



# **Constantly Improving Corporate Governance of Industrial and Commercial Bank of China Limited**

**July 2007**



# Foreword

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- Industrial and Commercial Bank of China Limited (the Company), the largest commercial bank in China, was established on January 1, 1984. After the *Law on Commercial Banks* was implemented in 1995, it became a state-owned commercial bank.
- On October 28, 2005, Industrial and Commercial Bank of China Limited was established. MOF and Huijin were two shareholders.
- On April 28, Goldman Sachs, Allianz and American Express completed the strategic investment in the Company (USD3.78 billion); on June 29, 2006, SSF completed the equity investment in the Company (USD18 billion).
- On October 27, 2006, the Company was listed at Shanghai and Hong Kong simultaneously, becoming the largest A-share listed company by market capitalization, the largest listed company in Asia and among the top three listed banks in the world.

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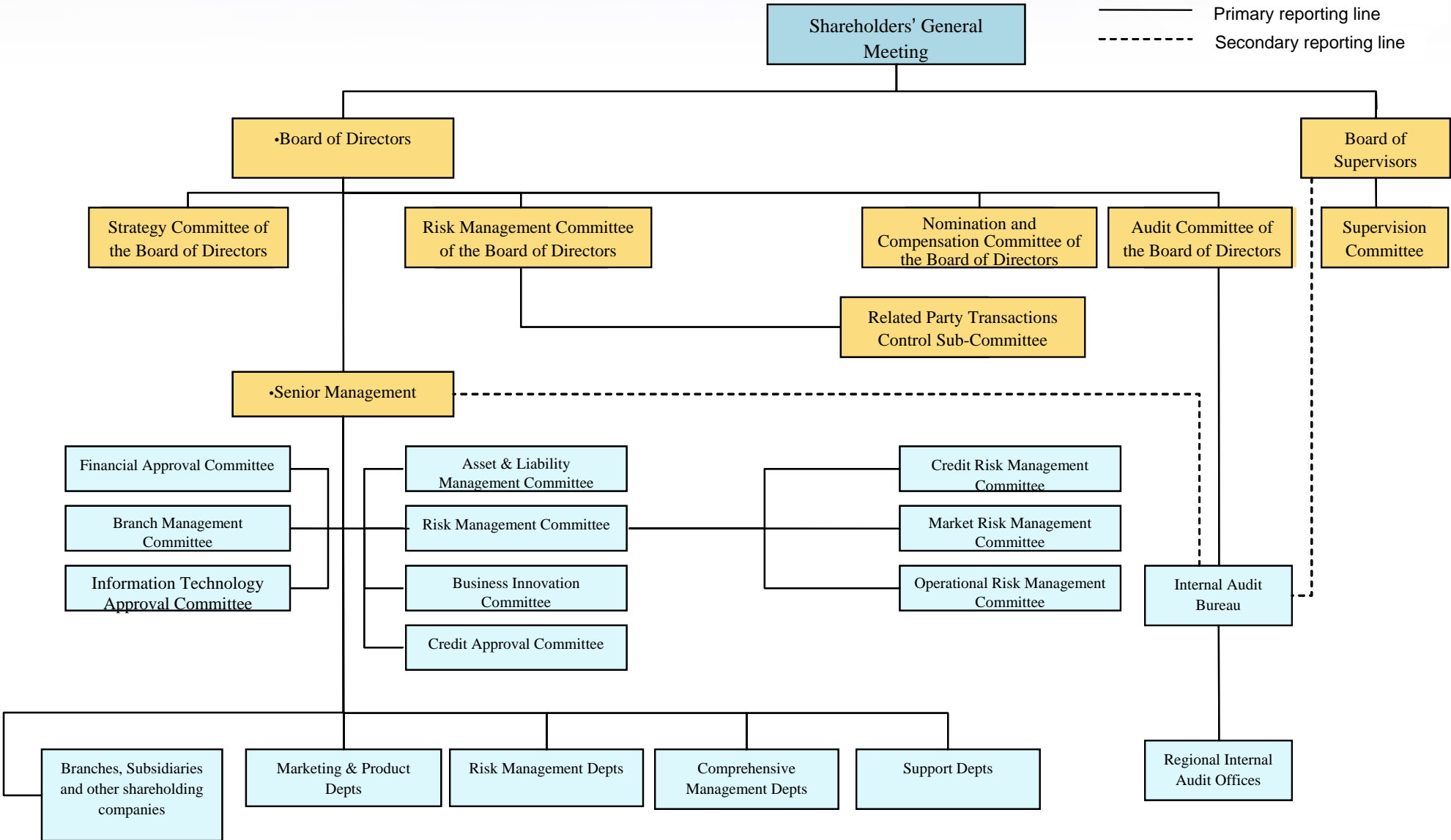
## Part I

# Corporate Governance Structure of the Company



# Corporate Governance Structure

## •Corporate Governance Structure of ICBC after the IPO



# Shareholders' General Meeting

- As the power organ of the Company, the Shareholders' General Meeting decides on the business policy and material investment plan of the Company; reviews and approves the financial budget, final accounts plan and profit distribution plan; selects and replaces directors; revises the Articles of Association; etc.

Shareholder	Share Class	Shares Held (Share)	Percentage (%)
MOF	A-share	118,006,174,032	35.3292
Huijin	A-share	118,006,174,032	35.3292
SSF	H-share	14,102,149,559	4.2220
Goldman Sachs	H-share	16,476,014,155	4.9327
Allianz	H-share	6,432,601,015	1.9258
American Express	H-share	1,276,122,233	0.3821
Other H-share holders	H-share	44,769,615,000	13.4033
Other A-share holders	A-share	14,950,000,000	4.4758
<b>Total</b>		<b>334,018,850,026</b>	<b>100</b>

Note : In accordance with the register of shareholders at March 31, 2007.

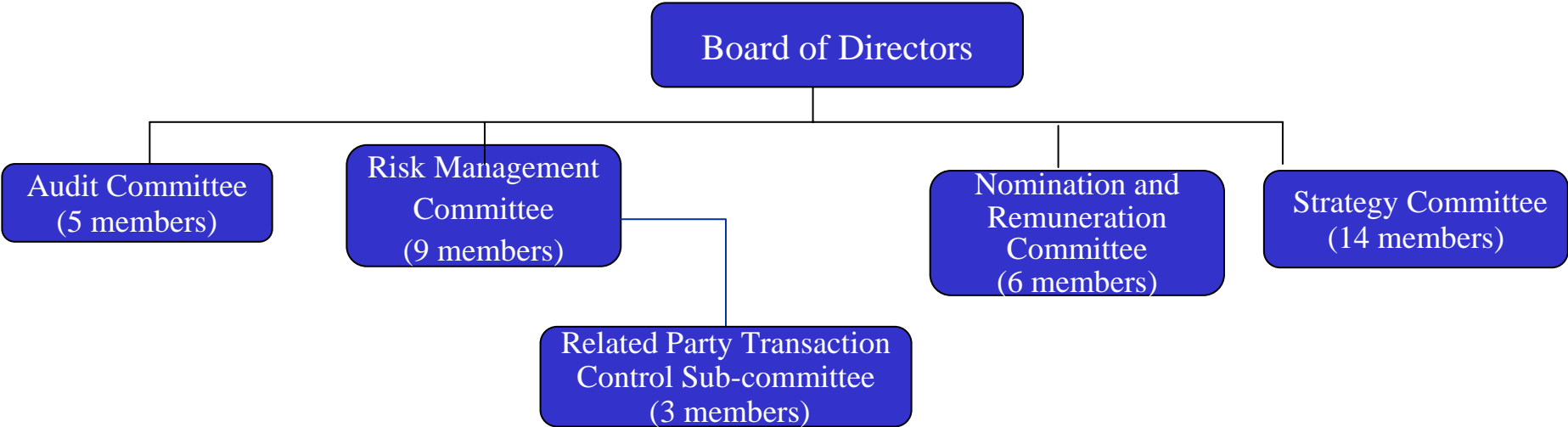
The equity structure of the Company is diversified with the State holding shares. Such a diversified equity structure has laid a foundation for the modern corporate governance.

# Board of Directors

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- The core of the corporate governance is the Board governance.
- The Board of Directors is the decision-making organ of the Company and responsible to the Shareholders' General Meeting. The Board convenes the shareholders' general meeting; decides on the business plan, investment plan and development strategy of the Company; appoints or removes presidents, appoints or removes vice presidents and other senior management members (except Secretary of the Board) according to the nomination of the president; formulates basic regulations on risk management, internal control and other aspects; manages information disclosure of the Company, etc.
- The Board of Directors consists of 14 directors, including 4 executive directors and 10 non-executive directors (3 independent directors included).

# Special Committees of the Board of Directors



# Special Committees of the Board of Directors (Continued)

## •Directors (14)

### •Chairman of the Board of Directors (1)

•Mr. JIANG Jianqing

### •Executive Directors (4)

•Mr. JIANG Jianqing •✓ (Chairman of Committee)

•Mr. YANG Kaisheng (Vice Chairman and President) •✓

•Mr. ZHANG Furong •✓

•Mr. NIU Ximing •✓

### •Shareholding Directors (7)

•Mr. FU Zhongjun •✓

•Mr. KANG Xuejun •✓

•Mr. SONG Zhigang •✓

•Mr. WANG Wenyan •✓

•Ms. ZHAO Haiying •✓

•Mr. ZHONG Jian'an •✓

•Mr. Christopher A. COLE •✓

### •Independent Directors (3)

•Mr. LEUNG Kam Chung, Antony •✓ (Chairman of Committee) •✓ (Chairman of Committee) •✓ (Chairman of Committee) •✓

•Mr. John L. THORNTON •✓

•Mr. QIAN Yingyi •✓ (Chairman of Committee) •✓

# Board of Supervisors

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- The Board of Supervisors is the supervisory organ of the Company and responsible to the Shareholders' General Meeting. The Board of Supervisors supervises performance of duties by the Board of Directors and the Senior Management and their members; inspects and supervises financial activities of the Company; inspects and supervises the decision-making, risk management and internal control when necessary; guides the internal audit departments, etc.
- The Board of Supervisors consists of five supervisors, including two supervisors of shareholder representatives, two external supervisors and one staff supervisor.
- The Board of Supervisors in Chinese listed companies is different from the one in German Two-Tier Board.

# Board of Supervisors (Continued)

## Composition of the Board of Supervisors

<b>Name</b>	<b>Position</b>	<b>Gender</b>	<b>Office Term</b>
Mr. WANG Weiqiang	Chairman of the Board of Supervisors	Male	2005. 10-2008. 10
Ms. WANG Chixi	Supervisor	Female	2005. 10-2008. 10
Mr. WANG Daocheng	External supervisor	Male	2005. 10-2008. 10
Mr. MIAO Gengshu	External supervisor	Male	2005. 10-2008. 10
Mr. ZHANG Wei	Staff representative supervisor	Male	2006. 8-2009. 8

# Senior Management

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- Companies need governance and enterprises need management.
- The Senior Management is the executive organ of the Company and responsible to the Board of Directors. The Senior Management conducts operational management of the Company, organizes to implement the business plan and investment plan approved by the Board of Directors; formulates specific regulations; makes plan for remuneration and performance evaluation of persons in charge of departments and branches; reports faithfully business performance to the Board of Directors and the Board of Supervisors; etc.
- The Senior Management consists of 11 persons, including President, Vice Presidents, Secretary to the Board and CRO.

# Senior Management (Continued)

## •Composition of the Senior Management

Name	Position	Gender	Office Term
Mr. YANG Kaisheng	President	Male	2005.10 —
Mr. ZHANG Furong	Vice President	Male	2005.10 —
Mr. NIU Ximing	Vice President	Male	2005.10 —
Mr. ZHANG Qu	Vice President	Male	2005.10 —
Ms. WANG Lili	Vice President	Female	2005.10 —
Mr. LI Xiaopeng	Vice President	Male	2005.10 —
Mr. LIU Lixian	Secretary of Party Discipline Committee	Male	2005.5 —
Mr. YI Huiman	Member of Senior Management, President of Beijing Branch	Male	2005.6 —
Mr. WEI Guoxiong	Chief Risk Officer	Male	2006.7 —
Mr. PAN Gongsheng	Secretary to the Board of Directors	Male	2005.10 — 2008.10

## Part II

# Corporate Governance and the Features



# Corporate Governance

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- 1. The diversified equity structure and the standard corporate governance structure have been established. The corporate governance mechanism of the Company has been improved gradually.
- 2. Development strategy, operations philosophy and awareness have been transformed.
- 3. The step of transforming operation pattern and adjusting business structure has been quickened.
- 4. A scientific mechanism of incentive and restriction has been preliminarily established.
- 5. The operating performance, the assets quality and the risk resistance capacity have been improved greatly..
- 6. The building of transparency has made a rapid progress.

## Corporate Governance (Continued)

### Major Performance Indicators for 2006

Profit after tax (YOY growth, RMB100 million)	Average return on total assets	Weighted average return on net assets	Ratio of non-performing loans	Capital adequacy rate	Provisions coverage	Cost to income ratio
30.3% (RMB49,336 million)	0.71%	15.16%	3.79%	14.05%	70.56%	36.0%

# Features of Corporate Governance

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- Improving the corporate governance structure with the chance of simultaneous listing of A and H shares
- Constructing prudent, standard and transparent accounting system
- Improving the system of comprehensive risk management
- Building independent internal audit system.
- Introducing overseas strategic investors to share the experience of corporate governance
- Enhancing the construction of information technology to fully promote the IT-based management

## Features of Corporate Governance 1. Improving the corporate governance structure with the chance of simultaneous listing of A and H shares

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- Since its formal foundation on October 28, 2005, the Company has successfully presented to the global capital market its domestically leading position and prudent operation through a series of activities in respect of corporate governance, , definition of the responsibilities of the “three organs” and the Management, robust advancement of financial restructuring, introduction of strategic investors, as well as the proactive communications with domestic and overseas investors.
- With the successful listing in Mainland and Hong Kong on October 27, 2006, the Company set a number of records, including the largest issue size on the global capital market, and accomplished the historic leap from a solely state-owned commercial bank to a joint-stock commercial bank, and finally to an international public-holding company. The Company won a number of international awards such as best IPO, best equity deal from the renowned international media, including the *Banker* etc

## Features of Corporate Governance 2. Constructing prudent, standard and transparent accounting system

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- The Company started to fully implement the new accounting system on January 1, 2006, gradually reached the standards set for financial accounting of listed banks
- The Company has steadily promoted the financial affairs centralization reform and the centralized management of funds in the entire bank
- developed full risk provision system

## Features of Corporate Governance 3. Improving the system of comprehensive risk management.

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- The Company has attached great importance to the formation mechanism of risk management strategies and policies, and embodied its risk preference and strategic goals of risk management into the whole process of management
- It has pressed ahead the construction of Phase II of internal rating-based approach based on the accomplished Phase I
- worked out a framework of interest rate management
- explored the establishment of a vertical credit risk management system
- promoted the internal control management to approach towards the standards of internationally leading commercial banks, and endeavored to build a rigorous and efficient internal control system based on the five internal control elements raised by the Committee of Sponsoring Organizations (COSO)

## Features of Corporate Governance 4. Building independent internal audit system

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- The internal audit departments of the Company are responsible for supervising and assessing the effects of risk management, internal control and corporate governance, and directly report the results to the Board of Directors
- In 2006, the independent and vertical internal audit system was put into full operation, and the organization, regulations, management mechanism and reporting flow of internal audit were greatly improved
- Taking risks as the orientation, the internal audit effort focuses on the key business and risk fields the Board of Directors and the Management care, and assessed the critical level of overall and systematic risks

## Features of Corporate Governance 5. Introducing overseas strategic investors to share the experience of corporate governance.

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Goldman  
Sachs

Allianz 

AMERICAN  
EXPRESS  
®

·corporate governance

- new concepts and management mode, advanced techniques and measures
- improving internal control and compliance management and risks management and control
- enhancing information disclosure
- constructing the investors relation management system
- improving corporate governance mechanism, promoting the transition of growth pattern and operation mode

## **Features of Corporate Governance 6. Enhancing the construction of information technology to fully promote the IT-based management**

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- The Company upheld the guidelines of “thriving the bank with technologies”, and worked out a scientific development plan for information technology. It enhanced the investment in IT construction and set up a world leading large-scale data center
- Leveraging on the technology advantages, it unified the product research and development system, enhanced the innovation capability to accelerate the innovation of products and services and build core business and most influential brands

## **Part III**

### **Plan on Further Improving Corporate Governance**



# **Plan on Further Improving Corporate Governance**

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The corporate governance is a long process and a method instead of a goal. The Company shall implement the scientific view of development, accurately seize the existing opportunities, deepen the reform, speed up innovation, improve the services, consistently promote the core competitiveness, and realize the harmonious and sustainable growth of the Company's value, the investment returns for shareholders and staff interests by further enhancing corporate governance. Meanwhile the Company shall fulfill the social responsibilities while realizing eminent corporate returns.

- **To Further Improve Corporate Governance Mechanism**
- **To Actively Push Forward the Implementation of the Company's Development Strategies**
- **To Further Strengthen Risk Management and Internal Control**
- **To Improve the Corporate Transparency**
- **To Advance the Innovation of Corporate Governance**

## **i. To Further Improve Corporate Governance Mechanism**

Effective corporate governance serves as the foundation of acquiring and maintaining the trust and confidence in the bank. The Company shall take the improvement of corporate governance as the foundation project of sharpening its core competitiveness; it shall take great efforts to develop a corporate governance mechanism with scientific decision-making, powerful law enforcement and effective supervision according to the requirements of domestic and overseas regulatory authorities and capital markets

- further define the duty scope of the “three organs and the Management”
- establish an unblocked information exchange mechanism and a Management reporting system
- elect and supplement independent directors
- improve authorization and accountability regulations and incentive and restriction mechanism

## **ii. To Actively Push Forward the Implementation of the Company's Development Strategies**

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The Company attached great importance to the development strategy study and scientific decision-making function of the Board of Directors. At the beginning of the establishment of the Company, a new three-year development plan of the Bank was worked out. In the next step :

- exert all the efforts to implement and supervise the implementation of the development strategy, consolidate and maintain a good momentum of operational development
- accelerate the operational transition and structural adjustment ; strengthen self-innovation, and accelerate the building of a new operating pattern which is conducive to the sustainable growth of corporate value
- strengthen the study on comprehensive and international operation
- participate in the international competition by means of consistent innovation in products and services as well as mergers and acquisitions

### **iii. To Further Strengthen Risk Management and Internal Control**

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According to the New Basel Capital Accord, the board of directors has the responsibility of nailing down the risk tolerance of the bank and of adopting powerful internal control. The Board of the Company shall further :

- define the goals of risk management and internal control that are consistent with the new development strategies of the Bank, formulate unified risk management policies
- assess, guide, supervise and inspect the risk management and internal control of the Company
- formulate risk management policies which cater to the development strategies of the Company, strengthen the building of systems, conduct risk identification, assessment and prevention, and supervise
- assess the internal audit

## **iv. To Improve the Corporate Transparency**

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Transparency plays a vital role in forming sound and efficient corporate governance. Proper information disclosure is conducive to restricting market and developing sound corporate governance

- strictly carry out the regulations of information disclosure, strengthen the management of information disclosure, improve the policy and system of information disclosure, faithfully and diligently perform the information disclosure responsibilities in accordance with relevant stipulations
- formulate clear reporting routes according to the requirements of domestic and overseas supervisory authorities and build up a standardized information disclosure mechanism ,and continuously improve the quality and level of information disclosure
- to illustrate a corporate image of “transparent, standard and steady” to the regulatory authorities, investors and other stakeholders

## **v. To Advance the Innovation of Corporate Governance**

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Innovation is essentially a successive and interactive study process, and good corporate governance is also a relative and dynamic choice

- enhance the cultivation of talent and corporate culture strategies
- set up reasonable performance evaluation system, gradually implement equity incentive
- introduce advanced ideas, mechanisms, technologies and instruments of risk management of the banks
- fulfill the social responsibilities related to the economic responsibility of the enterprise and give attention to the interests of employees, depositors and other customers and relative persons and of the whole society while achieving the maximization of profit and return for shareholders in a view to constructing a sustainable operating circumstance



**THANK YOU!**