PING AN
Insurance · Banking · Investment

中国平安保险(集团)股份有限公司
Ping An Insurance (Group) Company of China, Ltd.

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2318)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rules 13.09(1) and 13.09(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The "Profit Forecast and Review Reports for the Years of 2010 and 2011 of Ping An Bank Co., Ltd.", which is published by Ping An Insurance (Group) Company of China, Ltd. on the website of Shanghai Stock Exchange, is reproduced herein for your reference.

By order of the Board
Yao Jun
Company Secretary

Shenzhen, PRC, September 14, 2010

As at the date of this announcement, the Executive Directors of the Company are Ma Mingzhe, Sun Jianyi, Cheung Chi Yan Louis, Wang Liping and Yao Jason Bo; the Non-executive Directors are Lin Lijun, Chen Hongbo, Wong Tung Shun Peter, Ng Sing Yip, Li Zhe, Guo Limin and David Fried; the Independent Non-executive Directors are Chow Wing Kin Anthony, Zhang Hongyi, Chen Su, Xia Liping, Tang Yunwei, Lee Ka Sze Carmelo and Chung Yu-wo Danny.

Ping An Bank Co., Ltd.
Profit Forecast Report and Accountants' Review Report
For 2010 and 2011

Contents

Accountant's Review Report on Profit Forecast

Ernst & Young Hua Ming (2010) Zhuangzi No.60803861_B01

Ping An Bank Co., Ltd.

We have reviewed profit forecast report of Ping An Bank Co., Ltd. (the "Bank") for the years ending 31 December 2010 and 2011. We conducted our review in accordance with "Standards for Other Assurance Engagements for CICPA No. 3111 – Examination of Prospective Financial Information". The board of directors of the Bank is solely responsible for the profit forecast and its related assumptions. These assumptions have been disclosed in Section I "Basis of preparation and basic assumptions" of the report.

Based on our review of the supporting evidence of the assumptions, nothing has come to our attention that those assumptions do not provide a reasonable basis for the profit forecast. In addition, we believe the profit forecast has been properly prepared in accordance with those assumptions, and presented in accordance with the basis of preparation set out in Section IV note 2 "Summary of significant accounting policies and accounting estimates" of the report.

As the expected events included in the profit forecast may not occur in accordance with the projections and the variances may be significant, the actual operating result could be different from that of the forecast information.

Our review opinion is issued only for the filing to CSRC and other relevant regulators in connection with the issue of the shares of Shenzhen Development Bank Co., Ltd. to Ping An Insurance (Group) Company of China, Ltd. for the acquisition of shares of the Bank and is not appropriate for any other purposes.

Ernst & Young Hua Ming

Chinese Certified Public Accountant:
Huang Yuedong

Beijing, the People's Republic of China

Chinese Certified Public Accountant:
Chang Hua

13 September 2010

Ping An Bank Co., Ltd.
Profit Forecast Report

Ping An Bank Co., Ltd. (the "Bank") has prepared an operating results forecast for the years of 2010 and 2011 (the "Profit Forecast"), among the projection period, the 2010 profit forecast was based on the audited financial statements of the Bank for the six months ended 30 June 2010 and the operating results forecast of the Bank for the six months ended 31 December 2010. The Profit Forecast has been prepared by the management of the Bank and reviewed by the board of directors (the "Board"). The Board of the Bank considers that the Profit Forecast has been prepared on the basis of the accounting policies, in all material respects, consistent with those currently adopted by the Bank as set out in the paragraph headed "2. Summary of Significant Accounting Policies and Accounting Estimates" in Section IV of the Profit Forecast Report. Also, the Profit Forecast was cautiously prepared pursuant to the basis of preparation and basic assumptions determined by the Bank as set out in the paragraph headed "I. Basis of Preparation and Basic Assumptions" under Section I in this report.

In our opinion, under normal operation conditions, the projected net profits attributable to equity holders of the Bank for the years ending 31 December 2010 and 2011 would be RMB1.75 billion and RMB2.30 billion respectively.

The Profit Forecast has been prepared on principles of prudence. However, considering the uncertainties of the related assumptions on which the Profit Forecast is based, investors should not unduly rely on this information for investment decision making.

Ping An Bank Co., Ltd.

13 September 2010

I. BASIS OF PREPARATION AND BASIC ASSUMPTIONS

The Profit Forecast of 2010 and 2011 has been prepared based on the financial statements of the Bank for 2007, 2008, 2009 and for the six months ended 30 June 2010 which were audited by Ernst & Young Hua Ming, and the financial plans for the years of 2010 and 2011 (details of which are set out in the section headed "II. Financial Plans during the Forecast Period" in this report). The Profit Forecast was prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Bank (details of which are set out in the paragraph headed "2. Summary of Significant Accounting Policies and Accounting Estimates" under Section IV in this report), and also based on the following principal assumptions:

1. There will be no material changes in politics, laws, finance, market or economic conditions in Mainland China or any other countries/regions that may have significant impact on the businesses of the Bank.

2. There will be no material changes in laws, rules or regulations which will significantly affect the businesses of the Bank in Mainland China, or any other countries/regions where the businesses of the Bank are located, or any other countries/regions that have signed arrangements/agreements with the Bank.

3. There will be no material changes in current prevailing inflation rates, interest rates and exchanges rates published by the People's Bank of China during the Forecast Period after the date on which this Profit Forecast was made.

4. There will be no material changes in the tax bases or tax rates of corporate income tax, business tax and surcharges and other levies in Mainland China, or any other countries/regions that may have significant impact on the businesses of the Bank.

5. There will be no material adverse change in the real estate market of Mainland China or any other countries/regions where the businesses of the Bank are located, or any other countries/regions where may have significant impact on the businesses of the Bank, and thus there will be no material adverse impact on the carrying values of the properties held by the Bank or those pledged as collaterals by our customers.

6. The operations and businesses of the Bank will not be severely interrupted by any force majeure events or any unpredictable and uncontrollable factors including, but not limited to, the occurrence of wars, military affairs, natural disasters or catastrophes (such as floods and typhoons), epidemics or severe accidents.

II. FINANCIAL PLANS DURING THE FORECAST PERIOD

1. The year-end balance of loans and advances for 2010 is envisaged to increase by RMB23.7 billion or 22% as compared with 2009. For the period ended 30 June 2010, the balance of loans and advances has actually been increased by RMB13.0 billion, achieving 55% of the planned amount; while for 2011, the balance is envisaged to increase by RMB39.8 billion or 30% as compared with 2010.

2. The balance of customer deposits for 2010 is envisaged to increase by RMB41.9 billion or 28% as compared with 2009. For the period ended 30 June 2010, the balance of customer deposits actually increased by RMB18.8 billion, achieving 45% of the planned amount; while for 2011, the balance is envisaged to increase by RMB45.5 billion or 24% as compared with 2010.

III. STATEMENT OF PROFIT FORECAST

In RMB million	IV, 3	2009 audited actual figures	1 Jan 2010 to 30 Jun 2010 audited actual figures	1 Jul 2010 to 31 Dec 2010 forecast figures	2010 forecast figures	2011 forecast figures
Interest income	3.1	6,674	4,371	4,793	9,164	10,987
Interest expense	3.1	(3,249)	(1,914)	(1,938)	(3,852)	(4,150)
Net interest income	3.1	3,425	2,457	2,855	5,312	6,837
Fee and commission income	3.2	482	378	318	696	1,100
Fee and commission expenses	3.2	(65)	(58)	(57)	(115)	(178)
Net fee and commission income	3.2	417	320	261	581	922
Investment income		151	62	23	85	13
Gains/(losses) from changes in fair values		253	30	5	35	6
Exchange gains or losses		25	19	10	29	37
Other operating income	3.3	11	4	4	8	9
Total operating income		4,282	2,892	3,158	6,050	7,824
Business tax and surcharges	3.4	(298)	(185)	(189)	(374)	(491)
Business and administrative expenses *(Note)*	3.4	(2,566)	(1,480)	(1,628)	(3,108)	(3,916)
Total operating expenses		(2,864)	(1,665)	(1,817)	(3,482)	(4,407)
Operating profit before impairment losses on assets		1,418	1,227	1,341	2,568	3,417
Impairment losses on assets	3.5	(183)	(82)	(283)	(365)	(399)
Operating profit		1,235	1,145	1,058	2,203	3,018
Add: Net non-operating income		144	32	17	49	9
Profit before tax		1,379	1,177	1,075	2,252	3,027
Less: income tax expenses	3.6	(274)	(265)	(237)	(502)	(727)
Net profit		1,105	912	838	1,750	2,300

Note: Business and administrative expenses include other operating costs.

The Profit Forecast Report as set out in page 2 to page 32 has been signed by the following persons:

Legal Representative	President	Chief Financial Officer	Person in charge of financial planning

IV. NOTES TO PROFIT FORECAST

1. GENERAL INFORMATION OF THE BANK

Ping An Bank Co., Ltd. (the "Bank"), formerly known as "Shenzhen Ping An Bank Co., Ltd., was set up through merger and consolidation of Ping An Bank Limited by Shenzhen Commercial Bank Co., Ltd. on 16 June 2007. The Bank obtained approval from the Shenzhen Municipal Administration of Industry and Commerce to rename the precedent as Ping An Bank Co., Ltd. on 10 February 2009.

The Bank's institution number indicated on the No. 00012580 approval document issued by the China Banking Regulatory Commission is B0289H244030001. The business licence number of the Bank issued by the Shenzhen Municipal Administration of Industry and Commerce is 440301103256945.

The business scope of the Bank is authorised commercial banking business activities.

The registered office of the Bank is located at Ping An Bank Tower, No. 1099, Shennan Road Central, Futian District, Shenzhen, Guangdong Province, PRC. Headquartered in Shenzhen, the Bank operates its business in Mainland China.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Accounting year

The accounting year of the Bank is from 1 January to 31 December.

2.2 Reporting currency

The Bank's reporting and presentation currency is Renminbi ("RMB"). Unless otherwise stated, the unit of the currency is Renminbi million Yuan.

2.3 Basis of accounting treatment and measurement

The Bank's financial statements have been prepared on an accrual basis using the historical cost as the basis of measurement, except for financial assets/liabilities held at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value. The Bank has accrued corresponding provisions for impairment of assets according to the relevant rules.

2.4 Foreign currency translation

The Bank translates the amount of foreign currency transactions into its functional currency.

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined, differences are taken into equity or income statement.

2.5 Reverse repurchase and repurchase agreements

Assets sold under agreements to repurchase at a specific future date are not derecognized from the balance sheet. The corresponding proceeds, including accrued interest, are recognized on the balance sheet as "Repurchase agreements". The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest method.

Conversely, assets purchased under agreements to resell at a specific future date are not recognized on the balance sheet. The corresponding cost is recognized on the balance sheet as "Reverse repurchase agreements". The difference between purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

2.6 Financial assets

The Bank classifies its financial assets into four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Financial assets are recognized initially at fair value. In the case of a financial asset at fair value through profit or loss, transaction costs are charged to the income statement for the current period. For other financial assets, transaction costs are included in their initial recognition amounts.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated as at fair value through profit or loss by management upon initial recognition. The financial asset is classified as held for trading which means that it is 1) acquired principally for the purpose of selling in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or 3) a derivative after initial recognition. These financial assets are measured at their fair values subsequently. All related realized and unrealized gains or losses are included in the income statement. For bond investments held by the Bank for trading purpose, interest accrued during the holding period is recognized as bond investment interest income.

A hybrid instrument is designated as a financial asset or financial liability at fair value through profit or loss unless the embedded derivative does not significantly modify the cash flows of the hybrid instrument; or it is clear with little or no analysis when a similar hybrid instrument is considered that separation of the embedded derivative is prohibited.

A financial asset or financial liability may be designated, on initial recognition, as at fair value through profit or loss only when one of the following conditions is met:

(i) the designation eliminates or significantly reduces a measurement or recognition inconsistency of the related gains or losses that would otherwise result from measuring assets or liabilities on different bases;

(ii) a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis, and information about the group is reported on that basis to the Bank's key management personnel. Formal documentation has been prepared with respect to such a risk management or investment strategy;

(iii) the hybrid instrument embedded with derivatives which are required to be separately accounted for.

Once a financial asset has been classified as at fair value through profit or loss, it cannot be reclassified to another category while it is held or issued. For those classified as held-to-maturity investment, and loans and receivables, they cannot be reclassified to financial assets as at fair value through profit or loss either.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Bank has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the held-to-maturity investments are derecognised, impaired or through the amortisation process. If the Bank has, during the current financial year, sold or reclassified (to available-for-sale financial assets) items of held-to-maturity investments, whose amount is significant in relation to the total amount of held-to-maturity investments before the sale or reclassification, the Bank shall reclassify the remaining portion of held-to-maturity investments as available-for-sale investments, and in the current and the next two financial years, the Bank shall not again classify any financial assets as held-to-maturity investments. However, sales or reclassification under the following circumstances are exceptions to the above.

(i) sales or reclassifications are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) sales or reclassifications of the remaining portion of the financial asset occur after the Bank has collected substantially the financial asset's entire original principal through scheduled payments or prepayments;

(iii) sales or reclassifications are attributable to an isolated event that is beyond the Bank's control and is non-recurring and could not have been reasonably anticipated by the Bank.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated on initial recognition as available for sale or those financial assets that are not classified as other categories. After the initial recognition, available-for-sale financial assets are subsequently measured at fair value. Interests earned whilst holding available-for-sale financial assets are reported as interest income using the effective interest rate. Gains or losses on available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets, until the financial assets are derecognised, at which time the cumulative gains or losses previously recognised in equity are removed from equity and recognised in the income statement.

2.7 Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is evidence of impairment for financial assets except for financial assets designated as at fair value through profit or loss as a result of one or more events that occur after the initial recognition of those assets ("loss event") and whether the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate with consideration of collateral value. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank.

If, subsequent to the recognition of an impairment loss on a financial asset carried at amortised cost, there is objective evidence of a recovery in the value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed and recognised in the income statement. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Financial assets carried at cost

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the impairment loss recognised in the income statement is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss on the financial asset shall not be reversed once recognised.

According to ASBE No. 2 – Long-term equity investment, impairment of long-term equity investment measured at cost could be treated in accordance with the above principles as long as the investment is not quoted in an active market and its fair value cannot be reliably measured.

Available-for-sale financial assets

If an available-for-sale asset is impaired, the cumulative loss arising from decline in fair value that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the accumulated losses that is removed from equity shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement. Impairment losses recognised for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement.

2.8 Financial liabilities

The Bank classifies its financial liabilities into financial guarantee contracts and other financial liabilities.

Financial guarantee contracts

The Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantee contacts are initially recognised at fair value, being the premium received. After initial recognition, the financial guarantee contracts are each subsequently measured at the higher of the best estimate of reserves required to settle any financial obligation arising as a result of the guarantee and the initial fair value less cumulative amortisation.

Other financial liabilities

Other financial liabilities, except for financial liabilities at fair value through profit or loss and financial guarantee contracts, are subsequently measured at amortised cost using the effective interest method.

2.9 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognized in the income statement.

The Bank uses derivative financial instruments, such as forward foreign exchange contracts and interest rate swaps, to hedge its risks associated with foreign currency and interest rate fluctuations. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

2.10 Long-term equity investments

A long-term equity investment is measured initially at its investment cost.

Long-term investments are accounted for using the cost method if the Bank can exercise control over the investee, or does not have joint control or significant influence over the investee and the investment is not quoted in an active market and its fair value cannot be reliably measured.

Under the cost method, a long-term equity investment is measured at its initial investment cost. Cash dividends or profit distributions declared by the investee are recognized as investment income in the current period, except for those declared but not yet paid and included in the actual purchase price or the consideration of the investment. Furthermore, the Bank assesses whether there is an indicator of impairment in accordance with the related policy of asset impairment when a dividend from the investment is recognized.

Where the Bank can exercise joint control or significant influence over the investee, a long-term equity investment is accounted for using the equity method. Joint control is the contractually agreed sharing of control over an economic activity. It exists only when the strategic financial and operating decisions require unanimous consent of the controlling parties. Significant influence is the power to participate in an entity's financial and operating policy decisions but not control or jointly control those policies.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Bank's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. Where initial investment cost is less than the Bank's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference is charged to the income statement for the current period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, after acquiring a long-term equity investment, the Bank recognizes its share of the net profits or losses made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The carrying amount of the investment is reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the Bank. The Bank shall discontinue recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interest that in substance form part of the investor's net investment in the investee are reduced to zero, except to the extent that the Bank has incurred obligation to assume additional losses. The Bank shall adjust the carrying amount of the long-term investment for other changes in equity of the investee (other than net profits or losses), and include the corresponding adjustment in equity. On disposal of the investment, any changes shall be transferred to the income statement for the current period on a pro-rata basis according to the proportion disposed of.

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognized in the income statement.

2.11 Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The major investment properties of the Bank include leased buildings and the related land use rights.

Investment property is recognized only when it is probable that economic benefits associated with the property will flow to the Bank and the cost of the property can be measured reliably.

Investment properties are initially and subsequently measured using the cost method. Depreciation is calculated using the straight-line method.

2.12 Fixed assets and depreciation

(i) Recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes; and have useful lives more than one accounting year.

A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Bank and the cost of the asset can be measured reliably.

Subsequent expenditures incurred for a fixed asset that meet the above conditions are included in the cost of the fixed assets; otherwise they are recognized in the income statement in the period in which they are incurred.

(ii) Measurement and depreciation of fixed assets

Fixed assets are initially measured at cost. The cost of an asset comprises the purchase price, related taxes, and any directly attributable expenditure of bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and professional fees.

Depreciation is calculated on the straight-line basis. The Bank reasonably determines the useful lives, estimated net residual values and depreciation rates of fixed assets according to the natures and use patterns of the fixed assets as follows:

	Useful life	**Estimated net residual value**	**Annual depreciation rate**
Properties and buildings	15 to 35 years	5%	2.7% to 6.3%
Office equipment	5 years	5%	19.0%
Transportation vehicles	5 to 8 years	5%	11.9% to 19.0%

The useful life and estimated net residual value of a fixed asset and the depreciation method applied are reviewed at each balance sheet date and adjusted when needed.

2.13 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned or controlled by the Bank. The Bank's intangible assets mainly comprise computer software which is estimated to have two to five years of useful life.

Intangible assets are measured initially at cost. The Bank analyses and assesses the useful life of an intangible asset on its acquisition. When the asset is available for use, an intangible asset with a finite useful life is amortized over its useful life. The amortization method selected reflects the pattern in which the asset's economic benefits are expected to be realized. If that pattern cannot be determined reliably, the straight-line method is used. An intangible asset with an indefinite useful life is not amortized. The useful life of intangible assets is reviewed at each balance sheet date. If there is any indication that an intangible asset has a finite useful life, the measurement method for intangible assets with a finite useful life stated above should be applied.

The useful life and the amortization method for intangible assets with finite useful lives are reviewed at each balance sheet date. If the expected useful life of the asset or the amortization method differs significantly from previous assessments, the amortization period or amortization method is changed accordingly.

At each balance sheet date, the Bank assesses whether there is any indication that intangible assets may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized as an impairment loss and charged to the income statement. A provision for impairment loss of the asset is recognized accordingly. No matter whether there is any indication of possible asset impairment, the intangible assets with an indefinite useful life shall be subject to impairment test every year. Once an impairment loss is recognized, it shall not be reversed in the subsequent period.

2.14 Long-term deferred expenses

Long-term deferred expenses are those prepaid expenses with an amortization period of more than one year (excluding one year). Rental expenses are amortized on the straight-line basis over the lease term. Leasehold improvement expenditures are amortized on the straight-line basis over the beneficial period.

2.15 Repossessed assets

Repossessed assets are initially recognized at fair value. The difference between the fair value and the sum of loan principal, interest receivable and impairment provision is taken into the income statement. At the balance sheet date, the repossessed assets are measured at the lower of their carrying value and net realizable value. Provision should be accrued and recognized in the income statement if the carrying amount is higher than the net realizable value.

2.16 Impairment of assets

The Bank adopts the following methods to determine the impairment of assets other than financial assets and repossessed assets:

At each balance sheet date, the Bank assesses whether there is any indication that an assets may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated. No matter whether there is any indication of possible asset impairment, the intangible assets with an indefinite useful life shall be subject to impairment test every year.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If the result of the recoverable amount calculation indicates that the recoverable amount of an asset or a group of assets is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized as an impairment loss and is charged to the income statement. A provision for impairment loss of the asset is recognized accordingly.

Once an impairment loss is recognized, it shall not be reversed in the subsequent period.

2.17 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income and interest expense

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. The change in the carrying amount is recorded as interest income or expense.

Fee and commission income

Fee and commission income is recognized when the services have been rendered and the proceeds can be reasonably estimated.

The fair value of the award credits granted by the Bank to the credit card holders under customer loyalty programmes are deferred and recognized as fee and commission income when the award credits are redeemed or expired.

2.18 Income tax

Income tax comprises current tax and movements in deferred tax balances. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax liabilities are computed based on the taxable income for the period, which comes from profit before tax less all allowable adjustments.

The current income tax liabilities (or assets) incurred in the current period or prior periods shall be measured in light of the expected payable (refundable) amount of income taxes according to the tax law.

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using the balance sheet liability method.

Except for the deferred income tax liabilities arising from the following transactions, an enterprise shall recognize the deferred income tax liabilities arising from all taxable temporary differences:

(i) The initial recognition of goodwill and assets or liabilities arising from the following transactions which are simultaneously featured by the following:

- The transaction is not a business combination; and

- At the time of the transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

(ii) The taxable temporary differences related to the investments in subsidiaries, associates and joint ventures shall not be recognized if the investing enterprise can control the time of the reverse of temporary differences and the temporary differences are unlikely to be reversed in the expected future.

The Bank shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. However, the deferred income tax assets not to be recognized if the transaction is not a business combination and at the time of the transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

Where the deductible temporary difference related to the investments of the subsidiaries, associates and joint ventures can meet the following requirements simultaneously; the enterprise shall recognize the corresponding deferred income tax assets. The temporary differences are likely to be reversed in the expected future; and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

On the balance sheet date, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled and reflect the effect of the expected asset recovery or liability settlement method on the balance sheet date of the income taxes.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. When it is probable to obtain sufficient taxable income taxes, such a write-down amount shall be subsequently reversed.

2.19 Employee benefits

The term "employ benefits" refers to all kinds of payments and other relevant expenditures given by the Bank in exchange of the services offered by the employees. The Bank recognizes the employee compensation payable as a liability during the period in which services are rendered by the employees of the Bank.

The employees of the Bank participate in endowment insurance, medical insurance, unemployment insurance, housing fund and other social insurances administered by local government authorities. The relevant expenses to these plans are recognized in the income statement as incurred.

Upon early retirement, the salary and social insurance paid by the Bank from the date that the employee stops rendering services to the normal retirement date is recognized as employee compensation payable and accounted for in the income statement.

2.20 Accrued liability

The obligation pertinent to a contingency shall be recognized as accrued liability when the following conditions are satisfied simultaneously:

(1) that obligation is a present obligation of the Bank;

(2) it is likely to cause any economic benefit to flow out of the Bank as a result of performance of the obligation; and

(3) the amount of the obligation can be measured in a reliable way.

The accrued liability shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Bank takes into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the contingencies. If there is objective evidence that the book value cannot reflect the current best estimate, the Bank adjusts the book value in accordance with the current best estimate.

2.21 Leases

A lease that transfers substantially all the risks and rewards incident to ownership of an asset is classified as a financial lease. An operating lease is a lease other than a finance lease. Lease payments under an operating lease should be recognized as a cost of related assets or an expense in the income statement on the straight-line basis over the lease term or on another systematic basis which is more representative of the time pattern of the user's benefit. Lease income is recognized in the income statement on the straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2.22 Offsetting

A financial asset and a financial liability will be offset and the net amount presented in the balance sheet when, and only when, an entity currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.23 Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has made assumptions of the effects of uncertain future events on the financial information. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and a fixed maturity are classified as held-to-maturity investments when the Bank has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as held-to-maturity investment, significant management judgement is required. If the Bank fails to correctly assess its intention and ability to hold the investments to maturity and the Bank sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Bank shall classify the whole held-to-maturity investment portfolio as available for sale.

(b) Impairment losses of loans and advances

The Bank determines periodically whether there is any objective evidence that an impairment loss on loans and advances has been incurred. If any such evidence exists, the Bank assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

(c) Income tax

Determining income tax provisions requires the Bank to estimate the future tax treatment of certain transactions. The Bank carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(d) Fair value of financial instruments

When there is an active market for a financial instrument, the Bank uses the quoted price in the active market to establish the fair value of the financial instrument. If the market for a financial instrument is not active, the Bank establishes fair value by using a valuation technique by enquiring the main traders in the market. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis and option pricing models. To the extent practicable, the valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both the Bank's and the counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(e) Impairment of available-for-sale financial assets and held-to-maturity investments

In determining whether there is objective evidence indicating that available-for-sale financial assets and held-to-maturity investments were impaired, the Bank will regularly assess if there has been a "significant or prolonged decline" in the fair value of the assets below its cost, or analyze the financial position and business prospects of the investment objects, including industry conditions, technology change, operating and financing cash flows and so on. Most of these factors relied on management's judgements and will have an impact on the impairment losses recognized.

3. NOTES TO THE PROFIT FORECAST

3.1 Interest income and interest expenses

The following table shows the average balances, corresponding interest income and interest expenses as well as average yields or costs of the underlying assets and liabilities of the Bank for 2010 (forecast) and 2011 (forecast):

In RMB million		2009 (actual)			2010.1.1 to 2010.6.30 (actual)			2010.7.1 to 2010.12.31 (forecast)			2010 (forecast)			2011 (forecast)		
	Note	Average balance *(Note 1)*	Interest	Average rate	Average balance *(Note 1)*	Interest	Average rate	Average balance *(Note 2)*	Interest	Average rate	Average balance *(Note 2)*	Interest	Average rate	Average balance *(Note 3)*	Interest	Average rate
Assets																
Loans and advances	*3.1.1.1*	96,064	4,852	5.05%	115,859	2,998	5.18%	128,867	3,336	5.18%	122,363	6,334	5.18%	151,082	7,755	5.13%
Bond investments	*3.1.1.2*	41,568	1,184	2.85%	55,234	784	2.84%	69,103	1,013	2.93%	62,169	1,797	2.89%	80,845	2,386	2.95%
Amount due from the Central Bank	*3.1.1.3*	20,647	294	1.42%	26,166	191	1.46%	29,845	218	1.46%	28,005	409	1.46%	36,869	538	1.46%
Amount due from and placements with other banks and financial institutions	*3.1.1.4*	22,659	344	1.52%	37,409	398	2.13%	21,386	226	2.11%	29,398	624	2.12%	14,514	308	2.12%
Total interest-earning assets		180,938	6,674	3.69%	234,668	4,371	3.73%	249,201	4,793	3.85%	241,935	9,164	3.78%	283,310	10,987	3.88%
Liabilities																
Customer deposits	*3.1.2.1*	133,382	2,567	1.92%	161,919	1,334	1.65%	177,845	1,386	1.55%	169,882	2,720	1.60%	206,463	2,984	1.45%
Amount due to and placements from other banks and financial institutions	*3.1.2.2*	34,537	619	1.79%	53,650	518	1.93%	49,980	490	1.96%	51,815	1,008	1.95%	54,657	1,041	1.90%
Bonds payable	*3.1.2.3*	1,524	63	4.13%	2,991	62	4.15%	2,991	62	4.15%	2,991	124	4.15%	2,991	125	4.18%
Total interest-bearing liabilities		169,443	3,249	1.92%	218,560	1,914	1.76%	230,816	1,938	1.68%	224,688	3,852	1.71%	264,111	4,150	1.57%
Net interest income			3,425			2,457			2,855			5,312			6,837	
Net interest spread				1.77%			1.97%			2.17%			2.07%			2.31%

Note 1: The average daily balance for the period shown;

Note 2: The forecast average balance for the period shown;

Note 3: The simple average between note 1 and note 2.

The following table shows the changes between 2010 forecast figures and 2009 actual figures as well as between 2011 forecast figures and 2010 forecast figures of the Bank:

In RMB million		2009 Actual			2010 Forecast			Change (%)			2011 Forecast			Change (%)		
	Note	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate *(Note 1)*	Average balance	Interest	Average rate	Average balance	Interest	Average rate *(Note 1)*
Assets																
Loans and advances	*3.1.1.1*	96,064	4,852	5.05%	122,363	6,334	5.18%	27%	31%	0.13%	151,082	7,755	5.13%	23%	22%	(0.05%)
Bond investments	*3.1.1.2*	41,568	1,184	2.85%	62,169	1,797	2.89%	50%	52%	0.04%	80,845	2,386	2.95%	30%	33%	0.06%
Amount due from the Central Bank	*3.1.1.3*	20,647	294	1.42%	28,005	409	1.46%	36%	39%	0.04%	36,869	538	1.46%	32%	32%	–
Amount due from and placements with other banks and financial institutions	*3.1.1.4*	22,659	344	1.52%	29,398	624	2.12%	30%	81%	0.60%	14,514	308	2.12%	(51%)	(51%)	–
Total interest-earning assets		180,938	6,674	3.69%	241,935	9,164	3.78%	34%	37%	0.09%	283,310	10,987	3.88%	17%	20%	0.10%
Liabilities																
Customer deposits	*3.1.2.1*	133,382	2,567	1.92%	169,882	2,720	1.60%	27%	6%	(0.32%)	206,463	2,984	1.45%	22%	10%	(0.15%)
Amount due to and placements from other banks and financial institutions	*3.1.2.2*	34,537	619	1.79%	51,815	1,008	1.95%	50%	63%	0.16%	54,657	1,041	1.90%	5%	3%	(0.05%)
Bonds payable	*3.1.2.3*	1,524	63	4.13%	2,991	124	4.15%	96%	97%	0.02%	2,991	125	4.18%	–	1%	0.03%
Total interest-bearing liabilities		169,443	3,249	1.92%	224,688	3,852	1.71%	33%	19%	(0.21%)	264,111	4,150	1.57%	18%	8%	(0.14%)
Net interest income			3,425			5,312						6,837				
Net interest spread				1.77%			2.07%						2.31%			

Note 1: The change in average ratio is equivalent to the average ratio for T+1 year less that for T year(s).

3.1.1 Interest income

3.1.1.1 Loans and advances

1) Average balance

The following table sets forth the average balances of the Bank's major categories of loans and advances for the periods indicated:

In RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H2010 (actual)	2010 (forecast)	2011 (forecast)	Change in percentage 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Corporate loans	40,259	47,624	69,205	82,203	86,978	103,875	18%	45%	26%	19%
Retail loans	16,200	19,815	22,965	27,620	28,601	35,620	22%	16%	25%	25%
Credit cards	82	1,202	3,894	6,036	6,784	11,587	1366%	224%	74%	71%
Total	56,541	68,641	96,064	115,859	122,363	151,082	21%	40%	27%	23%

The Bank's average balance of loans in 2008 and 2009 increased by 21% and 40% respectively as compared with the respective previous year. Based on the trend of historical growth of the Bank's loans and the estimated impact from macro-control policy may have on the growth of loans, the Bank anticipates that the balance of loans at the end of 2010 will increase by 22% comparing with that of 2009. More than 50% of the loans have been granted in the first half of 2010, resulting in a higher growth rate of average daily balance than that at the end of the period. In 2011, the year-end balance of the Bank's loans is expected to increase by approximately 30% due to the continuing effect of the macro-control policy. At the same time, the growth of loans will evenly spread for the year, with a slowdown in the growth of average balance of loans.

2) Yield of loans

Basis of loan yields forecasting

(i) The average yield on the Bank's loans in 2009 was 5.05%. The Bank's efforts in strengthening its pricing management since 2010 has started to take effect, showing a stronger pricing power for different customers with various risk rate and resulting in an overall higher loan interest rate to a certain extent. The loan interest rate in the first half of 2010 increased by 13 basis points to 5.18% as compared with that of 2009. The Bank anticipates that the average loan interest rate in 2010 will maintain the same level as in the first half of 2010.

(ii) Taking the regulation requirement of capital adequacy ratio into account, the Bank will make proper adjustments to its loan portfolio in 2011. The Bank anticipates that the average loan interest rate in 2011 will drop by 5 basis points as compared with that of 2010.

3.1.1.2 Bond investments

The table below sets forth the average balance of the Bank's bond investments and its interest income for the periods indicated:

RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H2010 (actual)	2010 (forecast)	2011 (forecast)	Change in percentage 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Average balance	41,200	34,811	41,568	55,234	62,169	80,845	(16%)	19%	50%	30%
Average yield	3.12%	3.82%	2.85%	2.84%	2.89%	2.95%	0.70%	(0.97%)	0.04%	0.06%
Interest income	1,286	1,331	1,184	784	1,797	2,386	3%	(11%)	52%	33%

Note: Change in average yield = average yield for the year of (T + 1) – average yield for the year of T.

1) Average balance

The Bank anticipates that the average balance of bond investments will increase by 50% and 30% respectively in 2010 and 2011 compared with respective previous year. The forecast is made based on the following reasons:

(i) Given the fact that the increment of loans maintains at a certain level in 2010 due to macro control, the Bank anticipates that there will be sufficient funds for the forecast period, the bond investments will record a comparatively significant increase as compared with that of 2009.

(ii) In view of the comparatively high balance of bonds at the end of 2010, the Bank anticipates that the increase of the daily average balance of its bonds in 2011 will be slightly lower than that in 2010 but still higher than that in 2009.

2) Yields of bond investments

The movement in yields of bond investments is forecasted based on the following factors:

(i) In 2010, the Bank has gradually increased available-for-sale bonds and held-to-maturity investment with high yields increase interest incomes. RMB- corporate bonds held by the Bank increased to 20% as at 30 June 2010 compared with 15% at the end of 2009, and the Bank anticipates that the bond investments yield in 2010 will increase by 4 basis points compared with that of 2009.

(ii) The Bank will maintain a sound bond investment strategy. The Bank anticipates that the bond interest rate in 2011 will reach 2.95%, representing a slight increase of 6 basis points as compared with that of 2010.

3.1.1.3 Amounts due from the Central Bank

The table below sets forth the average balances and interest income from amounts due from the Central Bank for the periods indicated:

							Change in percentage			
In RMB million	**2007 (actual)**	**2008 (actual)**	**2009 (actual)**	**1H2010 (actual)**	**2010 (forecast)**	**2011 (forecast)**	**2008 vs. 2007**	**2009 vs. 2008**	**2010 vs. 2009**	**2011 vs. 2010**
Average balance	9,394	18,978	20,647	26,166	28,005	36,869	102%	9%	36%	32%
Average yield	1.70%	1.68%	1.42%	1.46%	1.46%	1.46%	(0.02%)	(0.26 %)	0.04%	–
Interest income	160	319	294	191	409	538	99%	(8%)	39%	32%

Note: Change in average yield = average yield for the year of (T + 1) – average yield for the year of T.

1) Average balance

The forecast of the average balance of the Bank’s amounts due from the Central Bank is based on the following assumptions:

(i) The statutory deposit reserve ratio is maintained at 15% in 2010 and 2011.

(ii) The Bank’s historical excess reserve rate was approximately between 2% to 4%. In order to maintain adequate liquidity, the Bank plans to maintain a excess reserve ratio of 2% to 3% in late 2010 and in 2011.

2) Average yield

The deposit reserve ratio has been raised from 13.5% in 2009 to 15% in the first half of 2010. The proportion of statutory reserve with the Central Bank has been raised continuously. The average yield of amounts due from the Central Bank has increased by 4 basis points as compared with that of 2009. The Bank anticipates that the average yield of amounts due from the Central Bank will be maintained at 1.46% in the second half of 2010, in line with that of the first half of 2010.

Assuming that the statutory reserve requirement remains unchanged, with the planned increase of deposits and its historical excess reserve ratio of 2% to 3%, the yield of the Bank in 2011 is expected to maintain at the same level as that of 2010.

3.1.1.4 Amounts due from and placements with other banks and financial institutions

The table below shows the average balance and interest income from amounts due from other banks and financial institutions:

							Change in percentage			
RMB million	**2007 (actual)**	**2008 (actual)**	**2009 (actual)**	**1H2010 (actual)**	**2010 (forecast)**	**2011 (forecast)**	**2008 vs. 2007**	**2009 vs. 2008**	**2010 vs. 2009**	**2011 vs. 2010**
Average balance	12,887	12,094	22,659	37,409	29,398	14,514	(6%)	87%	30%	(51%)
Average yield	4.87%	4.39%	1.52%	2.13%	2.12%	2.12%	(0.48%)	(2.87%)	0.60%	–
Interest income	628	531	344	398	624	308	(15%)	(35%)	81%	(51%)

Note: Change in average yield = average yield for the year of (T + 1) – average yield for the year of T.

1) Average balance

In order to optimize the structure of assets and liabilities and improve the return on assets, while maintaining adequate liquidity, the Bank strategically lowered the proportion of its daily balances of due from other banks. The percentage of amount due from other banks to interest-generating-assets will decrease from 12% in 2010 to 5% in 2011. Meanwhile, the proportions of loans and advances, bonds and amounts due from the Central Bank will increase by 2%, 3% and 1% respectively.

2) Yields

As affected by the capital market, the average yield of amounts due from other banks and financial institutions maintain a high level in 2007 and 2008, but decreased significantly in 2009. In 2010, it began to pick up, the yield on amounts due from other banks increased by 61 basis points in the first half of 2010 as compared with that of 2009 with the simplification of the businesses and the strategy of effective opeartion, the average yield of the Bank in the second half of 2010 is expected to remain at the same level as that of the first half of the year.

The Bank anticipates that the market interest rate in 2011 will remain stable and the average yield on amounts due from other banks will maintain at the rate of 2.12% as in 2010.

3.1.2 Interest expenses

3.1.2.1 Customer deposits

1) Average balances

Taking into account the Bank's historical data for the past three years and the current conditions of domestic capital market and the expectation of future monetary policy, as well as the 2010 and 2011 business plans and annual budgets of the Bank, the Bank anticipates that the average balances of deposits from customers are as follows:

In RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H2010 (actual)	2010 (forecast)	2011 (forecast)	Change in percentage 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Demand deposits										
Corporate deposits	72,617	47,989	46,234	61,581	62,204	82,679	(34%)	(4%)	35%	33%
Retail deposits	5,879	6,289	8,084	10,933	12,067	18,317	7%	29%	49%	52%
Subtotal	78,496	54,278	54,318	72,514	74,271	100,996	(31%)	–	37%	36%
Term deposits										
Corporate deposits	30,253	43,997	69,309	78,012	82,573	86,146	45%	58%	19%	4%
Retail deposits	4,304	5,718	9,755	11,393	13,038	19,321	33%	71%	34%	48%
Subtotal	34,557	49,715	79,064	89,405	95,611	105,467	44%	59%	21%	10%
Total	113,053	103,993	133,382	161,919	169,882	206,463	(8%)	28%	27%	22%

Due to the proceeds raised from the listing of Ping An Insurance (Group) Company of China, Ltd., the demand deposits of the Bank increased significantly in 2007. 85% of the amount were used in 2008 and 12% were used in 2009, which led to a decrease of the Bank's demand deposits in 2008 and 2009. Excluding this factor, the Bank's deposits maintained a stable and rapid growth. The Bank anticipates that the balances of deposits at the end of 2010 and 2011 will increase by 28% and 24% respectively compared with that of the previous year, while the average balances will increase by 27% and 22% respectively.

Based on the trend of the historical changes, the Bank anticipates that the growth rate of the Bank's corporate deposits and retail deposits in 2010 and 2011 will be basically the same as the previous two years. So long as the loan-to-deposit ratio meets the regulatory requirements, the Bank will not renew part of the high interest deposits after their expiration in order to optimize the asset and liability structure. This will result in a slight decline in the growth rate of term deposits in 2010 and 2011 as compared with 2009.

2) Interest rate

It is expected that average interest rate on customer deposits will decrease from 1.92% in 2009 to 1.60% in 2010 and further down slightly to 1.45% in 2011, primarily due to the following reasons:

(i) Due to interest rate cuts in late 2008, interest rates on new deposits and re-priced term deposits were lower in 2009, pushing the average interest rates down in 2010. On the other hand, the proportion of current deposits to total deposits increased in 2010 mainly due to part of the high-interest deposit agreements getting expired without renewal. As such, the Bank predicts that the interest rates on deposits will drop in 2010 as compared with those in 2009;

(ii) As part of the high-interest deposit agreements getting expired without renewal in 2011, the proportion of current deposits to total deposits is expected to increase from 44% in 2010 to 49% in 2011, pushing the average interest rates further down, the Bank anticipates that full-year interest rates will drop 15 basis points in full year of 2011 as compared with those in 2010.

3.1.2.2 Amount due to and placement from other banks and financial institutions

The following table shows the average balance of the Bank's amount due to and placements from other banks and financial institutions and interest expenses thereon for the periods indicated:

							Changes (%)			
In RMB million	**2007 (actual)**	**2008 (actual)**	**2009 (actual)**	**1H 2010 (actual)**	**2010 (forecast)**	**2011 (forecast)**	**2008 vs. 2007**	**2009 vs. 2008**	**2010 vs. 2009**	**2011 vs. 2010**
Closing balance	20,286	26,597	50,995	41,302	37,749	57,154	31%	92%	(26%)	51%
Average balance	9,902	21,229	34,537	53,650	51,815	54,657	114%	63%	50%	5%
Average interest rate	3.22%	3.04%	1.79%	1.93%	1.95%	1.90%	(0.18%)	(1.25%)	0.16%	(0.05%)
Interest expense	319	645	618	518	1,010	1,041	103%	(4%)	63%	3%

Note: Change in average interest rate = average interest rate for the year of (T+1) – average interest rate for the year of T.

1) Average balance

Based on an analysis of historical data of the Bank for the past three years, the daily average balance of amount due to and placements from banks and other financial institutions account for approximately 20% to 26% of total interest-bearing liabilities. For the purpose of maintaining liquidity, the Bank expects this proportion will stay at such level in 2010 and 2011. Due to growth of deposits, the proportion of deposits to interest-bearing liabilities will increase by three percentage points to 78% while the proportion of the average balance of amount due to and placements from banks and other financial institutions to that of interest-bearing liabilities will decrease slightly in 2011, but remain above 21% so as to meet our normal liquidity requirement.

2) Interest rate

The average interest rates on amount due to and placements from banks and other financial institutions are sensitive to the supply and demand of funds in the market. It reached a high level of 3.04% due to the financial crisis in 2008 and retreated to an annual average rate of 1.79% in 2009. Based on the fact that the actual average interest rate for the first half of 2010 increased by 14 basis points as compared with that of the same period of 2009, the Bank predicts that the average yield of placements of deposits from other financial institutions will rise by 16 basis points to 1.95% in 2010. The average interest rate on amount due to and placements from banks and other financial institutions is expected to drop slightly by 5 basis points to 1.90% in 2011 from the level of 2010 due to the expiry of a small part of inter-bank term deposits.

3.1.2.3 Bonds payable

1) Average balance

The following table shows the average balance of bonds payable of the Bank for the periods indicated:

In RMB million	2007 and 2008 (actual)	2009 (actual)	1H 2010 (actual)	2010 (forecast)	2011 (forecast)	Changes (%) 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Subordinated bonds	–	1,524	2,991	2,991	2,991	N/A	N/A	96%	–

The Bank issued subordinated bonds amounting to RMB3 billion in the inter-bank bond market in June 2009, which comprised of RMB1.15 billion fixed rate bonds and RMB1.85 billion floating-rate bonds. The maturity period of these bonds was ten years and the Bank has a redemption right starting from the fifth year after the issue. The Bank predicts that the average balance of bonds payable in 2010 and 2011 will be the same as that of 2009 since the Bank has no plan of issuing new bonds in both 2010 and 2011.

2) Interest rate

In the first five interest-bearing years after issue, the coupon rate for the above mentioned fixed-rate bonds was 4.4%;the coupon rate for the floating rate bonds was the interest rate on one-year-term-deposits plus 165 basis points. The Bank predicts the weighted average interest rates of subordinated bonds for 2010 and 2011 are 4.15% and 4.18% respectively.

3.2. Net fee and commission income

3.2.1 Fee and commission income

The following table shows the growing trend in the past and the forecast figures for 2010 and 2011 of our fee and commission income:

In RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H 2010 (actual)	2010 (forecast)	2011 (forecast)	Changes (%) 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Settlement fee income	32	35	36	23	47	60	9%	3%	31%	28%
Agency business fee income	21	10	12	15	28	37	(52%)	20%	133%	32%
Entrusted business fee income	43	85	146	84	168	227	98%	72%	15%	35%
Bank card fee income	26	91	189	164	333	616	250%	108%	76%	85%
Others	20	21	99	92	120	160	5%	371%	21%	33%
Total	142	242	482	378	696	1,100	70%	99%	44%	58%

3.2.1.1 Settlement fee income

Settlement fee income primarily comes from foreign exchange business. The foreign exchange business grew slowly in 2009 due to the financial crisis, but showed gradual improvement along with the global economic recovery. The new international banking system and process automation launched by the Bank will further promote the growth of this business. The Bank predicts the settlement fee income will maintain an annual growth ranging from RMB11 million to RMB13 million in 2010 and 2011 based on the expectation of branch expansion and customer growth and the fact that settlement fee income amounted to RMB23 million in the first half of 2010.

3.2.1.2 Agency business fee income

Our agency business fee income shrunk sharply from 2007 to 2009 when the Bank was experiencing transformation and affected by the financial crisis. However, the Bank's agency business will get back into normal track gradually after it has integrated successfully with the cross-selling business of other fellow subsidiaries. Based on the satisfactory growth in agency business fee income for the first half of 2010 (already 25% above that for the full year of 2009), the Bank predicts that agency business fee income will maintain rapid growth in 2010 and 2011.

3.2.1.3 Entrusted business fee income

Entrusted business fee income primarily consists of credit facility management fee, fee income on trusted loans, charges on reservation of credit facilities and fee income on composite wealth management. Considering the income realized in the first half of 2010 amounting to RMB84 million, the Bank predicts that the full year income will increase by 15% as compared with that of the same period of last year. The Bank predicts that the growth rate of entrusted business fee income will reach 35% in 2011 along with the rally in credit facility management fee, the increase in number of branches and outlets, the expansion of various corporate and retail wealth management business and strengthening of cross-selling within the Group.

3.2.1.4 Bank card fee income

Higher bank card fee income is mainly driven by the continuous expansion of credit card business. Based on our future plan for credit card business and the fact that the accumulated number of outstanding credit cards reached 3.40 million and 4.30 million in 2009 and the first half of 2010 respectively, the Bank predicts that the outstanding card number will exceed 5 million and 8 million in 2010 and 2011 respectively. The actual growth rates of bank card fee income in 2008 and 2009 were 250% and 108%. In future, the Bank will strengthen the sophisticated operation of its credit card business while expanding such business. It will try to increase the annual fee income by issuing credit cards with innovative themes such as car-owner cards and platinum cards; increase instalment service fee income by launching bill instalment, mail order instalment and online shopping mall. In addition, the commission rate of issuing banks continued to increase as the China UnionPay standardizes management of POS merchants and the Credit Card Centres focus on the operation of high-commission consumption sectors, thus giving rise to the substantial improvement of commission income. Based on the historical data and the future plan for credit card business, the Bank predicts that the credit card fee income will grow remarkably. The projected annual growth rates for 2010 and 2011 are 76% and 85% respectively.

3.2.1.5 Others

The growth in other fees is mainly driven by the growth of fee income from investment banking business. Based on the fact that fee income from investment banking business was RMB50 million and RMB55 million respectively for 2009 and the first half of 2010, the Bank predicts that other fee income for the full year of 2010 will grow by approximately 21%. With the continuous development of investment banking business, other fee income in 2011 is expected to grow by 33%.

3.2.2 Fee and commission expense

In RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H2010 (actual)	2010 (forecast)	2011 (forecast)	Changes (%) 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Bank card expenses	(8)	(20)	(38)	(43)	(80)	(136)	150%	90%	111%	70%
Settlement fee expenses	(10)	(11)	(14)	(12)	(28)	(33)	10%	27%	100%	18%
Others	(15)	(5)	(13)	(3)	(7)	(9)	(67%)	160%	(46%)	29%
Total	(33)	(36)	(65)	(58)	(115)	(178)	9%	81%	77%	55%

As our credit card business continues to expand, the number of outstanding credit cards accumulated to 3.40 million and 4.30 million in 2009 and the first half of 2010 respectively. Thus, the Bank predicts that the number of outstanding cards will exceed 5 million and 8 million in 2010 and 2011 respectively. The actual growth rates of bank card fee expenses for 2008 and 2009 were 150% and 90% respectively. The Bank made three service commitments in the second half of 2009, namely "free global ATM withdrawals", "free online remittance by individual customers" and "compensation for loss arising from transaction via online banking that is not the fault of individual customers". These three commitments have negative impact on the bank card fee expenses. Based on the future plan for credit card business and these three commitments, a certain growth rate in the bank card fee expenses are expected to maintain.

3.3. Other operating income

The following table shows the breakdown of the historical data and the forecast figures for 2010 and 2011 in respect of our other operating income:

In RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H2010 (actual)	2010 (forecast)	2011 (forecast)	Changes (%) 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Investment income	65	32	151	62	85	13	(51%)	372%	(44%)	(85%)
Net gains/(losses) from changes in fair values of financial instruments	(59)	(195)	253	30	35	6	231%	(230%)	(86%)	(83%)
Net foreign exchange difference	35	18	25	19	29	37	(49%)	39%	16%	28%
Others	25	19	11	4	8	9	(24%)	(42%)	(27%)	13%
Total	66	(126)	440	115	157	65	(291%)	(449%)	(64%)	(59%)

3.3.1 Investment income and net gains/(losses) from changes in fair values of financial instruments

The Bank benefited from trading available-for-sale financial assets in 2009 and the first half of 2010 due to the sharp fluctuation in market interest rates. In anticipation of a stable market in the second half of 2010 and in 2011, the Bank predicts that investment income and gains from changes in fair values will decrease accordingly.

3.3.2 Net foreign exchange difference

Income from net foreign exchange difference for the first half of 2010 was RMB19 million, and it is expected to reach RMB29 million for the full year of 2010 due to fluctuation in exchange rates. Having considered that net foreign exchange settlement is one of the Bank's focusing business and with the continued increase in number of branches and outlets, net foreign exchange difference will witness continuous growth in 2011.

3.4. Operating costs

Operating costs of the Bank mainly include: (1) business tax and surcharges; (2) staff expenses; (3) general and administrative expenses; and (4) depreciation and amortization. The following table shows the historical data and the forecast figures of operating costs for the periods indicated:

In RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H 2010 (actual)	2010 (forecast)	2011 (forecast)	Changes (%) 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Business tax and surcharges	176	273	298	185	374	491	55%	9%	26%	31%
Business and administrative expenses:										
Staff expenses	849	791	1,059	710	1,384	1,768	(7%)	34%	31%	28%
General and administrative expenses(note)	537	926	1,265	633	1,451	1,829	72%	37%	15%	26%
Depreciation and amortization	80	127	242	137	273	319	59%	91%	13%	17%
Subtotal	1,466	1,844	2,566	1,480	3,108	3,916	26%	39%	21%	26%
Total	1,642	2,117	2,864	1,665	3,482	4,407	29%	35%	22%	27%

Note: General and administrative expenses include the lease payment and other operating cost.

3.4.1 Business tax and surcharges

The respective tax rates of business tax and surcharges applicable to the Bank are set forth as follows:

Tax	Basis of tax assessment	Tax rate
Business tax	Business income (not including interest income from transactions with financial institutions)	5%
City Construction and Maintenance Tax	Amount of business tax	1%-7%

The comprehensive tax rate (including business tax) stays at 5.3% for Shenzhen and 5.5% for other areas. The comprehensive tax rate (including business tax) ranged between 5.3% and 5.5% based on the past trend, and tended towards 5.5% as the Bank's business expanded across the country. Meanwhile all net incomes such as the loan interest income and fee income have experienced remarkable increase, and thus the Bank's business tax and surcharges are expected to increase by 31% in 2011.

3.4.2 Staff expenses

Our staff expenses increased by 34% in 2009 as a result of the rapid growth in business volume and the number of sales people and relevant supporting personnel (including operation, collection and customer service personnel) due to business transformation and outlet expansion in 2007 to 2009. In 2010, the Bank continued to increase recruitments of sales personnel to support business expansion, and controlled the growth of the number of middle- and back-office personnel through capacity improvement plan. The growth rate of staff expenses in 2010 is expected to drop slightly from 2009 to 31%. In 2011, the Bank will continue to implement the above policies and keep the remuneration packages of Ping An Bank competitive and predicts that the growth rate of overall staff expenses will decrease to approximately 28%.

3.4.3 General and administrative expenses

The Bank carried out a business transformation from 2007 to 2009. During this period, the Bank vigorously promoted the expansion of credit card business and increased the number of bank branches; meanwhile, large investment was made in infrastructural construction such as basic structure of information technology and construction of branch network. As a result, the growth rates of general and administrative expenses in 2008 and 2009 were 72% and 37% respectively. Moving into 2010, as the above business transformation have been completed step by step, the bottleneck occurred during the branches expansion period was successfully passed, and with more effective measures implemented to control expenses, the growth rate of general and administrative expenses significantly decreased. The growth rate in 2010 is expected to be approximately 15%. In 2011, the Bank will fully carry out the reform of retail business mode as developed in 2010, place greater emphasis on development of retail business, and increase the investment in marketing expenses for relevant brands, products and various distribution channels. As the number of cities that issue credit cards continues to grow, the number of new credit cards to be issued in 2011 will increase, relevant marketing and administrative expenses will rise accordingly. Moreover, the Bank will vigorously promote its "All-in-one Card" business, which will cause additional advertising, marketing and administrative expenses. Therefore, the forecast growth rate of general and administrative expenses of the Bank will rise to 26% in 2011.

3.4.4 Depreciation and amortization

As the Bank carried out the business transformation from 2007 to 2009, large amount of funds were invested in infrastructural construction, such as basic structure of information technology and construction of branch network, which boosted the expenses up by 59% and 91% respectively in 2008 and 2009. In 2010, the peak season for investment in information technology system had passed, and number of new projects decreased gradually, thus the growth rate in depreciation and amortization expenses would decrease accordingly. The Bank forecasts that the full year growth rate of depreciation and amortization in 2010 will be approximately 13%. In 2011, as impacted by the launching of new development projects and new core system in the second half of 2010, it is expected that the growth rate of depreciation and amortization expenses of the Bank will reach 17%.

3.5 Impairment loss on assets

The following table shows the historical data and 2010 and 2011 forecast figures of impairment loss on assets of the Bank for the periods indicated:

In RMB million	**2007 (actual)**	**2008 (actual)**	**2009 (actual)**	**1H 2010 (actual)**	**2010 (forecast)**	**2011 (forecast)**
Impairment loss on loans	(116)	212	194	84	363	397
Impairment loss on other assets	280	57	(11)	(2)	2	2
Total	164	269	183	82	365	399

3.5.1 Impairment provision for loans

In RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H 2010 (actual)	2010 (forecast)	2011 (forecast)
Balance of loan impairment provision at the beginning of the period	(2,342)	(420)	(601)	(772)	(772)	(1,135)
Charge for the period	116	(212)	(194)	(84)	(363)	(397)
Other movement	1,806	31	23	8	–	–
Balance of loan impairment provision at the end of the period	(420)	(601)	(772)	(848)	(1,135)	(1,532)
Balance of loans and advances at the end of the period	61,900	72,486	107,562	120,621	131,174	170,990
Ratio of loan provision balance to total loans and advances	(0.68%)	(0.83%)	(0.72%)	(0.70%)	(0.87%)	(0.90%)
Balance of non-performing loans at the end of the period	511	391	495	541	694	997
Coverage ratio of provision over non-performing loans	82%	154%	156%	157%	164%	154%

As at the end of June 2010, non-performing loan ratio of the Bank was 0.45%, and coverage ratio was 157%. Currently, the Bank takes cautious loan review and approval procedure and exercises strict post-loan management, thus no major non-performing loans are expected to appear at the end of 2010 and in 2011. As total loans show an increasing trend, the non-performing loan ratio by then will increase slightly but remain at a relatively low level, and the coverage ratio will meet the regulatory requirements as well.

3.6. Income Tax

According to the "Notice on Implementation of Transitional Preferential Policies Concerning Enterprise Income Tax" issued by the State Council, the income tax rate of the People's Republic of China applicable to the Bank will gradually increase from 15% to the statutory rate of 25% from 2008 onwards as follows: 15% for 2007, 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011, and 25% for 2012 and thereafter. Income tax expenses are calculated based on the projected operating income and the applicable tax rates of the Bank:

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	1H 2010 (Actual)	2010 (Forecast)	2011 (Forecast)
Total profit before tax	2,187	1,609	1,379	1,177	2,252	3,027
Income tax expense	603	(27)	274	265	502	727
Effective income tax rate	27.6%	(1.7%)	19.9%	22.5%	22.3%	24.0%
Impact of one-off factors	300	(292)	–	–	–	–
Income tax expense (net of impact of one-off factors)	303	265	274	265	502	727
Effective income tax rate (net of impact of one-off factors)	13.9%	16.5%	19.9%	22.5%	22.3%	24.0%

In 2010, the income tax rate is 22% in Shenzhen and 25% in other regions. As the principal business of the Bank is located in Shenzhen, it is expected that the income tax rate applicable to the Bank approximates to that in Shenzhen. In 2011, the income tax rate in Shenzhen will be adjusted upward to 24%. Given the fact that the Bank's business located in Shenzhen will maintain at a relatively high proportion and taking tax exemption and reduction into consideration, it is expected that the effective income tax rate applicable to the Bank will continue to approximate to that in Shenzhen.

4. KEY ISSUES THAT MAY AFFECT PROFIT FORECAST AND PROPOSED MEASURES

4.1. Key issues that may affect profit forecast

4.1.1 The interest rates used in this forecast are based on the assumptions mentioned above. For the purpose of better illustrating the impact of the changes in interest rates on profit, the following table sets forth the sensitivity analysis of the impact on net profit of different businesses as a result of each basis point movement in interest rate:

In RMB million	Sensitivity analysis of interest rate: Impact on profit forecast by changes of 1 basis point	
	2010	**2011**
Interest-earning assets		
Loans and advances	8.6	10.6
Bond investments	4.6	5.9
Amount due from the Central Bank	2.2	2.8
Amount due from and placement with other banks and financial institutions	2.3	1.1
Interest-bearing liabilities		
Customers deposits	(13.2)	(15.6)
Amount due to and placement from other banks and financial institutions	(4.0)	(4.1)
Bonds payable	(0.2)	(0.2)

4.1.2 Impact of movements in market exchange rate

The Bank is mainly exposed to exchange rate risks arising from currency mismatch between assets and liabilities as well as foreign exchange transactions. The exchange rate risk exposure of the Bank mainly arises from loans and advances, investments and customer deposits denominated in currencies other than RMB. The Bank is mainly engaged in RMB business, with certain transactions mainly involving US Dollar and HK Dollar and very few involving other currencies.

As the foreign exchange risk exposure of the Bank is minimal and not expected to increase significantly in 2011, and in view of the limited impact of movements in exchange rate on profit or loss, this profit forecast has not taken into consideration the impact of movements in foreign exchange rates on the profit forecast. Based on the data available as at 30 June 2010, the profit of the Bank will increase by RMB4.41 million assuming that all foreign currencies depreciate by 5% against the RMB; and decrease by RMB4.41 million assuming that all foreign currencies appreciate by 5% against the RMB.

4.1.3 Impact of changes in loan quality

The impact of changes in loan quality is mainly represented by the impact on profit as a result of the increase or decrease in non-performing loan ratio. In the event that the changes in loan quality of the Bank are beyond our expectation, which lead to a greater amount of provision for loans that exceeds our expectation, the final profits under the profit forecast will be affected, however, the affected amount cannot be reasonably determined at present.

4.2. Measures to be taken

Risk management is crucial to the business and operation of Ping An Bank. Therefore, the Bank has made its best efforts to maintain a highly effective risk management system to regulate the management of all operating activities. For this end, the Bank has established a comprehensive and unified risk management framework which can identify, measure and control various forms of risks the Bank is exposed to. Advanced risk management methods and tools are employed in the framework, with a view to support the decision-making process of the Bank and maximize shareholders' value under defined risk management standards.

4.2.1 Market risk refers to the risk of potential loss resulting from market value fluctuation of financial instruments held by the Bank which may occur as a result of the adverse change in market price attributable to risk factors such as interest rate, exchange rate, market price and others. Under the current domestic legal and market environment, there are few financial instruments which can effectively prevent market risks. Therefore, the Bank controls its risk exposure mainly by setting a risk tolerant limit for each type of assets. When setting such risk tolerant limits, the Bank has taken into full consideration its risk preference and the impact on its financial conditions. The risk tolerant limits are set depending upon the Bank's management strategies on assets and liabilities.

4.2.2 Assets and liabilities held by the Bank denominated in foreign currencies are exposed to foreign exchange risk. Such assets include monetary assets such as amount due from and placement with other banks and financial institutions, loans and bonds denominated in foreign currencies, while liabilities include monetary liabilities such as amount due to and placement from other banks and financial institutions and customer deposits denominated in foreign currencies. The Bank assesses its risk exposure using the sensitivity analysis method. When assessing the sensitivity of foreign exchange risk, the Bank assumes that all assets and liabilities denominated in foreign currencies depreciate simultaneously by 5% against RMB.

4.2.3 Liquidity risk refers to the risk that a commercial bank fails to fulfil its payment obligations under normal or extreme conditions. The mismatch in amounts or maturity dates of assets and liabilities will lead to liquidity risk. The Asset and Liability Management Committee of the Bank is responsible for monitoring and controlling liquidity risk, so as to ensure effective liquidity risk management, risk management policies and risk indicators are working perfectly.

During the reporting period, the Bank further strengthened its liquidity risk management by taking the following measures:

(i) The electronic platform has been developed to implement real-time and systematic management of funds denominated in RMB and other foreign currencies;

(ii) The cash flow forecast model has been improved to formulate a medium to long term planning for liquidity management;

(iii) The liquidity risk pressure test model has been established to formulate the relevant fund emergency plan.

4.2.4 The Bank has established sound taxation management and risk control systems staffed with professional taxation management team, studied tax laws and regulations on a timely basis, maintained good relations with the tax authorities and fulfilled its taxpayer's obligations in strict compliance with the requirements of tax laws and regulations.

Annex: Major financial indicators for profit forecast

In RMB million	**2007 (Actual)**	**2008 (Actual)**	**2009 (Actual)**	**1H2010 (Actual)**	**2010 (Forecast)**	**2011 (Forecast)**
Profitability indicators:						
Return on total assets	1.4%	1.1%	0.6%	0.8%	0.7%	0.8%
Return on weighted average equity	27.8%	22.0%	9.7%	12.3%	11.5%	13.4%
Capital adequacy ratio	9.1%	10.7%	13.1%	11.8%	10.8%	10.0%
Cost to income ratio	40.9%	47.0%	59.5%	51.2%	51.4%	50.1%
Provision coverage	82.2%	153.7%	156.0%	156.8%	163.5%	153.6%
Net interest spread	2.75%	2.66%	1.77%	1.97%	2.07%	2.31%
Net interest margin	3.05%	2.84%	1.86%	2.09%	2.20%	2.41%

Notes: Net interest spread = return on interest-earning assets – cost of interest-bearing liabilities;
Net interest margin = net interest income/balance of average interest-earning assets.