

## Core Business



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## Core Business

In 2003, China's macro economy maintained vigorous growth with GDP growing by 9.1%. Domestic investment and consumer demand remained strong, and the economic efficiency of enterprises continued to improve. State-owned and state-controlled companies reported steadily increasing profits. Financial system operations remained stable. The total outstanding deposits held at all financial institutions reached RMB 22 trillion, representing a growth rate of 20.2% over prior year. The balance of outstanding loans reached RMB 17 trillion, up 21.4% from previous year. Total loan growth was RMB 3 trillion, an increase of RMB 1.1 trillion over previous year's growth.

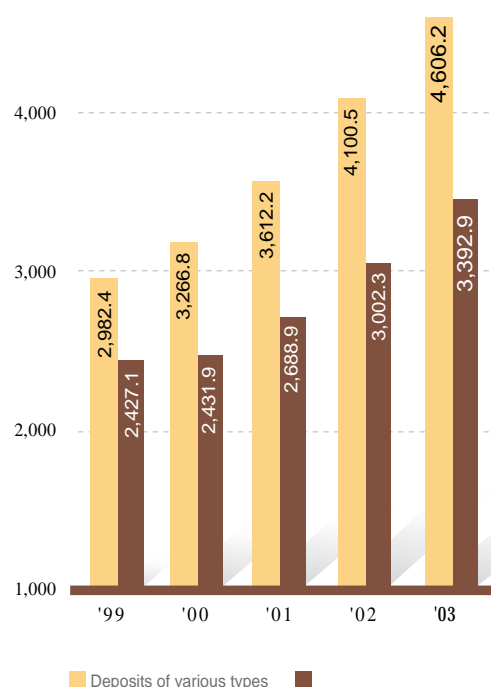
During this economic growth phase, ICBC achieved significant improvements by making structural adjustments. During 2003, the total operating profit of the Group reached RMB 63.5 billion, increased by RMB 18.7 billion or 42% as compared with the year of 2002. Using operating profit as a measure, Return on Assets ("ROA") and Return on Owner's Equity ("ROE") is respectively 1.20% and 37.27%, resulting in best performance in the Bank's history. Thirty-four of tier-one branches have achieved operating profit out of a total thirty-five of tier-one branches. Asset quality further improved. In accordance with the internationally accepted five-category classification method, non-performing assets declined RMB 66.9 billion including a decrease in NPL of RMB 40.1 billion or 4.2 percentage points and a decrease in special risk assets of RMB 26.8 billion.

The sources of revenue have been diversified in 2003. Total revenue of ICBC this year amounted to RMB 174.3 billion, increasing by RMB 10.9 billion. Total operating income reached RMB 107.5 billion, increasing by RMB 16.0 billion. Among them, the total intermediary business contributed RMB 8.5 billion, or 12.7% of the margin income, increased from 10.3% in prior year. The sources of revenue have been diversified by gradually switching the focus from traditional interest-based income to other value added services.

Business improved in 2003 on all fronts. The total amount of deposits increased RMB 505.7 billion, a growth rate of 12.3%. Total deposit growth increased RMB 17.4 billion over the prior year. On the lending side, outstanding loans increased RMB 390.7 billion, representing a growth rate of 13%. Total loan growth increased RMB 77.3 billion over the prior year. The ratio of loan to deposit was 70.2%, a ratio considered to be reasonable. The loan increase comprised short-term loans of RMB 108.9 billion and medium to long-term loans of RMB 281.8 billion. Newly extended medium to long-term loans were targeted at profitable enterprises with good creditworthiness and market shares,

DEPOSITS AND LOANS GROWTH

Unit: RMB billion



and have supported fundamental industry infrastructure projects such as construction and technological upgrading. Consumer lending increased RMB 104.6 billion, primarily in home mortgages and auto loans. Electronic banking and custodial business remained in the top position in China.

## >>CORPORATE BANKING

ICBC views corporate customers as the core customers and strives to continually improve in terms of customer satisfaction, financial product innovation and comprehensive financial services. Besides traditional services such as corporate deposits and loans, clearing and settlement, and agency business, new businesses such as cash management, internet banking, custodial business and investment banking are emerging and these services will be continually upgraded by the Bank.

The Bank has taken network advantages in marketing and integrated services in both foreign currency and local currency. Branches at all levels have been active in providing integrated services to reputable regional group customers directly. The Bank has maintained close business relations with a number of cross regional corporate groups such as the Big Three oil groups, the Big Four telecommunication operators and the Big Nine electric power and grid companies and multinational quality customers such as Nokia, Motorola, British Petroleum and Wal-Mart who invest in China. The Bank has offered comprehensive financial services to support a number of electric power projects, harbor, railway and infrastructure projects. In the meantime, the Bank also improved its services to small and medium sized enterprises and private businesses.

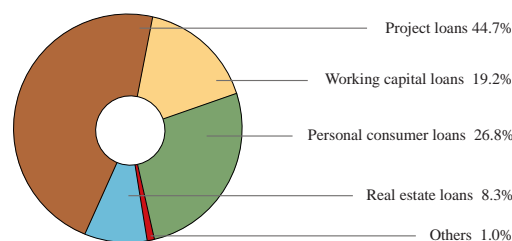
### Corporate Deposits

At the end of 2003, the outstanding amount of corporate deposits stood at RMB 1,986.9 billion, equaling 43% of all deposits, up by RMB 212.8 billion or 12% year on year. Among them, short-term deposits received from corporate customers stood at RMB 1,957.2 billion, up by RMB 208.7 billion or 12%, accounting for 98% of the total new corporate deposits. Long-term corporate deposits stood at RMB 29.7 billion, up by RMB 4.1 billion or 16%.

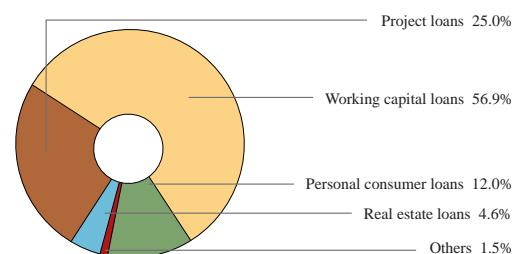
### Corporate Loans

Corporate loans outstanding amount stood at RMB 2,985.4 billion, up by RMB 286.1 billion year on year, accounting for 73.2% of the total new loans. Among them, working capital loans increased RMB 75.2 billion, accounting for 19.2% of the total new loans granted. Among the working capital loan increase, RMB 61.8 billion or 15.8% of them related to bills financing. Project loans went up by RMB 174.8 billion, representing 44.7% of the total new loans. The breakdown of the project

LOAN GROWTH



LOANS OUTSTANDING



loans showed that syndicated loans increased RMB 14.0 billion or 3.6%. Loans extended to real estate companies increased RMB 32.4 billion or 8.3% of the total increase. Other types of loans increased RMB 3.7 billion, or 1%.

## Institutional Banking

ICBC has been an active player in the domestic local currency market and the domestic bond market, acting as a primary lender and investor. The Bank offers liquidity support for other players in the market through repurchases and inter-bank transactions. The total turnover of inter-bank market business during the year 2003 amounted to RMB 3,436.7 billion, up by 72.5% over last year. Among them, the total bond reverse repurchase reached RMB 2,593.7 billion, up by 58.6% over last year with more than 20% market share; the total inter-bank lending amounted to RMB 344.7 billion; central bank bills subscription and bond trading reached RMB 181.1 billion and RMB 266.8 billion, respectively. As a price dealer in the bond market, the Bank offered reliable price quotes, which helped maintain and increase liquidity in the bond market. The Bank offered bond custody, bond settlement, and agency services for trust plan fund collection and payment for a number of financial institutions based on the competitive advantage of its settlement network. In addition, the Bank offered overdraft service to financial institutions, which provided instant liquidity supporting solutions to members of the money market.

Significant developments occurred in 2003 for the bancassurance business. ICBC signed comprehensive cooperation agreements with nine big domestic and overseas insurance companies. The total premium of insurance sold amounted to RMB 27.2 billion; total amount on agency collection and payment service reached RMB 43.7 billion, resulting in a commission income of RMB 584 million. The Bank maintained its top position among its peers with 30% market share in bancassurance market.

Cooperation with securities and futures industry stepped into a new stage. Banking-securities business accounted for over 50% of market share, holding top position among peers. The Bank holds Shanghai and Shenzhen Stock Exchange clearing accounts, and signed centralized banking-securities system service agreements with four national securities dealers; signed comprehensive cooperation agreements with twenty-eight securities dealers; signed custodial service agreements with seventy securities companies; signed clearing service agreements with three futures exchanges and one hundred and twenty-three futures brokerage companies, and signed deposits custody agreements with over sixty futures companies.

Cooperation of ICBC with other banks and trust companies maintained steady growth. The Bank provides clearance and payment services for 7,100 other financial institutions' network sites. In 2003, the Bank issued bank drafts on behalf of other banks totaling RMB 313.5 billion and cashed bank bills totaling RMB 319 billion. In the meantime, the Bank granted credit lines to one hundred and twenty institutional customers in 2003.

## 》》PERSONAL BANKING

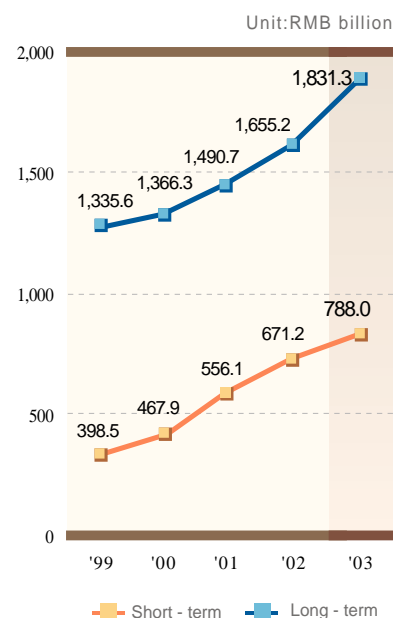
With the deepening of China's market economy reforms, individual wealth is constantly increasing and people tend to have growing demand for diversified financial products and services. In order to cater to the rapidly growing personal banking market segment, ICBC has adopted a "customer-oriented"

operational framework which emphasizes brand building, business process reengineering, product and service innovation and risk management strengthening. As a result, the Bank has achieved all-round development in its savings deposit, consumer credit, intermediary business, and personal wealth management services.

## Savings Deposits

During the year, savings deposits business grew steadily as a result of several factors including changing operational concepts, successful competition with peers for quality customers, accelerating the adjustments on savings outlet layout, active promotion of multi-channel services strategy and the establishment and improvement of the Bank's customer service system. At the end of 2003, the total savings deposits of the Bank amounted to RMB 2,619.3 billion, increased by RMB 292.9 billion or 12.6%. The level of RMB deposit is at a historical high. The total savings deposits in foreign currency was not only maintained market share of but also showed slight increases.

SAVINGS DEPOSITS GROWTH



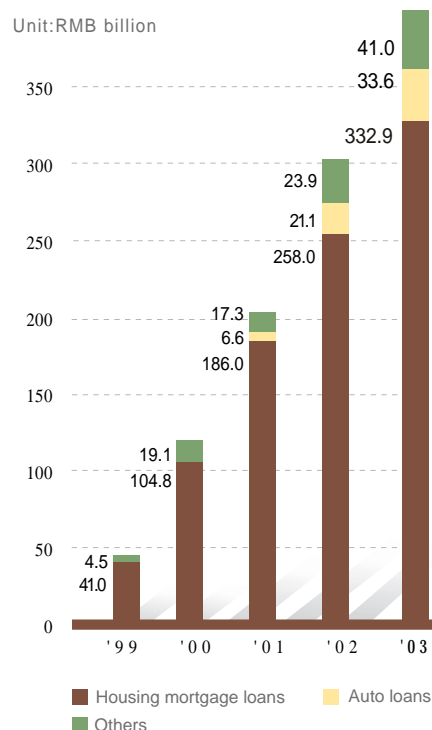
## Consumer Credit

Consumer credit continued to grow rapidly viewing at both quality and profitability. At the end of 2003, the total number of consumer credit customers reached 3.56 million; total consumer loans granted during the year reached RMB 226.6 billion, increasing by RMB 39.3 billion compared to year 2002. The outstanding balance of consumer credit amounted to RMB 407.5 billion, representing 12% of total outstanding loans, up by RMB 104.6 billion or 34.5% and accounting for 26.8% of the total new loans made during the year. The quality of personal consumer loans is good with an NPL ratio of 1.05% as measured by the five-category classification of loans.

### Housing Mortgage Loans

Housing mortgage loans have risen steadily. Mortgage loans outstanding represented 81.7% of the total consumer credit, and the increase accounted for 71.6% of the total growth of consumer loans. By the end of September 2003, housing mortgage loans exceeded RMB 300 billion, first in the industry, while ICBC maintained the leading position among banks in China. The total housing mortgage loans granted during 2003 amounted to RMB 143.2 billion, with total loan balances amounting to RMB 332.9 billion at year end, increasing by RMB 74.9 billion. ICBC's year-end total balance and the increase for year 2003 represented 28.3% and 21.2% of total housing mortgage loan balances and 2003 increases of all Chinese financial institutions respectively. There are over 3,000 banking

PERSONAL CONSUMER LOANS



outlets at ICBC providing mortgage services for a total of 2.3 million domestic households and the Bank has formed a housing finance product system including six different types of loans such as the housing mortgage loans which is the dominating product and housing accumulation fund loans, as well as related services such as re-mortgage and additional mortgage. In order to satisfy the consumers, the Bank offers many types of repayment methods for housing mortgage loans such as equal principal and interest repayment method, equal principal repayment method, step-up repayment method and other modes of repayment for different customers' choices. The Bank has set up housing mortgage loan approval centers in ten provinces in China that improved the service quality and efficiency.

#### Auto Loans

With the rapid development of the auto loan market in 2003, the Bank cooperates with top ten auto agencies such as Hyundai (Beijing), Shanghai Auto Industry Group, and HONDA (Guangzhou) to build its loan sales network. The auto loan business grew rapidly by offering the "bank to customer" direct auto loans (without going through dealers), optimizing loans granting process and marketing the brand of "happiness express". The outstanding amount of auto loans reached RMB 33.6 billion, increasing by RMB 12.5 billion or 59%, representing 12% of the total consumer loan growth in 2003.

#### General-Purpose Personal Consumer Loans

General-Purpose personal consumer loans are becoming another leading product of the Bank. At the end of 2003, the total outstanding general-purpose personal consumer loans reached RMB 35.2 billion, increasing by RMB 16.9 billion as compared with last year. The incremental amount equaled 16% of the total consumer loan increase in 2003.

### Personal Intermediary Business

The personal intermediary business has also grown rapidly. The Bank now offers altogether over two hundred and thirty products and services, falling into ten major categories including agency banking, settlement, wealth management, advisory services, foreign exchange, account management, custodial services, bank card and derivatives to individual customers. The Bank has achieved concerted development in traditional business and new business. In 2003, the Bank launched a number of new products such as terminable foreign exchange wealth management services. At the end of 2003, the Bank provided payroll services for 350,000 entities and 67.39 million people, with accumulated total payment amounting to RMB 566.2 billion; the total number of personal exchange of foreign currencies handled by the Bank reached 130 million, amounting to RMB 560.5 billion, up by 69% over the prior year.

#### Wealth Management

The "Elite Club" brand focuses on high-end individual customers. The customer service system for "Elite Club" members further developed in 2003 as customers can enjoy preferable, preferential and efficient services, which include bank card, investment, settlement, insurance, fund and foreign exchange, provided by professional customer managers in 95% of all the business offices' special VIP counters and more than 3,000 wealth management centers. In addition, "Elite Club" customers are offered a designated service area on ICBC's internet banking and an "individual customer certification" supported by intelligent SIM card certification technology, which has further upgraded the safety level of personal internet banking system. With increased market recognition and satisfaction, the "Elite Club" customers increased by 510,000 in 2003.



The Bank introduced terminable savings deposit and structured savings deposit to better meet customer's requirements in 2003. In August 2003, the Bank successfully expanded over-the-counter bond trading service from two (Beijing, Shanghai) to nine branches (Jiangsu, Zhejiang, Guangdong, etc.) and added two types of bond to the service scope. The total transaction volume reached RMB 1,249 million in 2003, representing a market share of 51%. It allows more individual investors to enjoy investment return from the bond market.

## 》》 BANK CARD BUSINESS

The bank card business focused its efforts on key market and quality customer as well as a series of theme marketing activities with remarkable achievements in 2003. While the number of issued cards increased by 20.8%, reaching a market share of 15%, the bank card direct spending volume increased by 42%, taking up 29% of the total market. The spending volume per card grew on average by 22.6% over last year; quality of cardholders and specialized merchants accepting the bank cards has significantly improved.

The revenue of bank card business totaled RMB 2.85 billion, increasing by 34% over last year. As the total revenue from bank card business grew, the income structure has improved too: the ratio of fee income to total bank card revenue and the ratio of interest income from overdraft to total bank card revenue increased 3.2 percentage points and 3.1 percentage points respectively, which indicates a gradual improvement in the profit model of the bank card business. While properly directing credit volume and expanding good quality bank card loans, the Bank also keeps an eye on credit risk management, and maintains an NPL ratio below 3%. In addition, ICBC was awarded for “significant contribution made to cross-bank card network unification” by People’s Bank of China (“PBoC”) due to its outstanding performance in the China UnionPay card network implementation.

### Key Measures For Bank Card Business

	2003	2002	Increase	% of Increase
<b>Total number of Peony Cards issued(in ten thousand)</b>	<b>9,595</b>	<b>7,946</b>	<b>1,649</b>	<b>20.8</b>
Debit cards	8,974	7,448	1,526	20.5
Credit cards	621	498	123	24.7
<b>Peony Card total spending volume (RMB billion)</b>	<b>97.3</b>	<b>68.5</b>	<b>28.8</b>	<b>42.0</b>
Debit cards	63.4	43.6	19.8	45.4
Credit cards	33.9	24.9	9.0	36.1
<b>Cross-boarder acquiring (RMB billion)</b>	<b>3.5</b>	<b>3.4</b>	<b>0.1</b>	<b>2.9</b>

## 》》INTERMEDIARY BUSINESS

In 2003, significant increases in revenue and largely increased profit contribution occurred in the intermediary (fee) business of the Bank. The revenue of intermediary business reached RMB 8.5 billion, up by RMB 2.6 billion or 44.8% from the previous year. The ratio of intermediary business income to interest margin income was 12.7%, increased 2.4 percentage points over the prior year. The ratio of intermediary business revenue to operating income was 7.9%, increasing by 1.5 percentage points over the prior year. Intermediary business has played an important role in improving the Bank's income structure, nurturing core competitiveness, strengthening financial services and enhancing overall efficiency. Intermediary business has firmly positioned itself as one of the pillar business lines, together with the traditional deposit and loan business.

### Clearing and Settlement

In 2003, the Bank conducted RMB 120 trillion of settlements business, up RMB 20 trillion, yielding RMB 970 million in revenues, which was RMB 330 million more than the previous year. The Bank's agency service of payment and settlement for corporate customers maintained the leading position amongst its peers, and ICBC handled all the bank draft payment agent services for the joint-stock banks in China. As of the end of 2003, the Bank had handled a total number of 3.84 million payment and settlement transactions, amounting to RMB 1,012 billion, an increase of 42.7% from last year.

### Bullion Trading

Since the Gold Exchange started operating one year ago, ICBC has maintained the leading position in the bullion trading funds clearing agent service market, providing fund clearing for seventy-five out of a total of one hundred and eight members of Shanghai Gold Exchange, settling amounts totaling RMB 26.2 billion, representing a 58.3% market share. The Bank also provides bullion trading and platinum trading agency service for ninety-one non-member entities, total volume of trading amounting to 17,173 kilograms of gold and 1,732 kilograms of platinum. It put in and took out from storage both gold bullion and platinum a total of 76,489 kilograms and 29,126 kilograms, respectively, for the Gold Exchange. ICBC was awarded "best member and best agent member of 2003".

### Cash Management

Cash management service is the multi-function financial service developed by ICBC, including collection and payment, accounts management, investment and financing, after consolidating its existing products and services. As of the end of 2003, the Bank had signed agreements for cash management service with 1,898 major customers, seventy-two of which are domestic group customers, and sixty-one of which are international and foreign enterprises customers. The Bank was able to tailor cash management services to its customers.

### Custodial Business

The year 2003 witnessed rapid growth in the Bank's fund custodial business, in which the Bank maintained and expanded its leading position among the domestic banks in the area of securities investment funds custodial services with a track record of no error performance for six consecutive years. ICBC received approval from the China Banking Regulatory Commission ("CBRC") for custodial service licenses for industry investment funds, which made the number of custody products adding up to eleven in six



categories. Six branches can offer asset custodial service. At the end of 2003, ICBC had RMB 62.9 billion of assets under custody, up by 104% over the prior year. Of the total, securities investment funds under custody amounted to RMB 53.6 billion. ICBC became the custodian for eight new funds, which made the number of funds under custody increasing to twenty-eight in total. Other entrusted assets under custody amounted to RMB 9.3 billion.

The Bank signed QFII custodial service agreements with both Credit Suisse First Boston Ltd. and Daiwa Securities in 2003. As a result, ICBC becomes the only domestic bank that offers custodial service for two QFIIs.

## Agency and Trust Service

The agency and trust service has grown steadily in 2003. The Bank underwrote RMB 86.5 billion of bearer treasury bonds, up by 84.8% over the prior year with a market share of 33%; as China's largest agent for bond business, the Bank cashed RMB 78.4 billion of treasury bonds. ICBC provided agency service to the State Development Bank totaling RMB 14.8 billion. For the China Export & Import Bank, ICBC handled RMB 3.5 billion of export seller's credit and other settlement funds of RMB 7 billion. The Bank extended RMB 29.6 billion of trust loans on behalf of corporate customers and as an agent, made payment of RMB 1.7 billion in the aggregate for "compensation to migrants for the Three Gorges Project".

The Bank was a pioneer in handling the state treasury funds payment and clearing business as a result of the state treasury management system reform. At the end of 2003, there were twenty-eight tier-one branches undertaking the treasury funds agency business. The Bank provided payroll payment for one hundred and eight ministerial bodies and other central governmental organizations covering 27,000 civil service workers and handled RMB 33.9 million of monthly payments on average. In November 2003, the Bank won the bid to become the direct payment and authorized payment agent bank for the MoF. The "bank-customs express pass" system, which ICBC co-developed with the customs has been launched across the country after the success of the pilot programs in nine customs including Shenzhen.

## Bills Finance

Bills finance, as an important tool in asset operation and liquidity management, plays a significant role in improving operational performance and asset quality. Despite fierce competition and decreasing interest spreads, the Bank still enjoyed steady and sound growth in bills business on the basis of preventing risks effectively. The total volume of bills business amounted to RMB 1,677.1 billion in 2003, up RMB 801.2 billion from the prior year. The balance of bills financing amounted to RMB 157.6 billion, up by RMB 61.8 billion over last year with 16.8% market share, which was the largest amongst the peer banks. The ICBC Bill Finance Center has gradually become the bills re-discounting center of the Bank.

The balance of bills financing at this department at the end of the year reached RMB 65.2 billion, making up 41.4% of the total for the Bank, and achieving a profit of RMB 150 million.

According to the needs for super short-term bills financing of large, good quality corporate customers, the Bank offered bills management agency services and innovated the commercial bills redemptionservices. On November 17, 2003, "ICBC Bills Price Index" was published to reflect in time the trend of price changes and overall price level of bill transactions, and also to provide information of bill interest rate change to the central bank, commercial banks and other bills business institutions.

## Investment Banking

Investment banking business is growing rapidly. The revenue from investment banking service of the entire Group amounted to RMB 700 million in 2003, including RMB 460 million from domestic and overseas branches, up by 132%. Among that total, overseas subsidiaries had revenue of RMB 240 million. Investment banking service directly generated profit and also facilitated the competition for quality customers, disposal of non-performing assets, and promotion of savings, loans and intermediary business, strongly supported the Bank's strategic adjustments on the operational structure.

Syndicated loan business showed significant growth in 2003, with a total of one hundred and ninety-one syndicated loans granted in 2003, representing a total balance of RMB 58.4 billion. Of these loans, the Bank acted as the lead arranger in 56 loans, amounting to RMB 38.8 billion and acted as participated bank in 135 loans amounting to RMB 19.6 billion. Due to fast growth of the domestic syndicated loan market, both the number and amount of loans in which the Bank has acted as lead arranger or participated bank during the year were more than the total of the past twelve years combined. The syndicated loan business outside China has grown more rapidly, gradually improving the Bank's ability to compete with international institutions. During 2003, the syndicated loan business had received recognition and praise from the industry. Among them, Nanhai Petrochemical Project, for which the Bank acted as one of the lead arrangers, won "the best deal of project finance" award from Hong Kong's "Finance Asia". In the ranking for lead arrangers of syndicated loans organized in the Hong Kong market done by "Base Point" magazine, ICBC (Asia) ranked the third place.

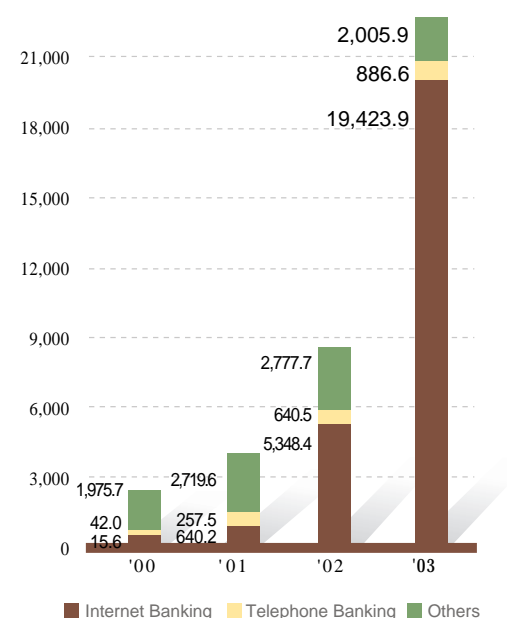
Financial advisory services have seen continued steady growth. The Bank has been the financial advisor for the local governments of Yunnan and Shanxi provinces and some central cities and development zones. The Bank also offered financial advisory services for the Railway Ministry, Merchants Bureau and so on in terms of structured finance, debt restructuring and merger and acquisition services. Financial advisory service has become an important instrument of the Bank to build new types of customer relationship, diversify revenue sources and manage credit risk. Revenues from advisory services amounted to RMB 380 million in 2003.

## »»E-BANKING BUSINESS

The E-banking service of ICBC maintains and further expands its leading position in domestic market by its "customer-oriented" operational concept. E-banking transaction volume reached RMB 22.3 trillion, 2.5 times of that in the prior year, of which internet banking transactions reached RMB 19.4 trillion, 3.7 times of that in the prior year. The number of corporate customers reached 69,000 and individual customers reached 7,499 thousand. Tele-banking transactions reached RMB 886.6 billion, 1.4 times of that in the prior year. The website hit

E-BANKING TRANSACTION VOLUME GROWTH

Unit: RMB billion



rate reached 59.8 million times, twice of that in the previous year. The Bank was awarded “Best Consumer Internet Bank in China ” by Global Finance of the U.S.

In terms of product innovation and integrated E-banking operation, ICBC has established E-banking Center which consolidated the Beijing Branch website into the headquarters’ website with international card online service into personal internet banking, and peony card telephone banking into the “95588” telephone banking. The Bank created the seamless host-to-host link with corporate financial software for the corporate customers. The Bank also set up an English website for corporate internet banking and provided online payment and inter-bank payment services for corporate customers. In addition, ICBC also launched a whole-new, one-stop new generation personal internet banking service platform which consolidated securities, foreign exchange and insurance services in one site and used individual certification chip key for customer identity verification to safeguard the customers’ funds more effectively. Further, ICBC successfully created the brand image of “Banking @home” as a new-generation personal internet banking services. In addition, the Bank is the first among its peers to offer a traditional Chinese character version of the website and set up an on-line BBS, which expanded the service channel.

## 》》INTERNATIONAL BUSINESS

The year 2003 saw stable growth and sound results in our international business. As at the year-end, the ICBC Group’s total amount of foreign exchange denominated assets reached USD 49.2 billion with USD 31.6 billion held by domestic branches and USD 17.6 billion held by overseas branches. Operating profit of international business of the Group reached USD 776 million with net profit of USD 502 million, up by 20% and 19% respectively. Intermediary service revenue of international business in domestic market for the year was USD 207 million (RMB 1,711 million), up by 33.7%, representing 20.1% of total intermediary service revenue. The balance of non-performing foreign currency loans measured by five-category classification system decreased USD 345 million, down by 12.2%.

With the establishment of ICBC Macau Branch, ICBC (London) Limited and Moscow Representative Office in 2003, the number of ICBC's overseas branches and offices reached 70. At the end of 2003, the Bank maintained correspondent banking relationships with 1,023 banks across six continents, covering one hundred and five countries and regions. During the year, ICBC introduced a variety of new products such as forward purchases and sales of foreign exchange, structured deposit, terminable savings deposit, overseas inward remittance with pre-quoted RMB exchange rate.

### Foreign Exchange Deposits and Loans

The foreign exchange deposits outstanding balance for the Group totaled USD 28.0 billion, with USD 23.2 billion taken from the domestic market and USD 4.8 billion from overseas operations. The foreign exchange loans outstanding for the Group totaled USD 25.3 billion, of which USD 16.0 billion was granted in the domestic market and USD 9.3 billion in the overseas market. International financing on-lending reached USD 2 billion in accumulation. Balance of foreign exchange deposits and loans was ranked second in Chinese banking industry, up by 1.8% from the previous year in foreign exchange loans market share.

## International Settlement

International settlement volume of ICBC reached USD 170.6 billion for all domestic and overseas branches during the year, with USD 136.9 billion handled by domestic branches and USD 33.7 billion handled by overseas branches, up USD 44.4 billion or 48.0% for the domestic market and USD 7.6 billion or 29.1% for the overseas market over 2002. Trade settlements amounted to USD 100.7 billion, up USD 29.5 billion or 41.4%, non-trade settlements and settlements under capital items reached USD 36.2 billion, up USD 14.9 billion, or 70.0%.

## Foreign Exchange Trading

Foreign exchange trading experienced rapid growth as agency client treasury transactions totaled USD 118.1 billion for customers, up 34%. Among them foreign exchange trading for customers reached USD 37.8 billion, up 13%; foreign exchange wealth management and risk management for customers' accounts totaled USD 7.1 billion, up 154%; purchases and sales of foreign exchange reached USD 73.2 billion, up 41%. Foreign exchange treasury operation contributed revenue of USD 231 million for the Bank during the year.

## Overseas Operations Development

In July 2003, the Macau branch was founded, which became the financial intersection between China Mainland, Macau and Hong Kong. The Bank gains an edge from cooperation between Mainland, Hong Kong and Macau, hence enhances the economies of all parties. In September 2003, ICBC (London) Limited and the Moscow Representative Office were founded. ICBC (London) is a wholly owned subsidiary, which can conduct a full range of banking business in the U.K. Its opening was not only one of mainland's biggest single investment in the U.K., but also a great step for ICBC to launch operation in the world's largest financial center, which improved its overseas service capability. The establishment of Moscow Representative Office was aimed at strengthening and developing the cooperation with Russian banking industry and other enterprises to explore the feasibility of setting up operations there in the future.

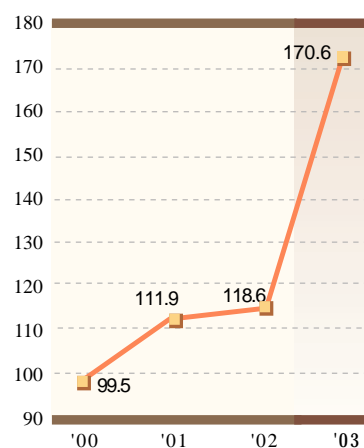
## Share Controlled Banks in Hong Kong

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

In 2000, Hong Kong listed bank "Union Bank of Hong Kong Limited" was acquired by ICBC and then renamed as "Industrial and Commercial Bank of China (Asia) Limited". ICBC injected the commercial banking business of its Hong Kong Branch into ICBC (Asia) in 2001. By doing so, it expanded ICBC (Asia)'s customer base, improved its deposits and loans portfolio as well as diversified its product mix. On December 31, 2003, ICBC (Asia) signed agreements with the Fortis Group, purchasing 100% of its shares of Fortis Bank Asia HK. ICBC (Asia) can absorb relevant experience and technology of Fortis Bank Asia HK in serving SMEs and retail customers after the acquisition and its ranking by total assets among listed banks in Hong Kong moved to No. 6 from previously No.10.

## INTERNATIONAL SETTLEMENT GROWTH

Unit: USD billion



Despite a slow-down in economic environment of Hong Kong, ICBC (Asia) showed strong performance in both asset growth and profit. With strong growth in fee revenue and effective cost control measures, ICBC (Asia) achieved after-tax profits of HKD 522 million in 2003, up 10% from the previous year. Basic earnings per share were HKD 0.71, with average ROA and ROE (common shares) of 0.8% and 10.2%, respectively. The NPLs were reduced by HKD 70 million with the NPL ratio down from 2.3% to 1.7%.

#### Industrial and Commercial East Asia Finance Holdings Ltd. (“ICEA”)

In 1998, the Bank joined Bank of East Asia in Hong Kong in establishing ICEA with ICBC holding 75% share of the entity through a co-acquisition of National Westminster Securities’ securities business in Asia. ICEA’s service now covers main board listing, GEM board listing, share offering and merger and acquisition and etc. ICEA had made breakthrough progress in major business lines including debt finance, equity finance and securities trading. It seized the opportunity of a favorable stock market booming in 2003 to actively pursue brokerage business for customers, generating profit for the Bank amounted to USD 8.02 million, up by 386% as compared with the previous year.

#### Industrial and Commercial International Capital Ltd. (“ICIC”)

In April of 1993, ICBC invested in Xiamen International Finance Company in the name of ICBC Trust and Investment Co., thus Xiamen International Bank (“XIB”) and ICBC hold respectively 51% and 49% of shares. This company became the first entity in which ICBC invested in Hong Kong. In March of 1996, the company changed name to Industrial and Commercial International Capital Ltd. and maintained the same share structure. In May of 1997, ICBC started to hold the shares of ICIC directly instead of through the original ICBC Trust and Investment Company. In May 2002, the Bank purchased the remaining 51% of ICIC from XIB and ICIC became a wholly owned subsidiary of ICBC.

The total after-tax profit of ICIC amounted to HKD 15.2 million, up HKD 9.47 million; NPL ratio declined to 8.54%, down by 13.71 percentage points from the prior year, down by 24.61 percentage points compared with that at the time of acquisition of the shares; the ratio of non-performing assets declined to 4.95%, down by 7.68 percentage points from the prior year, and by 18.39 percentage points compared with that at the time of acquisition. ICIC recorded a profit of HKD 22.23 million in accumulation for 19 months since acquired, which is a vivid contrast with the four consecutive years of losses prior to being purchased by ICBC.

### Changes of Shareholders of Domestic Joint-venture Banks

While focusing on international market expansion, the Bank gradually withdrew from the domestic joint venture banks by divesting the non-core assets.

- International Bank of Paris and Shanghai

International Bank of Paris and Shanghai used to be a 50%-50% joint venture of ICBC and BNP Paribas. ICBC sold all its shares (50%) in the International Bank of Paris and Shanghai to its partner BNP Paribas after approval of CBRC in 2003.

- Qingdao International Bank

Qingdao International Bank was originally founded by 50% investment from ICBC and 50% from Korea First Bank. On October 30, 2003, the Korean Hana Bank signed a Memorandum of Understanding on the equity restructuring of Qingdao International Bank, a new JV contract and the new Articles of Association with ICBC to purchase 50% shares of Qingdao International Bank from Korea First Bank and added investment of USD 16.12 million. After the capital injection, Hana Bank now holds 72.31% share of Qingdao International Bank.

- China Mercantile Bank

China Mercantile Bank was founded by ICBC and Hong Kong Chinese Bank with shareholding of 75% and 25%, respectively. In 2002, the Hong Kong Chinese Bank was acquired by CITIC Ka Wah Bank and thus CITIC Ka Wah Bank became the foreign shareholder of China Mercantile Bank. In 2003, ICBC purchased part of credit and non-credit assets of China Mercantile Bank up to USD 154.47 million.



## » AWARDS IN 2003



EUROMONEY, U.K. named ICBC “Best Bank of China”



GLOBAL FINANCE, U.S.A named ICBC “Best Bank of China”



GLOBAL FINANCE, U.S.A named ICBC “Best Consumer Internet Bank of China”



ASIA MONEY, H.K. named ICBC “Best Local Commercial Bank of China”



FINANCE ASIA, H.K. named ICBC “Best Local Bank of China”



EMERGING MARKETS, U.K. named ICBC “Best Multi-lateral Relationship Bank in Asia”

《经济观察报》

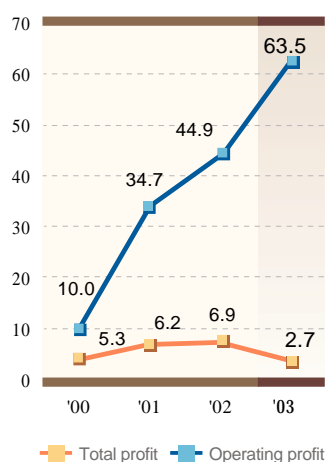
ECONOMIC OBSERVER, CHINA named ICBC “The Most Admired Enterprise in China in 2002”

## Financial Review

### 》》PROFIT

During 2003, ICBC Group achieved an operating profit (before provisions and charge-offs) of RMB 63,544 million. This was an increase of RMB 18,694 million or 41.7% over 2002. The total profit was RMB 2,658 million in 2003, which was RMB 4,244 million less than 2002. The primary reason for the decrease in total profit was our effort to reduce non-performing loans and assets through higher level of loan provisioning and charge-offs. Both the provisioning and charge-offs accounted for 95.8% of operating profit (before provisions and charge-offs), up 11.2 percentage points over the prior year. Among them, loan provisioning accounted for RMB 34,303 million, up RMB 8,499 million. Charge-offs of non-performing loans amounted to RMB 26,686 million and the loan provision balance reached RMB 20,987 million. Charge-offs of interest receivables amounted to RMB 12,105 million, up RMB 3,864 million over the prior year. Charge-offs of special risk assets amounted to RMB 14,478 million, up RMB 10,575 million.

GROUP PROFIT GROWTH  
Unit: RMB billion



#### Operating profit

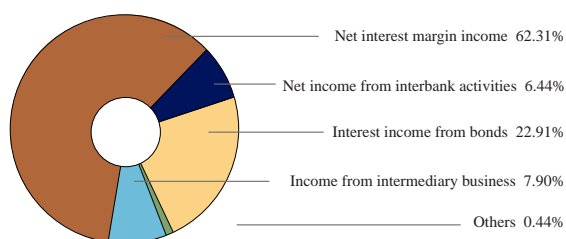
Unit: RMB million

ITEM	2003	2002	Increase	% of Increase
Total profit	2,658	6,902	-4,244	-61.49
Loan provisioning	34,303	25,804	8,499	32.94
Charge-off of interest receivables	12,105	8,241	3,864	46.89
Charge-off of special risk assets	14,478	3,903	10,575	270.95
<b>Operating profit</b>	<b>63,544</b>	<b>44,850</b>	<b>18,694</b>	<b>41.68</b>

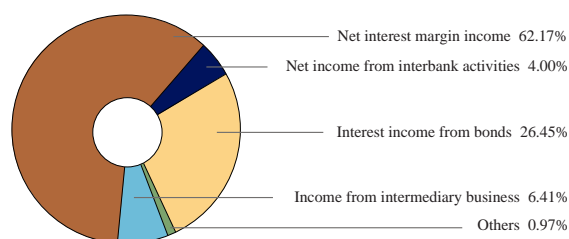
### 》》OPERATING INCOME

The Group realized operating income of RMB 107,513 million in 2003, RMB 16,002 million or 17.5% more than 2002. Net interest income comprised 91.7% of operating income, and non-interest income accounted for 8.3% of operating income, one percentage point higher than that in 2002.

STRUCTURE OF OPERATING INCOME 2003



STRUCTURE OF OPERATING INCOME 2002



## Interest Income

Total interest income of 2003 was RMB162,839 million, RMB 7,964 million more than that of 2002. The interest income on loans and bond investments accounted for 76.8% and 15.1% of total interest income, which was 0.3% and 0.5% less than 2002 respectively. The interest income on amounts due from banks and financial institutions accounted for 8.1%, 0.8 percentage points more than 2002. The interest income on amounts due from banks and financial institutions showed a sharp growth of 16.1%, which was mainly because in the second half of 2003, PBoC raised the statutory deposit reserve rate. This resulted in higher demand for funds in the money market and ICBC therefore put more effort into financing activities in the market while maintaining adequate liquidity of itself.

ITEM	2003	2002	Increase	% of Increase
Interest income on loans	124,976	119,272	5,704	4.8
Interest income on amounts due from banks and financial institutions	13,235	11,396	1,839	16.1
Interest income on bond investments	24,628	24,207	421	1.7
<b>Total</b>	<b>162,839</b>	<b>154,875</b>	<b>7,964</b>	<b>5.1</b>

## Interest Expense

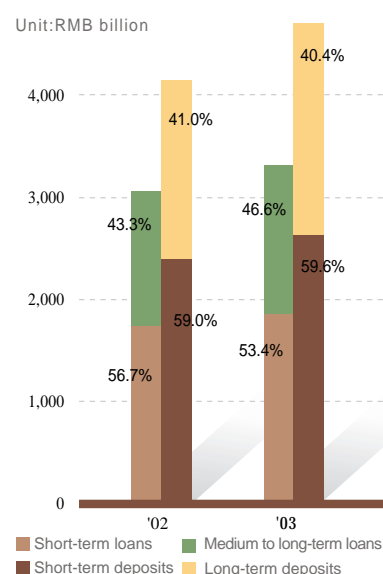
ITEM	2003	2002	Increase	% of Increase
Interest expense on customer deposits	57,983	62,380	-4,397	-7.0
Interest expense on amounts due to banks and other financial institutions	6,314	7,733	-1,419	-18.3
<b>Total</b>	<b>64,297</b>	<b>70,113</b>	<b>-5,816</b>	<b>-8.3</b>

Due to the time lag effect of PBoC's interest rate reduction and the effect of shortening of the deposit term structure, the deposit balance increased by 12.3% in comparison with that of 2002 while at the same time the interest expense on customer deposit decreased by 7.0%. Interest expense on amounts due to banks and other financial institutions decreased by RMB 1,419 million or 18.3% compared with that of 2002. The major reason was the adequate short-term liquidity of ICBC existed during 2003 and that the efficiency of intra-system placements and borrowings had been enhanced so that the financing from external sources was less than that in the past.

## Other Operating Income

ICBC increased its investment in business product development and expanded the income sources. The businesses of bank cards, bills, E-banking and settlement increased rapidly, which contributed to the sharp increase in overall revenue. The fees and commission income from intermediary services for the whole year amounted to RMB 8,496 million, increasing by RMB 2,630 million, or by 44.8% in comparison with that of 2002.

TENOR STRUCTURE OF DEPOSITS AND LOANS



## OPERATING EXPENSES

The operating expenses of 2003 amounted to RMB 50,214 million, RMB 2,271 million more than that of 2002. Among them, human resources expense and depreciation expense increased by RMB 1,125 million and RMB 950 million respectively. The major reason for the increase of depreciation expense is that more investments were made in the technology infrastructure, which resulted in the change of the structure of fixed assets with the depreciation period shortened and comprehensive depreciation rate increased.

## PROVISIONS

ICBC has further strengthened the provisioning and charge-off of loan losses. Loan provisioning made during the year amounted to RMB 34,303 million, RMB 8,499 million, or 32.9% more than 2002 and, in addition, charge-off of NPLs amounted to RMB 26,686 million. The balance of reserve for loan losses reached RMB 20,987 million, which was RMB 7,459 million higher than that of 2002.

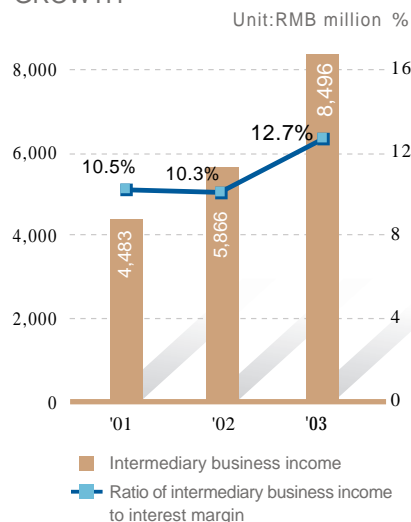
## NON-OPERATING ITEMS

In the 2003, non-operating expenses amounted to RMB 15,597 million, up RMB 10,916 million. The increase was mainly due to the greater effort in the disposal of non-loan special risk assets, including the amortization of the losses resulted from non-business purpose properties reform according to the relevant government policies, the loss on the disposal of settled assets, and other miscellaneous losses. All these items amounted to 92.8% of the total non-operating expenses, up RMB 10,575 million or 270.9% over the prior year.

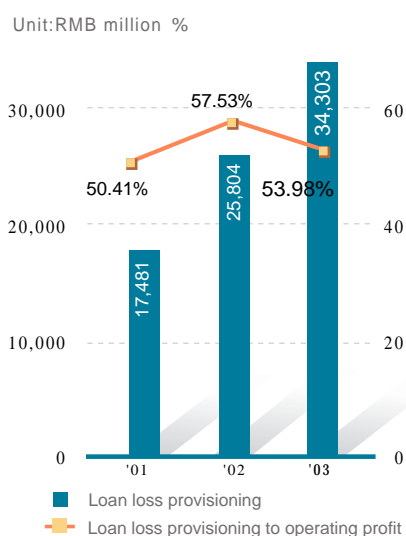
## MAIN CHANGES IN THE BALANCE SHEET

The total assets balance of the Group as of the end of 2003 was RMB 5,279,120 million, which was 10.5% higher than that of 2002. The increase was mainly due to the increase of loans and investments: they increased RMB 390,654 million and RMB 184,370 million respectively, or 13.0% and 18.7%, respectively. The total liabilities balance was RMB 5,106,167 million, which was 11.1% higher than that of 2002. The increase was mainly due to the increase in deposits by RMB 505,685 million or 12.3%. The owner's equity balance decreased by RMB 7,707 million, with a decrease of RMB 64 million in paid-in capital (mainly resulting from the fact that ICBC transferred its paid-in capital to China Huarong Asset Management Corporation), an increase of RMB 123 million in capital reserve, an increase of RMB 5 million in surplus reserve and a decrease of RMB 7,771 million on retained earnings. On the base of a realized net profit of RMB 2,473 million for the year, the decrease in retained earnings was mainly because ICBC adopted the relevant regulations of MoF to accrue for a Specific Provision for Non-Performing Assets Disposition Losses for China Huarong Asset Management Corporation bond investment losses of RMB 7,141 million against retained earnings and wrote off accrued interest of RMB 2,509 million on specific government bonds against retained earnings.

INTERMEDIARY BUSINESS INCOME GROWTH



LOAN LOSS PROVISION GROWTH



## IT Projects

### 》》SAFE OPERATIONS PROJECT

In order to ensure secure and stable operations of information technology systems, and to provide a stable technology platform for the Bank's reforms and development, the "Safe Operations Project" was initiated in 2003. The main parts of the project included keystone projects such as setup of the general control center of the Bank, data center disaster recovery, consolidation of data centers of overseas subsidiaries, and reconstruction of the tier-one frame relay of the entire bank. In 2003, the "Safe Operations Project" achieved notable success; the Bank's information technology systems had stable performance without significant incidents. The ratio of average usability of the data center information systems reached 99.95%, while the transactions processed through the central processing systems and open platform processing systems of the two data centers reached 828 million transactions per month.

### 》》MULTI-FUNCTION BANKING SYSTEM (NOVA)

In order to strengthen product innovation and construction of additional financial service channel and promote the restructuring of business and management flow, the Bank put NOVA 1.0 version into operation in November 2003. NOVA is the third generation application system based on the Comprehensive Business System. NOVA further highlights the customer-oriented business operation principle and intensifies the function of management computerization. NOVA 1.0 version involves twelve core items like the first phase of financial accounting system reform, real-time clearing, etc. It achieves the business data sharing across the whole bank and real-time cross-region transaction settlement, new generation internet banking, etc. The successful operation of the system is another landmark in the construction of computerization and restructuring of business operation and management systems.

### 》》CONTINUOUS PRODUCT INNOVATION AND NEW APPLICATION

The Bank introduced new application such as the personal settlement account, "Elite Club" account and bank insurance account successively and promoted the application of the systems of modern payment and foreign exchange remittance (RFC) and international settlement (ISEE), which vigorously propelled the reform of various business flows and advanced the competitiveness of the Bank. The introduction of electronic banking scored a big success, the integration of service channels of electronic banking achieved breakthroughs and the new generation internet banking system "Banking @ home" provided better services to our customers. All these factors contributed to the substantial improvement of the technology of internet banking business of the Bank. In parallel development, "Peony" credit card telephone banking, centralized international credit card telephone banking system and nationwide telephone banking roaming access were put into operation successfully. The operations, promotion and improvements in business products further advanced the competitiveness of the Bank, contributed to our efficiency of operations and scored new achievements in the restructuring of business flow.

### 》》APPLICATION OF NEW ACHIEVEMENTS IN MANAGEMENT INFORMATION SYSTEMS

New achievements of management information systems were put into use, which enriched and promoted the application of "manage through information" of the entire bank. CM2002 version of credit management system was put into operation and the comprehensive statistical and statement system was enhanced. The research into the data warehouse project was strengthened. Personal Customer Relations Management System (PCRM) and Corporate Customer Relations Management System (CCRM) were further improved, which marked a significant improvement of the Bank's capability of operating and managing the business through electronic means.