

Financial Statements and Notes to the Statements

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**INDUSTRIAL AND COMMERCIAL
BANK OF CHINA**

AUDITORS' REPORT

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

To Industrial and Commercial Bank of China:

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

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

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

Beijing Zhong Tian Hua Zheng CPA Co., Ltd.



Beijing, P.R.C

Director Accountant:



Certified Public Accountant of China:



March 25, 2003

CONSOLIDATED BALANCE SHEET

Unit : RMB million

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

CONSOLIDATED INCOME STATEMENT

Unit: RMB million

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

CONSOLIDATED CASH FLOW STATEMENT

Unit : RMB million

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

Unit : RMB million

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

BALANCE SHEET

Unit : RMB million

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

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

INCOME STATEMENT

Unit : RMB million

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

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

NOTES TO THE FINANCIAL STATEMENTS

I. BRIEF INTRODUCTION OF THE BANK

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

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

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

II. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Adoption of accounting standards and regulations

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

2. Accounting period

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

3. Currency of record

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

4. Principle for book keeping and valuation

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

5. Types and scope of loans

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

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

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

6. Provision

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

7. Accounting for investments

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

8. Accounting for fixed assets and depreciation

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

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

9. Valuation and amortization of intangible assets

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

10. Amortization of deferred assets

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

11. Accounting for interest payable

Interest payable is accounted for on an accrual basis.

12. Principle of revenue recognition

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

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

13. Accounting for income tax

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

14. The scope and preparation of consolidated financial statements

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

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

15. Foreign currency translation

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

16. Taxes

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

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

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

III. NOTES TO THE SIGNIFICANT ITEMS OF THE FINANCIAL STATEMENTS

1. Due from Banks

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

2. Inter-Bank Placements

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

3. Loans

a. Loans classified by types of collateral

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

b. Loans classified by tenor

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

c. Loans classified by risk grading

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

d. Loans classified by industry

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

4. Provision

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

5. Accounts Receivable

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

6. Investments

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

7. Fixed Assets, Net

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

8. Other Assets

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

9. Deposits

1. Classified by depositors

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

2. Classified by types of deposits

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

10. Due to Banks

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

11. Inter-Bank Borrowings

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

12. Borrowings

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

13. Accounts Payable

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

14. Owners' Equity

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

15. Capital Adequacy Ratio

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

16. Interest Income, Interest Expenses and Net Interest Income

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

17. Other Operating Income

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

18. Business Tax and Surcharges

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

19. Important Off-Balance Sheet Items

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