

## FUNDING SOURCES

Our funding is largely defined by our loan origination needs. Over the years, we have developed a variety of funding sources, including debenture issuance, special government tax program, and inter-bank money market. We also maintain a certain level of customer deposits, but such deposits are limited to amounts incidental to our customer lending activities. The majority of our funding still comes from bonds issued in domestic and foreign capital markets, which take advantage of CDB's backing from the Chinese government and cost advantage in effectively securitizing sovereign credit.

### DOMESTIC FUNDING

CDB continued to be the second largest bond issuer in China, behind the Ministry of Finance. However, on the inter-bank bond market, the volume of CDB's issuance exceeded the treasury bonds issued by the Ministry of Finance for the first time in 2003. During the year, we issued debt securities totalling RMB 420.0 billion, representing a 68% increase from a year ago, of which, RMB 340.0 billion are medium- to long-term and RMB 80.0 billion are short-term.

As one of the largest issuers, we are obligated to cultivate a growth-oriented, but balanced bond market in China. In 2003, we continued our efforts in this area through the introduction of new products to meet the increasingly more sophisticated needs of investors. We introduced bonds with forward delivery and interest rate swap options, as well as a number of bonds issued for special purposes, such as the SARS bonds.

We continued to explore other potential sources of funding, such as the postal savings institutions, national social security system and insurance companies. In 2003, we signed an agreement with National Post Savings, resulting in RMB 2.0 billion of additional funding capacity.

## FOREIGN CURRENCY FUNDING

Our funding sources for foreign currencies consist primarily of export credit facilities, overseas or domestic bond issues, international syndicated loans, and loans from foreign governments. Funding for foreign currencies is largely dependent on our lending levels. In 2003, we raised a total of USD 1.5 billion in foreign currency financing, of which, USD 500.0 million was raised through the domestic bond market and another USD 500.0 million from domestic borrowings. In addition, we purchased USD 500.0 million in the domestic market through foreign exchange transactions.

Thanks to the quality of our lending portfolio and our status as a government policy bank, our international credit rating continued to be the strongest among domestic banks. Through proactive communication, CDB increased its transparency in front of the international credit rating agencies. The rating of our long-term debt by Moody's was raised to A2 from Baa1 at the end of last year, and was consistent with China's sovereign rating. At the beginning of 2004, Standard & Poor raised China's sovereign rating as well as CDB's from BBB to BBB+. In addition, as in the past, FITCH and Japan's Rating and Investment Information Company both gave CDB credit ratings that were consistent with China's sovereign rating.

In order to better serve our customers, we strive to make more services and products available to them. As an example, by leveraging our capabilities in underwriting debts of our clients, we believe that we can build a viable investment banking practice. We view CDB as more than the project finance arm of the Chinese government. We believe that our role in actively promoting the growth and diversification of China's capital markets will enable us to maintain our relevance in China's economy long into the future.