Financial Review

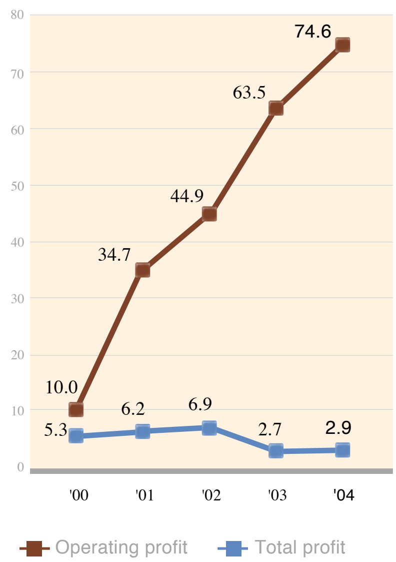
REVIEW OF INCOME STATEMENT ITEMS

• 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

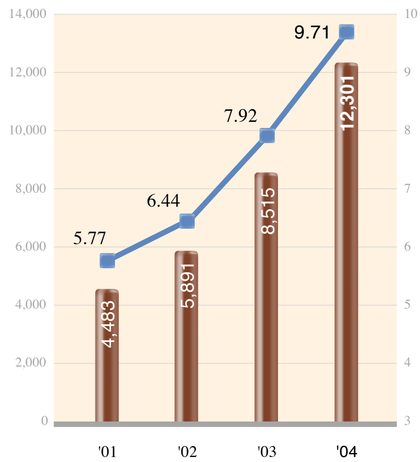
During 2004, ICBC realized other operating income of RMB 13,541 million, up by RMB 4.57 billion or 50.94% as compared to 2003. Of the total, intermediary business income reached RMB 12,301 million and other income reached RMB 1.24 billion, up by RMB 3,786 million and RMB 784 million over the prior year 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

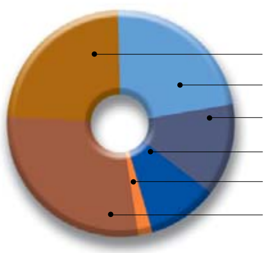
Intermediary business carries the characteristics of having a low risk profile and zero capital costs and has been viewed as a key focus for the Bank's business development during recent years. In 2004, intermediary business income amounted to RMB 12,301 million, up by RMB 3,786 million or 44.46% over 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

Unit: RMB million %



STRUCTURE OF INTERMEDIARY BUSINESS INCOME



	Amount (RMB million)	%
Agency business	2,915	23.70
Settlement business	2,789	22.67
Bank card business	1,616	13.14
Investment banking business	1,241	10.09
Guarantee business	249	2.02
Others	3,491	28.38

• Total Operating Expenses

OPERATING EXPENSES

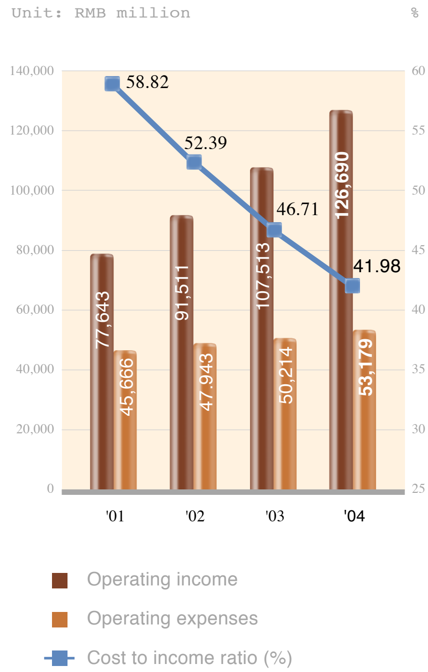
Unit: RMB million

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.

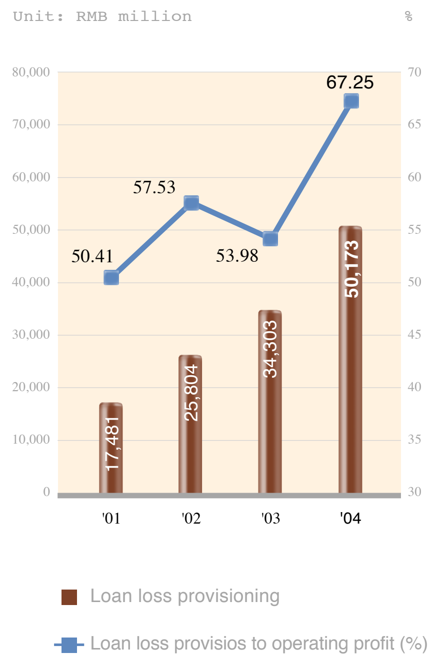
COST TO INCOME RATIO TREND



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.

LOAN LOSS PROVISION GROWTH



• 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.

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.

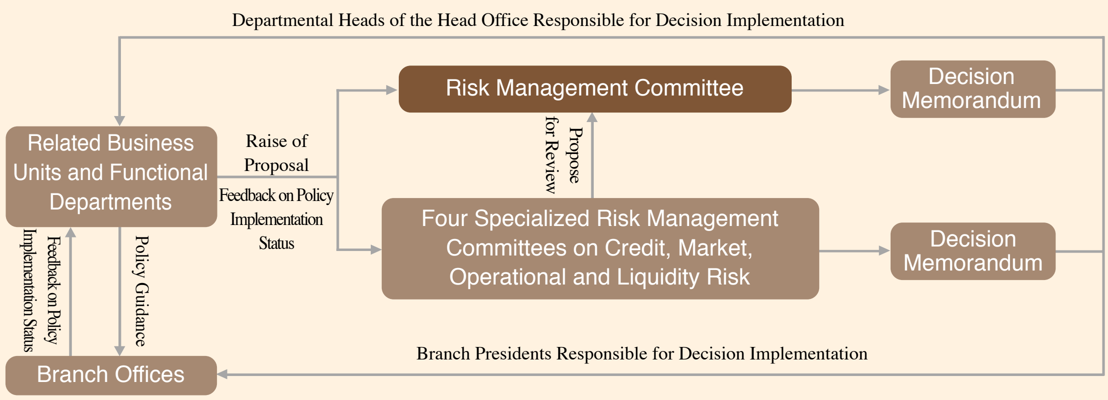
Risk Management

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

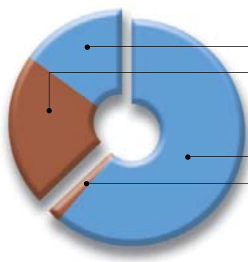
Unit: RMB million

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



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

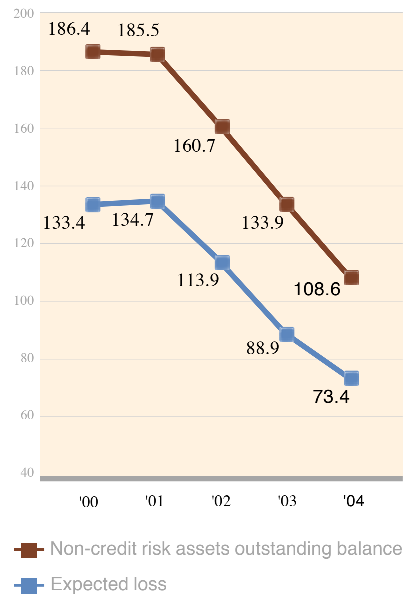
● Non-credit Risk Asset Management

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**

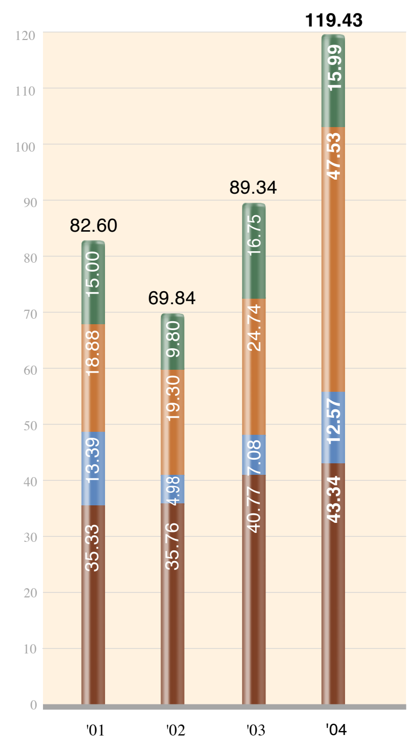
Recovery of Assets

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.

Corporate Governance

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.

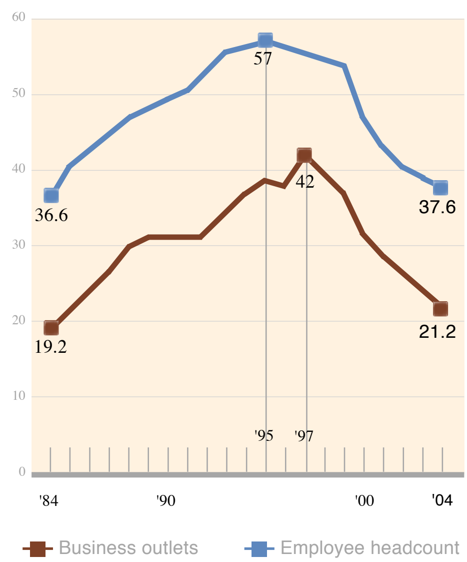
Branch Office Management System

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.

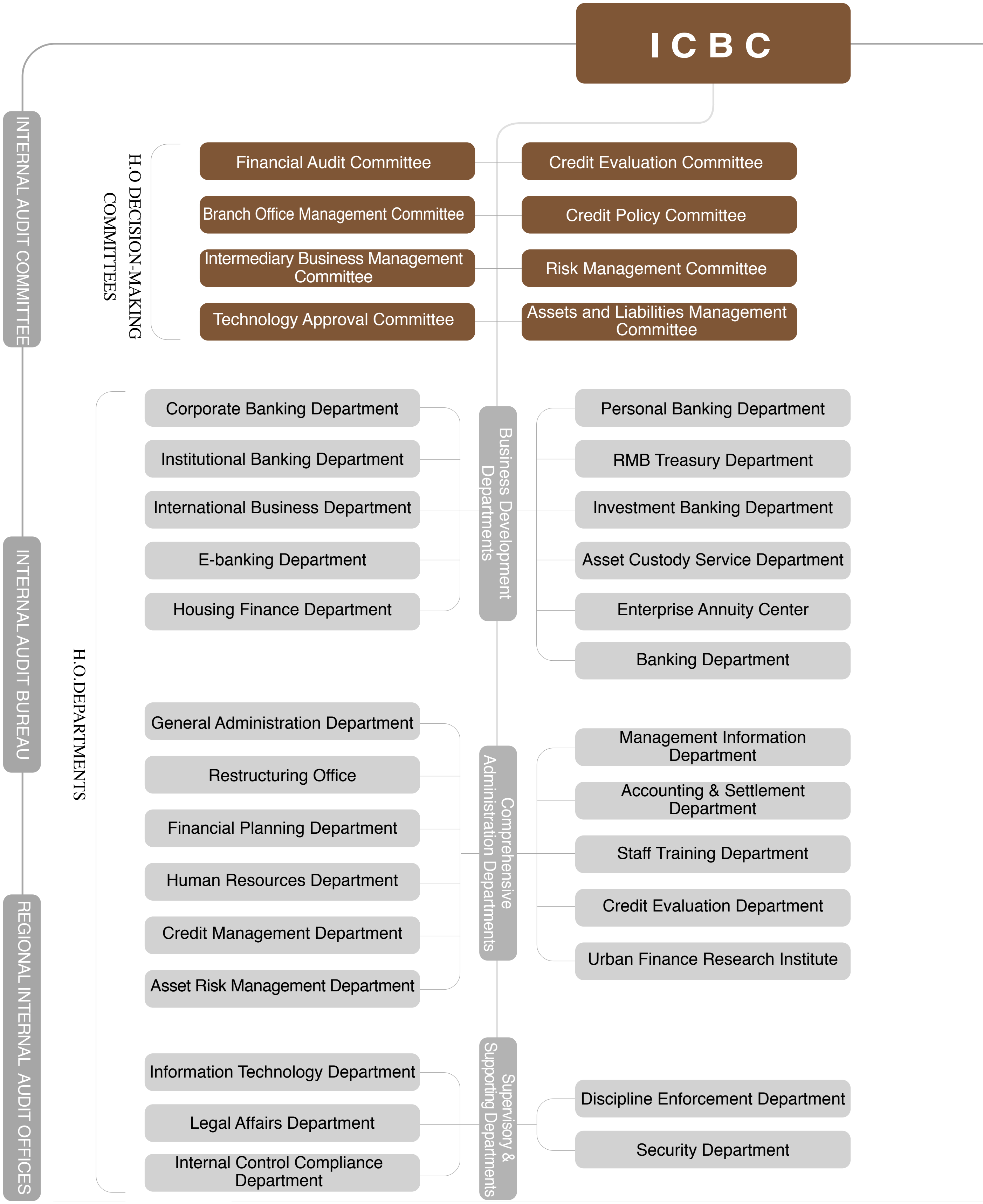
ICBC IN THE COMMUNITY

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.

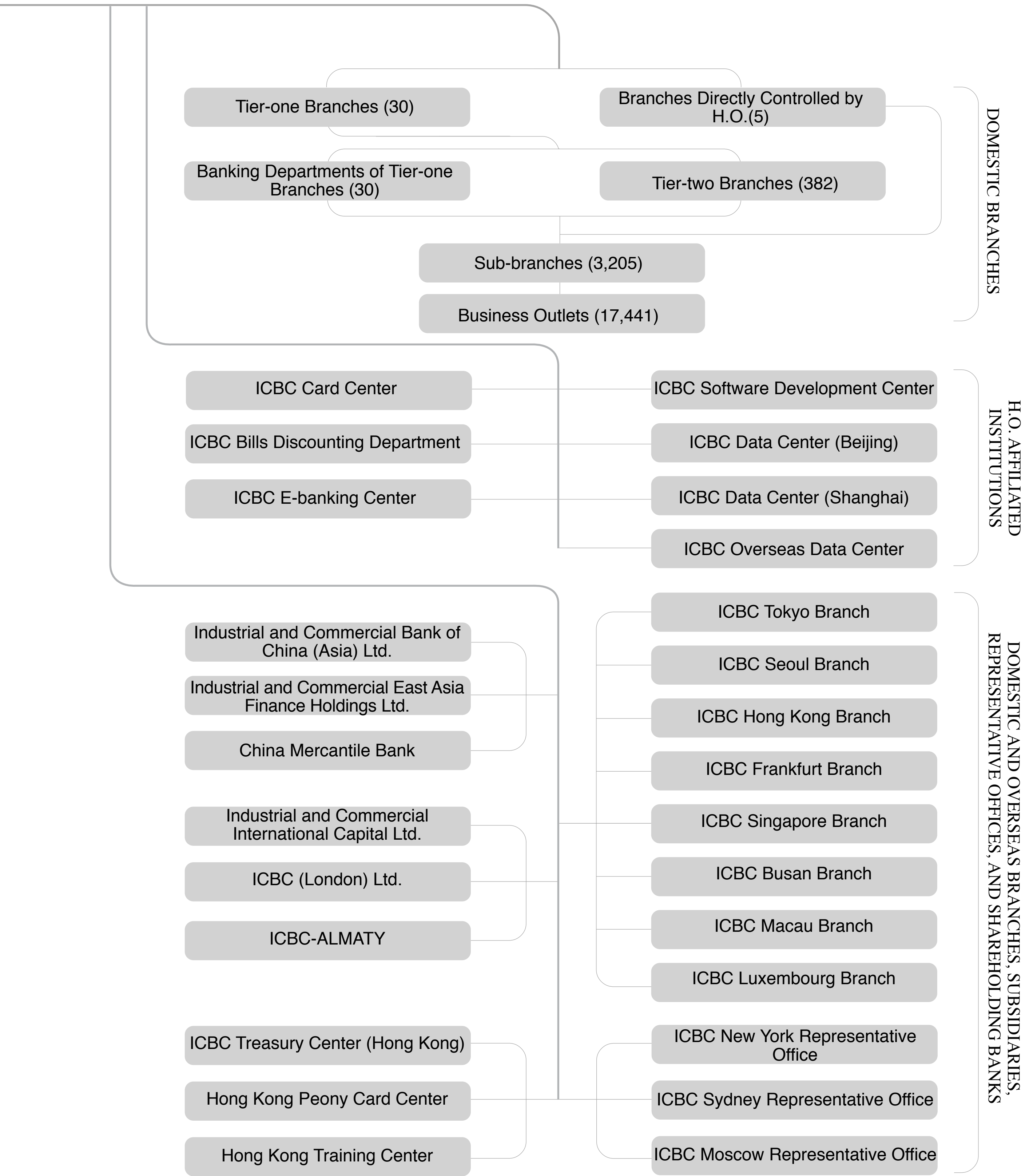
The Bank also organized *"Sending Warmth against Poverty"* activities. According to the requirements of the Central Government and Beijing Municipal Government, ICBC Head Office organized donation activities to help the poor with donations totaling RMB 20,643 in cash and 1,641 items of clothes and quilting, 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