

FINANCIAL REVIEW

EARNINGS

For the years ended 31 December (In millions of RMB)	2003	2002	Change	Change%
Interest income	59,167	51,668	7,499	14.5%
Interest expense	(34,747)	(32,206)	(2,541)	(7.9%)
Net interest income	24,420	19,462	4,958	25.5%
Net fee and commission income	116	55	61	110.9%
Dividend income	1,644	1,831	(187)	(10.2%)
Net losses on investments	(821)	(2,391)	1,570	65.7%
Other operating income	236	266	(30)	(11.3%)
Operating income	25,595	19,223	6,372	33.1%
Write back of provision / (Provision for impaired loans)	(2,829)	1,230	(4,059)	(330.0%)
Other operating expenses	(4,299)	(3,760)	(539)	(14.3%)
Profit before tax	18,467	16,693	1,774	10.6%
Income tax expense	(5,255)	(4,774)	(481)	(10.1%)
Net profit	13,212	11,919	1,293	10.8%

In 2003, the Bank reported pre-tax earnings of RMB 18.5 billion, an increase of RMB 1.8 billion, or 10.6%, over 2002. This increase consisted principally of significantly higher interest income related to the 27.2% growth in our loan portfolio from RMB 896.2 billion at the end of 2002 to RMB 1,139.9 billion in 2003. This effect was offset to some extent by the need to provide RMB 2.8 billion for credit losses, as compared to a reversal of provisions of RMB 1.2 billion in 2002 related to significant improvement in asset quality during that year. In this regard, we continue to maintain a non-performing loan ratio of less than 2%.

NET INTEREST INCOME

(In millions of RMB)	2003	2002	Change	Change %
Interest income				
Loans to customers	56,565	49,245	7,320	14.9%
Cinda bonds	2,250	2,250	-	-
Balances with the PBOC	202	117	85	72.6%
Others	150	56	94	167.9%
Sub-total	59,167	51,668	7,499	14.5%
Interest expense				
Debt securities in issue	31,438	29,294	2,144	7.3%
Borrowing from other institutions	2,918	2,658	260	9.8%
Due to customers and banks	387	254	133	52.4%
Others	4	-	4	-
Sub-total	34,747	32,206	2,541	7.9%
Net interest income	24,420	19,462	4,958	25.5%

Total interest income on loans grew by 14.9% in 2003. This growth was related to an increase in the average volume of loans of 23.8%, partially offset by a decrease in average rates of 0.5%. The slightly lower average rates generally reflect reductions in interest rates announced by the PBOC during 2002.

Total interest expense increased by about 7.9% in comparison with 2002, consistent with the increase of debt securities issued to meet the funding needs created by our loan growth. During 2003, after the PBOC lowered domestic interest rates, we redeemed a number of our higher yielding bond issues and re-funded them through lower yielding debentures, in order to lower the average rate of bonds outstanding.

The 25.5% increase in net interest income during 2003 is principally the result of our loan growth and the maintenance of a relatively stable net interest spread. Here, we continue to leverage our superior credit rating to achieve optimal borrowing costs.

NET FEES AND COMMISSION INCOME

Our net fees and commission income more than doubled from RMB 55 million in 2002 to RMB 116 million in 2003. This increase is principally due to a more intense focus on further developing our bond underwriting and loan syndication activities. While net fees and commission income is not significant relative to our net interest income, we remain committed to growth in this area to expand our sources of income, improve our profitability and diversify our business risks.

DIVIDEND INCOME

Dividend income relates to dividend distributions earned on equity securities that were acquired through debt-to-equity swaps. The amount of dividend distributions varies from year to year with the dividend policies of the companies whose securities we hold, the levels of our holdings, and the performance of the underlying securities. The 10.2% decrease in dividend income during 2003 largely reflects the sale of equity securities in two companies.

NET LOSS ON INVESTMENT SECURITIES

(In millions of RMB)	2003	2002	Change	Change %
Net losses on investment				
Provision on equity investments	1,242	2,252	(1,010)	(44.8%)
Net losses/(Gain) on sale of investments	(421)	139	(560)	(402.9%)
Total	821	2,391	(1,570)	(65.7%)

Net losses on investment securities decreased by RMB 1.6 billion, or 65.7% from 2002. The decrease is due to the lower levels of provisions that were made in 2003, and the recognition of gains on the sale of certain investments. The decrease in the level of provisions reflects our generally lower levels of equity investment holdings.

OTHER OPERATING INCOME AND FAIR VALUES

(In millions of RMB)	2003	2002	Change	Change %
Other operating income				
Changes in fair value of derivatives and trading securities	178	218	(40)	(18.3%)
Others	58	48	10	20.8%
Total	236	266	(30)	(11.3%)

The relatively modest amounts of net changes in the fair value of derivatives and trading securities reflects the limited extent of our use of derivatives and securities trading activities.

During 2003, other operating income remained at a level of less than 1% of our pre-tax income.

OPERATING EXPENSES

(In millions of RMB)	2003	2002	Change	Change %
Operating expenses				
Staff related costs	398	601	(203)	(33.8%)
Occupancy expenses	88	93	(5)	(5.4%)
Depreciation and amortisation	171	105	66	62.9%
Business tax and surcharges	2,938	2,441	497	20.4%
General operating expenses	704	520	184	35.4%
Total	4,299	3,760	539	14.3%

The Bank's operating expenses increased by about 14.3% from prior year to RMB 4.3 billion in 2003. This increase relates principally to higher business tax and surcharges, which is based generally on our levels of operating income, partially offset by a decrease in staff costs. The 20.4% growth in business tax and surcharges is consistent with the change in our operating income. The decrease in staff costs reflects the absence in 2003 of RMB 292 million in losses related to the sale of staff housing during 2002.

FINANCIAL CONDITION

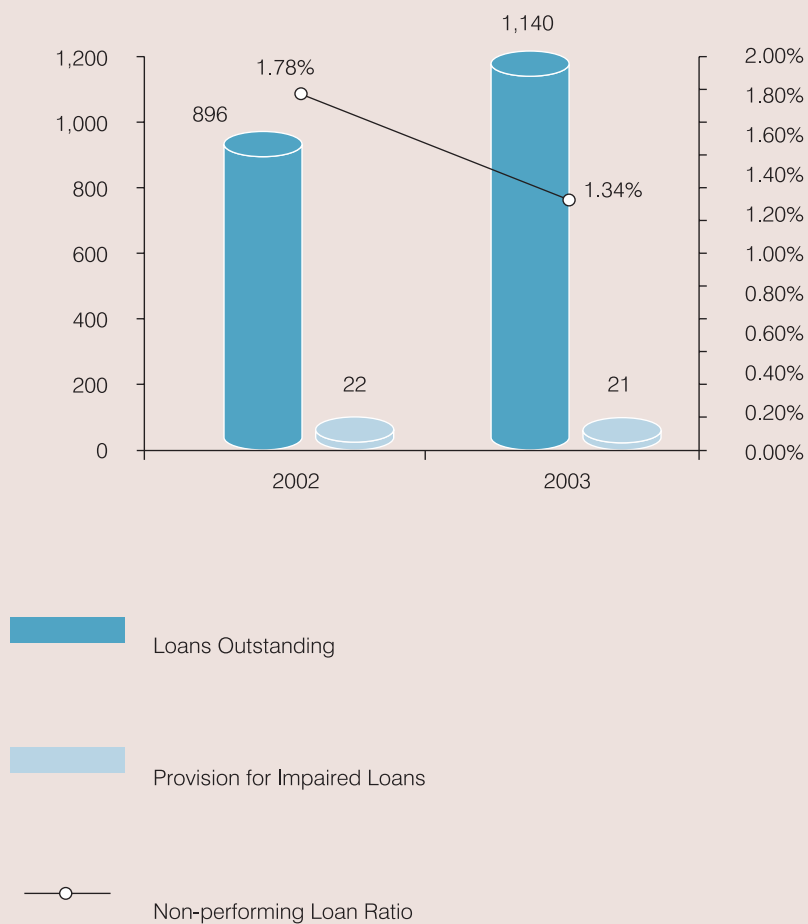
As of 31 December

(In millions of RMB)	2003	2002	Change	Change%
Total assets	1,280,995	1,041,711	239,284	23.0%
Total Loans	1,139,938	896,203	243,735	27.2%
- Loans to customers	1,138,099	894,053	244,046	27.3%
- Loans to banks	1,839	2,150	(311)	(14.5%)
Total liabilities	1,191,566	966,310	225,256	23.3%
Debt securities in issue	1,054,970	860,543	194,427	22.6%
- Bonds issued in the domestic market	1,045,786	851,296	194,490	22.8%
- Bonds issued in the foreign market	9,184	9,247	(63)	(0.7%)
Total owner's equity	89,429	75,401	14,028	18.6%

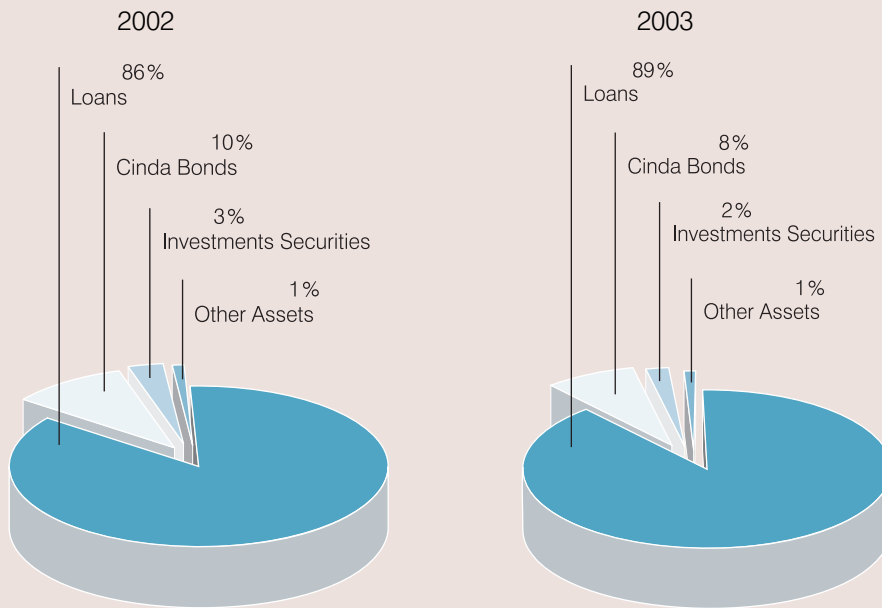
LOANS

LOANS AND PROVISION FOR IMPAIRED LOANS

In billions of RMB



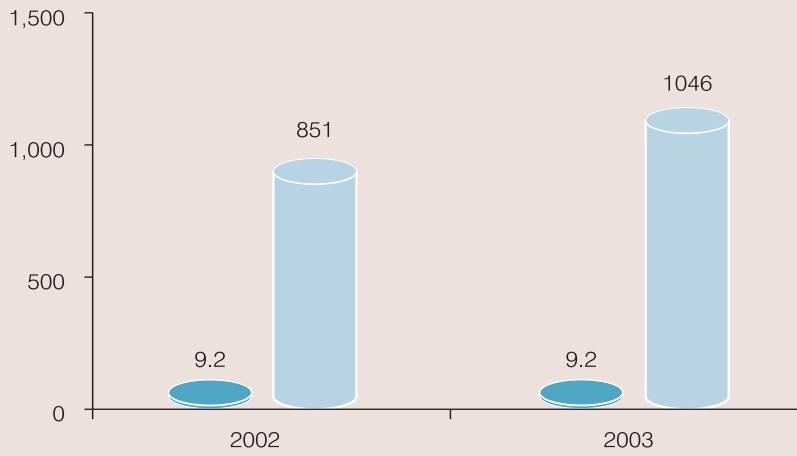
TOTAL ASSETS BREAKDOWN



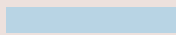
Loans comprise the majority of our assets and our lending activities are the core of our business. We, therefore, consider growth in loans to be an important indicator of our business expansion. At the end of 2003, the outstanding balance of loans increased from RMB 896.2 billion to RMB 1,139.9 billion, or 27.2%. Our growth in loans reflects our business strategy and is planned around our annual budget, which is approved by the Chinese government. We generally plan to expand the levels of our lending activity to meet the expectations of our various constituents and support the growth of the Chinese economy.

DEBT SECURITIES IN ISSUE

In billions of RMB

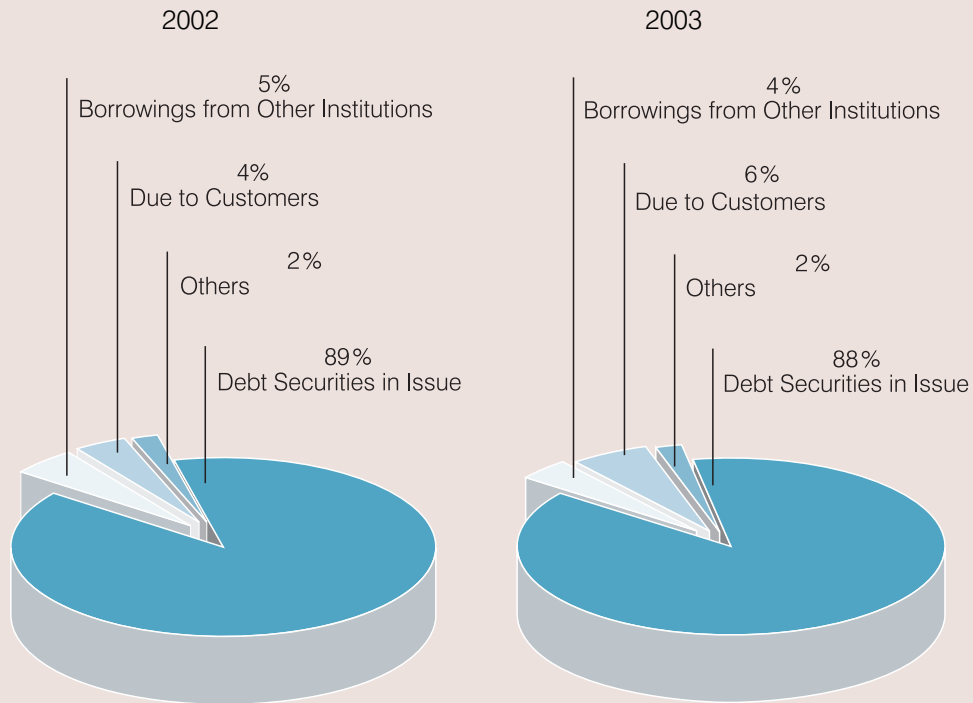


Outstanding bonds issued in the foreign market



Outstanding bonds issued in the domestic market

TOTAL LIABILITIES BREAKDOWN



CDB raises its fund primarily through debt issuance in domestic and overseas markets, with borrowings from PBOC or other financial institutions as a supplement. The outstanding balance of debentures increased from RMB 860.5 billion to RMB 1,055.0 billion, or 22.6%. The increase is primarily due to the additional issuances during the year to support the growing need to fund our lending activities.

CAPITAL ADEQUACY RATIO

CDB manages its capital resources to provide sufficient funding for lending activities, maintain adequate capital to satisfy both internal standards and regulatory capital requirements, and absorb unforeseen losses that might arise in fulfilling our obligations.

During 2003, the Ministry of Finance made additional capital contributions through a tax refund and an in-kind contribution so that the Bank's registered paid-in capital could reach RMB 50 billion by year-end.

At the end of 2003, our capital adequacy ratio stood at 10.26%, calculated based on the current guidelines established by the PBOC.