branch
ICBC Luxembourg Branch
ICBC New York Representative Office
ICBC Sydney Representative Office
ICBC Moscow Representative Office
DOMESTIC AND OVERSEAS BRANCHES, SUBSIDIARIES, REPRESENTATIVE OFFICES, AND SHAREHOLDING BANKS

Financial Statements and Notes

中国工商银行
INDUSTRIAL AND COMMERCIAL BANK OF CHINA

AUDITORS' REPORT

Z.T.H.Z (BJ) Audit [2005] No. 050

• Industrial and Commercial Bank of China ("ICBC"):

We have audited the accompanying balance sheet of ICBC as of December 31, 2004, the income statement for the year then ended, and the consolidated balance sheet of ICBC Group (including ICBC and its subsidiaries) as of December 31, 2004, consolidated income statement and consolidated cash flow statement for the year then ended. ICBC's management is responsible for preparing these financial statements, and we are responsible for expressing an opinion on these financial statements based on our audit in accordance with the scope set out in the audit engagement letter.

We planned and conducted our audit in accordance with "Independent Auditing Standards" issued by the Chinese Institute of Certified Public Accountants to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes an examination, on a sample basis, of evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting policies adopted and significant accounting estimates made by the Bank's management in the preparation of the financial statements, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above have been prepared in accordance with the requirements of the "Accounting Standards for Business Enterprises" and other relevant regulations issued by the Ministry of Finance ("MoF"), the People's Bank of China ("PBoC") and the China Banking Regulatory Commission ("CBRC") [see footnote 3(1)], and present fairly, in all material respects, the financial position of ICBC and ICBC Group as of December 31, 2004, and the results of their operations and cash flows for the year then ended.

Beijing Zhong Tian Hua Zheng CPA Co. Ltd.

PRC Certified Public Accountant:

PRC Certified Public Accountant:

Beijing China
May 8, 2005

CONSOLIDATED BALANCE SHEET

Unit: RMB million

Item	Note(6)	December 31,2004	December 31,2003
Assets			
Cash		29,911	29,585
Due from the central bank		444,751	427,811
Due from banks	1	11,952	19,115
Placements with banks	2	69,850	63,882
Loans	3	3,705,274	3,392,937
Less: provision for credit losses	4	21,191	20,987
Receivables	5	41,145	45,252
Investments	6	1,255,550	1,172,761
Less: specific provision for losses on disposal of NPAs	7	25,033	17,991
Fixed assets at carrying value	8	72,556	71,150
Construction in progress		5,340	8,789
Other assets	9	80,416	86,816
Total Assets		**5,670,521**	**5,279,120**
Liabilities			
Customer Deposits	10	5,060,718	4,606,202
Due to banks	11	224,869	233,559
Borrowings from banks	12	28,376	23,563
Other borrowings	13	38,528	38,399
Outward Remittances		44,615	46,968
Payables	14	72,427	74,900
Other liabilities		34,052	82,576
Total Liabilities		**5,503,585**	**5,106,167**
Minority Interest		**3,953**	**2,452**
Owner's Equity	15		
Paid-in capital		160,664	160,666
Capital reserves		1,524	1,405
Surplus reserves		14,781	14,773
Retained earnings		-13,986	-6,343
Total Owner's Equity		**162,983**	**170,501**
Total Liabilities and Owner's Equity		**5,670,521**	**5,279,120**

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

Legal Representative:	Executive Vice President in Charge of Accounting:	General Manager in Charge of Accounting:
Mr. Jiang Jianqing	Mr. Zhang Furong	Ms. Xu Yan

CONSOLIDATED INCOME STATEMENT

Unit: RMB million

Item	Note(6)	2004	2003
Interest income	17	180,506	162,839
Less: interest expenses	17	67,357	64,297
Net interest income	17	**113,149**	**98,542**
Add: other operating income	18	13,541	8,971
Total operating income		**126,690**	**107,513**
Less: total operating expenses		103,352	84,517
operating expenses	19	53,179	50,214
provisions for credit losses		50,173	34,303
Less: business tax and surcharges	20	8,234	7,266
Add: non-operating income		2,837	2,525
Less: non-operating expenses	21	15,025	15,597
Add: prior year adjustments		11	–
Total profit		**2,927**	**2,658**
Less: income tax		246	–
minority interest		370	185
Net profit		**2,311**	**2,473**

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

Legal Representative:	Executive Vice President in Charge of Accounting:	General Manager in Charge of Accounting:
Mr. Jiang Jianqing	Mr. Zhang Furong	Ms. Xu Yan

CONSOLIDATED CASH FLOW STATEMENT

Unit:RMB million

Item	2004	2003
1. Cash flows from operating activities		
Interest received from loans	147,606	137,081
Net change in current accounts with financial institutions	9,941	6,459
Other operating income	12,301	8,515
Net change in amounts due from the central bank	–	16,083
Net change in short-term deposits	262,332	328,038
Net change in cash accounts with other financial institutions	–	20,502
Net change in medium to long-term deposits	149,475	180,231
Cash received from other operating activities	327	–
Sub-total of cash inflows	**581,982**	**696,909**
Interest paid on deposits	63,973	57,769
Cash paid for other operating activities	20,479	19,341
Salaries paid to staff	23,510	21,844
Net change in short-term loans	57,121	108,871
Net change in medium to long-term loans	255,216	281,782
Net change in cash accounts with financial institutions	10,318	–
Net change in amounts due from the central bank	232	–
Tax paid	7,754	8,146
Cash paid for other operating activities	62,517	956
Sub-total of cash outflows	**501,120**	**498,709**
Net cash flows from operating activities	**80,862**	**198,200**

Item	2004	2003
2. Cash flows from investing and financing activities		
Cash received from issuance of bonds	13,551	–
Cash received from recovery of equity investments	10,457	–
Cash received from bond investment related interest income	21,037	17,689
Cash received from dividends or profit appropriations	338	417
Sub-total of cash inflows	**45,383**	**18,106**
Cash paid for acquisition of fixed assets, construction in progress and intangible assets	4,103	4,427
Cash paid for equity investments	7,092	1,891
Net increase in long-term bond investments	-28,667	100,564
Cash paid for repayment of long-term debts	-360	376
Sub-total of cash outflows	**-17,832**	**107,258**
Net cash flows from investing and financing activities	**63,215**	**-89,152**
3. Net cash flows from contingent items	**-12,188**	**-13,072**
4. Net increase in cash and cash equivalents	**131,889**	**95,976**

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

Legal Representative: Mr. Jiang Jianqing

Executive Vice President in Charge of Accounting: Mr. Zhang Furong

General Manager in Charge of Accounting: Ms. Xu Yan

BALANCE SHEET

Unit: RMB million

Item	December 31,2004	December 31,2003
Assets		
Cash	29,752	29,540
Due from the central bank	444,751	427,811
Due from banks	11,590	18,850
Placements with banks	74,888	75,930
Loans	3,635,281	3,346,923
Less: provision for credit losses	20,270	20,255
Receivables	39,820	44,049
Investments	1,242,476	1,169,948
Less: specific provision for losses on disposal of NPAs	25,033	17,991
Fixed assets at carrying value	72,044	70,469
Construction in progress	5,340	8,789
Other assets	79,265	85,900
Total Assets	**5,589,904**	**5,239,963**
Liabilities		
Customer deposits	5,000,019	4,568,164
Due to banks	224,754	232,203
Borrowing from banks	31,384	31,819
Other borrowings	38,528	38,399
Outward remittances	44,613	46,968
Payables	70,793	73,148
Other liabilities	17,098	79,123
Total Liabilities	**5,427,189**	**5,069,824**
Owner's Equity		
Paid-in capital	160,664	160,666
Capital reserves	1,524	1,405
Surplus reserves	14,781	14,773
Retained earnings	-14,254	-6,705
Total Owner's Equity	**162,715**	**170,139**
Total Liabilities and Owner's Equity	**5,589,904**	**5,239,963**

Legal representative: Mr.Jiang Jianqing

President in Charge of Financial Accounting: Mr.Jiang Jianqing

General Manager in Charge of Financial Accounting: Mr.Pan Gongsheng

INCOME STATEMENT

Unit: RMB million

Item	2004	2003
Interest income	178,195	161,452
Less: interest expenses	66,535	63,845
Net interest income	**111,660**	**97,607**
Add: other operating income	13,223	8,400
Total operating income	**124,883**	**106,007**
Less: total operating expenses	102,392	83,628
operating expenses	52,208	49,532
provision for credit losses	50,184	34,096
Less: business tax and surcharges	8,234	7,266
Add: non-operating income	2,837	2,488
Less: non-operating expenses	15,000	15,491
Add: prior year adjustments	11	–
Total profit	**2,105**	**2,110**
Less: income tax	62	–
Net profit	**2,043**	**2,110**

Legal representative: Mr.Jiang Jianqing

President in Charge of Financial Accounting: Mr.Jiang Jianqing

General Manager in Charge of Financial Accounting: Mr.Pan Gongsheng

NOTES TO FINANCIAL STATEMENTS

1. Introduction of ICBC

ICBC is a wholly state-owned commercial bank founded on January 1, 1984, and authorized by the State Council and PBoC. The registered address is No.55 Fuxingmennei Dajie, Xicheng District, Beijing. The official legal representative is the President, Mr. Jiang Jianqing.

As of December 31, 2004, ICBC had established thirty tier-one provincial branches in provinces (including Autonomous Regions and Municipalities) throughout China, five branches directly under the Head Office, eight overseas branches, three subsidiary banks, and two holding institutions.

The business scope includes RMB deposits, loans and consumer credit, residential savings, various settlement services, securities issuance and the related agency services in securities issuance, various agency services entrusted by other banks, foreign exchange deposits, foreign exchange loans, foreign exchange remittances, trade and non-trade settlements, exchange of foreign currencies and notes, foreign exchange guarantees, certification and related services, overseas foreign exchange borrowings, foreign currency bills discounting, issuance and agency services relating to foreign currency securities, agency services relating to spot and forward foreign exchange trading, credit evaluation and consulting services, buyer's credit, on-lending from international financial institutions and foreign governments, internet information services and other businesses authorized by the CBRC in accordance with relevant laws and regulations.

2. Important Notice

The president (legal representative) of ICBC and the senior management ensure that all of the contents of the report are free from any false records, misstatements or primary omissions. They are responsible, and take the related responsibilities, for the authenticity, accuracy and completeness of the contents.

3. The Basis of Preparation of The Financial Statements

(1) Adoption of Accounting Standards and Regulations

ICBC adopts the "General Financial Principles for Enterprises", "Accounting Standards for Enterprises", "Financial System for Financial and Insurance Institutions", and "Accounting System for Financial Institutions" issued by the MoF. In addition, ICBC also adopts relevant regulations such as "Provisional Methods on Consolidated Financial Statements for Wholly State-Owned Commercial Banks", "Provisional Methods on Information Disclosure for Commercial Banks", and other related regulations issued by the PBoC and CBRC.

(2) The Scope of Consolidation

The scope of consolidation includes subsidiaries where more than 50% of the equity capital or voting rights are held by ICBC directly or indirectly, or where ICBC holds less than 50% of the voting rights but has actual control. Investments that are not intended to be held for a long term or are planned for disposal and equity converted from debt as approved by regulators are excluded from the scope of consolidation. Institutions consolidated into the financial statements of ICBC Group include: the domestic and overseas branches, ICBC (London) Ltd., ICBC (Almaty), Industrial and Commercial International Capital Ltd., ICBC (Asia) Ltd., and Industrial and Commercial East Asia Finance Holdings Ltd.

Information of share-controlled subsidiaries:

Name of Company	% of Equity	Amount of Investment	Place of Registration	Nature of Business
ICBC (Asia) Ltd.	57.53%(Note)	HK$ 4,638 million	Hong Kong	Commercial Bank (Licensed Bank)
ICIC Ltd.	100%	HK$ 323 million	Hong Kong	Commercial Bank (Restricted License Bank)
ICBC East Asia	75%	US$ 21 million	Hong Kong	Investment Bank
ICBC (London) Ltd.	100%	US$ 100 million	United Kingdom	Commercial Bank
ICBC (Almaty)	100%	US$ 10 million	Kazakhstan	Commercial Bank

Note: Subsequent to the new share issuance by ICBC (Asia) on February 9, 2004, the share of equity interest of ICBC was diluted from 63.8% to 53.2%. The share of equity interest increased to 63.2% on April 6, 2004 when ICBC's convertible non-accumulative preferred shares were converted into common shares. On April 30, 2004, ICBC used 9% of its equity interest in ICBC (Asia) to pay to Fortis Group as part of the considerations for the acquisition of Fortis Bank Asia HK, resulting in a further reduction of the Bank's equity interest in ICBC (Asia) to 57.53%.

(3) The Method of Consolidation

The consolidation is performed based on the financial statements of the banks and institutions included in the scope of consolidation, with significant transactions within the Group eliminated. The financial statements of overseas subsidiaries are prepared in accordance with accounting policies set by the Head Office, and if some accounting policies are different from what the Head Office has adopted due to following local, more prudent regulatory and accounting requirements, the impact resulting from that on the consolidated financial statements is not adjusted in the consolidated financial statements.

The overseas institutions refer to those institutions registered outside the People's Republic of China and those branches or subsidiaries registered in Hong Kong and Macau.

4. Important Accounting Policies and Accounting Estimates

(1) Accounting Year

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

(2) Reporting Currency

The reporting currency of ICBC is Renminbi (“RMB”).

(3) Principles for Book Keeping and Valuation

Unless stated otherwise, the financial statements have been prepared on the accruals basis and under the historical cost convention.

(4) Foreign Currency Accounting and Foreign Currency Financial Statements Translation

The Bank maintains a multi-currency ledger for assets and liabilities and transactions denominated in foreign currencies. All transactions are recorded on vouchers and ledgers and compiled in the financial statements in their original currencies. The financial statements denominated in foreign currency are translated into RMB at the exchange rates in effect at the balance sheet date.

The exchange rates between RMB and US dollar in effect at the end of the years are:

December 31, 2004	8.2765 RMB to 1 US Dollar
December 31, 2003	8.2769 RMB to 1 US Dollar

(5) The Types and Valuation Methods of Derivative Instruments

The derivative instruments entered by ICBC include forwards, options, swaps and combinations of these in exchange rate, interest rate or other markets. Forward transactions within the domestic operations are carried at market value prior to their maturity dates, with any changes reflected in earnings in the respective accounting period. Options and swaps are evaluated against daily market values prior to maturity and recorded as off-balance sheet items. Upon actual payment, they are reflected in the balance sheet.

The derivative financial instruments of the overseas operations are accounted for in accordance with the relevant local accounting regulations.

(6) Cash and Cash Equivalents

Cash includes cash on hand and highly liquid deposits at banks. Cash equivalents represent highly liquid investments maturing within 90 days, which are readily convertible into known amounts of cash, subject to an insignificant risk of change in value, including deposits and reserves held with the central bank, short-term amounts due from other banks, fixed deposit with terms under 90 days, and marketable short-term bond investments maturing within 90 days.

(7) Loan Classification

Loans are classified as short-term loans and medium to long-term loans in accordance with their maturity date. Loans maturing within one year (including one year) are classified as short-term loans; loans maturing over one year are classified as medium to long-term loans.

According to the nature of the security method, loans are classified as credit, guaranteed, secured, and pledged loans.

According to "the Guiding Principles on Loan Risk Classification" issued by the PBoC, and based on the level of risk, loans are classified into normal, special mention, substandard, doubtful, or loss loans.

Normal: The borrower performs according to the terms of the contract; there is no reason to doubt the full recoverability of principal and interest within the time defined by the contract.

Special mention: Although the borrower is able to repay the principal and interest at present, factors exist that may affect the borrower's ability to repay the loan.

Substandard: The borrower has obvious problems in its ability to repay the loan and is unable to repay the principal and interest in full amount from its normal operating income. Even if resorting to guarantees or collaterals, there may still be losses incurred.

Doubtful: The borrower is unable to repay the principal and interest in full. Even if resorting to guarantees or collaterals, there would still be significant losses in the loan.

Loss: After all conceivable measures or necessary legal processes, the principal and interest remain outstanding or only an insignificant portion can be recovered.

(8) Policy of Credit Losses Provisioning

Domestic Institutions: In accordance with the MoF's policy on credit loss provisioning and the use of provisions of state-owned commercial banks, the credit loss provisions are classified as general provisions, specific provisions and special provisions.

Assets requiring general provisioning include: all loans, discounted bills, advances, import and export advances, bank card overdrafts, equity and bond investments (excluding government bond investments, China Huarong Asset Management Corporation bond investment (*Note)), placements with banks, interest receivable (excluding interest receivable from loans, government bonds and placements with banks), etc. the General provision is 1% of the balances of the assets requiring general provisioning. In addition to general provisioning, the Bank provides specific provisioning for housing mortgage loans, consumer loans, bank card overdraft, and corporate loans granted after year 2001 (including 2001) according to their respective risk classification results using the specific rates as follows:

Special mention	2%
Substandard	20%
Doubtful	50%
Loss	100%

Provisions for credit losses are recorded in the current period's earnings, and provisions will be reversed when the loss is written off. Any recovery of losses written-off will be recorded in the earnings of the period in which the recovery occurred.

Overseas Institutions: Provisioning is made in accordance with the relevant local policies.

**Note: For China Huarong Asset Management Corporation bond investments, please refer to 6 (7) of "Notes to financial statements".*

(9) Accounting for Investments

Investments are classified according to tenor into short-term investments and long-term investments. Short-term investments refer to bonds that are readily convertible into cash with an intended holding period of one year or shorter. Long-term investments refer to investments other than the short term investments, including equity investments with a holding period of more than one year, bonds that are not convertible or not intended to convert into cash at all times, other debt investments and other long-term investments.

Short-term investments are recorded at cost of initial acquisition. Where cost of investment in bonds includes interest due but not received, that interest is recognized as interest receivable instead of cost of investment.

Long-term investments include investments in bonds and investments in equities.

Long-term investments in bonds are recorded at the cost of total actual payment less interest due but not received as initial cost of investments. Interest income is recognized based on the coupon rate and the face value of the bonds. The discount or premium on the bonds will be amortized using the straight-line method. At the balance sheet date, bonds are recognised at cost less discount (or premium) amortized. Upon disposal, any difference between the sale proceeds of the bonds and the carrying value will be recorded in the income statement.

Long-term equity investments are accounted for based on the cost method or equity method under their specific circumstances.

(10) Fixed Assets and Depreciation

Fixed assets refer to properties and buildings, machinery and equipment, motor vehicles and other equipment related to operations with useful lives of greater than one year; as well as other items that are not considered key to the operations but with a unit value higher than RMB 2,000 and useful economic lives longer than two years.

The fixed assets are recorded at original cost when first obtained. Additional costs incurred on major re-construction, expansion or improvements to extend the useful life of the assets are capitalized. Additional costs incurred due to repairing and maintenance of the assets are charged to the income statement when incurred. Gains or losses on disposal of assets are calculated based on the sale proceeds less the carrying value of assets and related taxes and charges, and recognized in non-operating income or non-operating expenses.

Depreciation is calculated using the straight-line basis to write off the costs after deduction of the residual values (3% of cost for all assets) over their estimated useful lives. Annual depreciation rates are as follows:

Type	Estimated useful life	Depreciation rate
Properties and buildings	30 years	3.23%
Motor vehicles	4-6 years	24.25%-16.17%
Electronic equipment	3-5 years	32.33%-19.40 %
Other equipment	5 years	19.40%

(11) Construction in Progress

Construction in progress includes pre-construction preparation work, construction projects, installation projects, technical reform projects, and major repair projects which are in progress, etc.

Construction in process is recorded at actual expenditure.

(12) Other Assets and Amortization

Other assets include deferred assets, intangible assets, settled assets, and so on.

Deferred assets include pre-operating expenses, leasehold fixed asset improvements, etc. Pre-operating expenses will be amortized evenly over 5 years, starting from the first month of operations; leasehold fixed asset improvements will be amortized evenly throughout the lease period. Other deferred assets will be amortized evenly during the period in which benefits are generated by these assets.

Intangible assets include land use rights, software, etc. Intangible assets are valued at actual cost at acquisition, and are amortized over the shorter of the period for which benefits arise or the legally effective period.

Settled assets are recorded at values determined by the judgement of a court or arbitration authority, determined by appraisers, or agreed upon based on negotiations between the lender and the borrower.

(13) Accounting for Interest Payable

Interest payable is accounted for on an accruals basis.

(14) Principles of Revenue Recognition

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

When loan interest is overdue for more than 90 days, whether the 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.

(15) Accounting for Income Tax

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

(16) Taxes

Type of taxes	Base for taxation	Tax rate
Business tax	Financial business income	5%
Corporate income tax	Taxable income	33% (Note)
Other taxes	Paid according to actual situation	–

Note: 1. Interest income on government bonds and bonds issued by financial asset management corporations is exempted from corporate income tax.

2. Types of taxes, the basis for taxation and tax rates for overseas institutions are accounted for in accordance with relevant local tax laws and policies.

5. Related Party Transactions

In December 2004, ICBC signed an agreement with ICBC (Asia), based on which ICBC (Asia) acquired ICBC's entire equity interest in Shenzhen Chinese Mercantile Bank at a consideration equivalent to 1.1 times of Shenzhen Chinese Mercantile Bank's audited net assets value.

6. Notes to the Significant Items of the Consolidated Financial Statements (Unit: RMB million)

(1) Due from Banks

Item	December 31, 2004	December 31, 2003
Overseas banks	4,852	8,388
Domestic banks	7,100	10,727
Total	**11,952**	**19,115**

(2) Placements with Banks

Item	December 31, 2004	December 31, 2003
Overseas banks	52,569	46,604
Domestic banks	17,281	17,278
Total	**69,850**	**63,882**

(3) Loans

a. Loans Classified by Types of Security

Item	December 31 2004	December 31, 2003
Credit Loans	1,233,677	994,158
Guaranteed Loans	1,009,182	1,066,995
Secured/Pledged Loans	1,462,415	1,331,784
Total	**3,705,274**	**3,392,937**

b. Loans Classified by Industry

Item	December 31, 2004	December 31, 2003
Manufacturing	1,184,009	1,211,012
Transportation and Logistics	392,139	302,233
Wholesale and Retail	373,840	375,831
Energy	269,209	203,418
Real Estate	240,980	234,451
Service	173,643	162,897
Information Technology	106,102	109,558
Mining	93,284	78,436
Construction	85,740	75,744
Others	279,374	217,544
Overseas Lending	14,926	5,802
Loans to individuals	492,028	416,011
Total	**3,705,274**	**3,392,937**

c. Loans Classified by Risk Classification

(Refer to the “Distribution of loan balances according to risk classification” table on page 37)

d. Loans Classified by Maturity Date

Item	December 31, 2004	December 31, 2003
Short-term Loans	1,869,428	1,812,307
Medium to Long-term Loans	1,835,846	1,580,630
Total	**3,705,274**	**3,392,937**

(4) Provisions for Credit Losses

Item	General provision	Specific provision	Special provision	Total
Balance at December 31, 2003	16,148	4,789	50	20,987
Provision for the year	43,735	6,428	10	50,173
Charge-off during the year	-48,806	-1,728	–	-50,534
Reverse during the year	–	45	–	45
Others	465	55	–	520
Balance at December 31, 2004	11,542	9,589	60	21,191

(5) Receivables

Item	December 31, 2004	December 31, 2003
Interest Receivable	22,840	31,537
Other Receivables	18,305	13,715
Total	**41,145**	**45,252**

(6) Investments

Item	December 31, 2004	December 31, 2003
Bonds	1,235,419	1,091,781
Government Bonds	324,907	316,425
Financial Bonds	776,679	612,086
Other Bonds	133,833	163,270
Other investments	20,131	80,980
Total	**1,255,550**	**1,172,761**

(7) Specific Provision for Losses on Disposal of Non-performing Assets

According to requirements of the MoF, interest income from investments in bonds issued by China Huarong Asset Management Corporation shall be separately recorded as "Specific provision for disposal of non-performing assets". At the end of the year, the cumulative provision set aside from profit after tax amounted to RMB25, 033 millions.

(8) Fixed Assets at Carrying Value

Item	December 31, 2004	December 31, 2003
Original Value	109,435	102,314
Properties and Buildings	74,048	69,906
Motor Vehicles	5,497	5,762
Electronic Equipment	17,982	15,942
Other Equipment	11,908	10,704
Less: Accumulated Depreciation	36,879	31,164
Net Book Value	72,556	71,150

(9) Other Assets

Item	December 31, 2004	December 31, 2003
Deferred Assets	3,846	4,368
Intangible Assets	3,647	3,216
Settled Assets	36,039	36,996
Other	36,884	42,236
Total	**80,416**	**86,816**

(10) Customer Deposits

a. Classified by the nature of the depositors

Item	December 31, 2004	December 31, 2003
Corporate Deposits	2,196,223	1,986,949
Savings Deposits	2,864,495	2,619,253
Total	**5,060,718**	**4,606,202**

b. Classified by types of deposit

Item	December 31, 2004	December 31, 2003
Short-term Deposits	3,050,673	2,745,163
Long-term Deposits	2,010,045	1,861,039
Total	**5,060,718**	**4,606,202**

(11) Due to Banks

Item	December 31, 2004	December 31, 2003
Overseas Banks	248	1,664
Domestic Banks	224,621	231,895
Total	**224,869**	**233,559**

(12) Borrowings from Banks

Item	December 31, 2004	December 31, 2003
Overseas Banks	24,129	17,619
Domestic Banks	4,247	5,944
Total	**28,376**	**23,563**

(13) Other Borrowings

Item	December 31, 2004	December 31, 2003
Due to the Central Bank	33,407	33,638
Long-term Borrowings	5,121	4,761
Total	**38,528**	**38,399**

(14) Payables

Item	December 31, 2004	December 31, 2003
Interest Payable	21,340	22,784
Other Payables	51,087	52,116
Total	**72,427**	**74,900**

(15) Owner's Equity

The balance of paid-in capital decreased by RMB 1.98 million as compared to the previous year due to the transfer of part of the paid-in capital to China Huarong Asset Management Corporation.

Retained earnings decreased by RMB 7,643 million as compared to that of last year. As ICBC generated a net profit of RMB 2,311 million in 2004, it is required to set aside RMB 7,042 million as specific provisions for losses on disposal of NPAs and reverse the prior year's accrued interest receivable relating to special government bonds amounting to RMB 2,509 million in accordance with the relevant rules set by the MoF.

(16) Capital Adequacy Ratio

In March 2004, CBRC promulgated the "Regulation Governing Capital Adequacy of Commercial Banks" which required all Chinese commercial banks to calculate their capital adequacy ratio according to the Regulation. In April 2005, the government injected USD 15 billion into ICBC and retained MoF's original equity capital of RMB 124 billion (approximately USD 15 billion) in ICBC, to improve the Bank's capital structure. In the mean time, existing NPAs will be disposed of using commercial methods. ICBC is re-calculating its capital adequacy ratio in accordance with the new regulation. Approved by CBRC, the Bank will delay the disclosure of the capital adequacy ratio of 2004 and will disclose the capital adequacy status together with the audited financial statements in its 2005 interim report.

(17) Interest Income, Interest Expense and Net Interest Income

Item	2004	2003
Interest Income	180,506	162,839
Interest Income from Loans	138,909	124,976
Interest Income from Inter-bank Activities	14,698	13,235
Interest Income from Bonds	26,899	24,628
Interest Expenses	67,357	64,297
Interest Expenses on Customer Deposits	62,529	57,983
Interest Expenses on Inter-bank Activities	4,828	6,314
Net Interest Income	113,149	98,542

(18) Other Operating Income

Item	2004	2003
Income from Intermediary Business	12,301	8,515
Including: commission income	9,747	7,057
Others Investment Income	1,240	456
Total	**13,541**	**8,971**

(19) Operating Expense

Item	2004	2003
Personnel Expenses	24,209	22,124
Business Expenses	21,014	20,523
Depreciation Expense	7,956	7,567
Total	**53,179**	**50,214**

(20) Business Tax and Surcharges

Item	2004	2003
Local Business Tax	7,236	6,402
Central Government Tax	236	197
Miscellaneous Surcharges	762	667
Total	**8,234**	**7,266**

(21) Non-operating Expenses

Item	2004	2003
General Loss on Asset Disposal	14,220	14,478
Others	805	1,119
Total	**15,025**	**15,597**

(22) Important Off-Balance Sheet Items

Item	December 31, 2004	December 31, 2003
Banker's Bills of Acceptance	68,739	83,611
Issued Letters of Guarantee	98,716	83,785
Issued Letters of Credit	55,428	56,569
Confirming Letters of Credit	167	14
Confirming Letters of Guarantee	1	30
Shipping Guarantees	758	1,466
Full Export Factoring	46	73
Call Options	13,082	2,864
Put Options	12,295	3,924
Swaps	304,442	69,022

7. Significant Litigation and Arbitration Cases

During 2004, there were forty litigation and arbitration cases with individual litigation values amounting to RMB 80 million or more where ICBC was the plaintiff. Among the forty cases, fourteen cases are still on trial whilst judgements on the remaining twenty-six cases have been reached (twenty litigations, three orders for payment, three notarized execution orders). Among the twenty-six concluded cases, seven cases had been settled and nineteen cases are still in process of enforcement. The total value of the above litigation amounted to RMB 4,615.41 million, cases ruled in favor of ICBC amounted to RMB 2,497.80 million, of which RMB 413.33 million was recovered. There were two cases with individual litigation value greater than RMB 80 million where ICBC was the defendant. The total litigation amount involved is RMB 182.67 million and they are currently on trial.

8. Post Balance Sheet Date Events

a) On April 22, 2005, the Chinese government injected US $15 billion to improve ICBC's capital structure. Furthermore, all of the Owner's Equity items will need to be adjusted and the non-performing assets structure will be changed. It is expected that the financial conditions of ICBC will be greatly improved following the financial restructuring.

b) From the balance sheet date to the issuance date of this report, the Bank has won seven out of the fourteen cases where the Bank was the plaintiff (see Note 7) with judgements ruling a total sum of RMB 956.96 million to be received by ICBC.

9. Other Significant Matters

On April 30, 2004, ICBC (Asia) had completed its acquisition of Fortis Bank Asia HK as a wholly owned subsidiary, and Fortis Bank Asia HK has thereafter changed its name to "Belgian Bank".

2004 Chronology

- *January* — *On Jan.18, a ceremony for settled assets disposal cooperation between ICBC Ningbo Branch and China Huarong Asset Management Corporation was held in Beijing, which symbolized that ICBC and China Huarong Asset Management Corporation, for the first time, cooperated to dispose of non-performing assets using commercial methods.*

  Use of the RMB Peony Card carrying the "Unionpay" symbol in Hong Kong was introduced, which further enhanced ICBC's comprehensive service capabilities and the market competitiveness of the Peony Card.

- *February* — *On Feb.3, ICBC (Asia) successfully placed 124.8 million shares by top-up transactions through HSBC and ICEA, into the stock market. The price of the placement was HK$ 11.25 per share, with a 6.25% discount compared to the closing price of the day, HK$ 12. The total capital raised from the placement was around HK$ 1.4 billion, which was used for the acquisition of Fortis Bank Asia HK.*

  On Feb.9, with the formal entrance of a PriceWaterhouseCoopers project team, the "Internal Rating Method Project" formally commenced. A comprehensive risk management system covering credit risk, market risk, operational risk and other risks would be gradually built up thereby.

- *March* — *The Bank's first QFII customer, Credit Suisse First Boston, transferred the principal of its first QFII investment into the Bank by the end of February. On March 11, ICBC sent the first SWIFT report to Credit Suisse First Boston, marking the formal start of ICBC's custody of QFII domestic securities investment assets.*

  On Mar.20, the Bank's Automatic Foreign Exchange Clearing System was successfully put into operation in the Data Center (Beijing).

  On Mar.29, the Bank formally became a member of the International Forfaiting Association ("IFA").

  On Mar.30, an agreement signing ceremony for credit card business cooperation between ICBC and American Express was held in Beijing.

- *April* — *On Apr.8, the Bank signed agreements with Credit Suisse First Boston, CITIC Securities Corp. Ltd., and China Credit Trust Investment Co., Ltd. respectively, on ICBC Ningbo Branch's non-performing assets securitization project. This project is the first securitization project among domestic commercial banks.*

  On Apr.26, the opening ceremony of ICBC RMB Treasury Center was held in Beijing.

  On Apr.29, ICBC's 2003 annual report (abstract) was published in the sixth and seventh editions of "Financial Times*".*

  On Apr.30, ICBC (Asia) completed the acquisition agreement of retail and commercial banking business of Fortis Bank Asia HK, which made its ranking in the Hong Kong banking industry in terms of total assets be boosted from tenth to sixth. Through this acquisition, ICBC (Asia)'s operational network for small and medium-sized enterprises and retailing customers was significantly reinforced.

- **May** *On May 1, the Central Purchase Evaluation Committee at the Head Office was established and formally put into operation.*

  ICBC extended its "Elite Club" accounts VIP services into the Hong Kong SAR, and all "Elite Club" customers traveling to Hong Kong can enjoy a set of VIP services offered by ICBC (Asia).

  On May 17, the Bank formally became the custodian bank of Dresdner Bank AG's QFII business, the third QFII for which the Bank provides custodial and clearing services. ICBC maintains its leading position in the QFII business area among Chinese banks.

  On May 23, the multi-function banking system's E-banking first-quarter edition (NOVA 1.2 edition) was put into operation successfully, which made the E-banking system more in line with the prevailing requirements of the system environment and business development magnitude in areas of response speed, transaction volume, transaction limits and voucher printing control.

- **June** *On Jun.28, the 2004 World Brand Summit and China Top 500 Brands press conference was held at the Beijing International Hotel. With the brand name valued at RMB 47,235 million, ICBC ranked seventh in the China Top 500 Brands, the only financial service industry brand in the top 10 brands.*

- **July** *On Jul.2, President Jiang Jianqing presided at the Second Conference of the Risk Management Committee of the Head Office in 2004. The main topic of the conference was about the construction of a comprehensive risk management system. In the conference, the "ICBC Risk Management Committee Articles (provisional)" and the "ICBC Comprehensive Risk Management Framework" were discussed and approved.*

  On Jul.10, the Foreign Exchange Accounting System of the Head Office (Version GLOBUS V1.1) was smoothly put into operation. This upgrade of the GLOBUS system was of great significance to raise the level of automation for foreign exchange collection and payment clearing and back office processing, to strengthen internal control and risk prevention and to ensure the safety of fund operations.

  On Jul.29, an agreement signing ceremony for ICBC's first loan transfer project in which the Bank was the transferor - the Jinliwen Highway Project of Zhejiang Branch was held in Hangzhou City. This project was of great significance to enhance credit asset liquidity, optimize asset structure and expand intermediary business income sources.

- **August** *On Aug.21, the multi-functional banking system NOVA version 1.3, personal banking business project was put into operation smoothly at the two major data centers and all branches. This version covered multiple business systems including accounting settlement, personal banking, E-banking, bank cards, management information and credit management.*

  On Aug.22, the new-generation mobile phone banking (Short Message Service-"SMS" based) was formally launched. Since then the SMS service is available for various services such as inquiry, account transfer, remittance, donation, payment and so on.

- **September** *On Sept.4, the Bank successfully launched the nationwide Peony Card authorization business hotline 4008895588, which was a milestone for the Bank's centralized management of the Peony Card authorization business.*

On Sept.5, the E-banking Center smoothly launched an integrated tele-banking service, which changed the E-banking center's tele-banking service from the traditional dialing center into a new call center with multi-access modes, diversified transaction functions and strong dial-out processing capabilities. Through the new tele-banking service, the Bank also standardized the business processing model.

The 95588 tele-banking service launched a roaming function in Hong Kong, first amongst its peers, which realized interactive roaming between Hong Kong and the Mainland.

On Sept.10, the fourth ICBC general meeting was hosted by President Jiang Jianqing, in which important management personnel changes determined by the State Council and the Central Organization Department of the State were announced. According to the Guo Ren Zi [2004] No. 89, Zu Ren Zi [2004] No.100, Mr. Yang Kaisheng was entitled Vice Chairman and Executive Vice President of ICBC; Mr. Li Xiaopeng was entitled Executive Vice President; and Mr. Tian Ruizhang retired from the office of Deputy Secretary of ICBC CCP Commission and Executive Vice President.

On Sept.16, ICBC (Asia) successfully issued USD 400 million of 5-year bonds in the international capital market. The coupon rate of the bonds was 4.125%, and the issuance price was 99.513. It was for the first time for ICBC (Asia) to raise capital in the international capital market.

On Sept.20, a ceremony and press conference for the launching of ICBC's Peony Platinum Card was held in Beijing.

On Sept.25, the Bank started the moving and operations of the Data Center (Beijing) production main board system.

● October

On Oct.25, in order to strengthen risk control, improve internal management system, and reform the present audit and supervision system, the Bank established the Internal Audit System and the Internal Control Compliance Department.

● November

On Nov.8, the bond DVP (Delivery Versus Payment) clearing business co-developed by PBoC and the Central Government Bonds Registration Co. was formally launched. As one of the first DVP business practitioners, ICBC became the DVP clearing agency bank of Tai Kang Property Insurance Company and Huatai Property Insurance Company.

On Nov.13, the bond investment and capital transaction business management system (BIFT) Version 1.2 was launched into operation in the Data Center (Beijing) successfully. As a main component of the non-credit interest-bearing assets management system, it was the first internal management system for RMB bond investment and RMB capital investment transactions, a change away from the previous status of manual management of the Bank's bond investment business.

On Nov.18, the ICBC restructuring steering team and the daily work office were established.

On Nov.29, the Bank became custodian of the first domestic Exchange Traded Fund (ETF) - Shanghai Securities 50 ETF.

● December

During Dec.1 to Dec.2, the Bank organized the "China Forum: Capital Market and Corporate Governance" in Beijing jointly with Euromoney and HSBC.

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