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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 “Pro Forma Consolidated Profit Forecast Report and Special Purpose Review Report for the Years of 2010 and 2011 of Shenzhen Development 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.

Important Notice

The attached pro forma consolidated profit forecast report has been translated from the pro forma consolidated profit forecast report prepared in Chinese for reference by the Company's management. In the event of any differences in interpreting the pro forma consolidated profit forecast report, the pro forma consolidated profit forecast report in Chinese shall prevail.

Shenzhen Development Bank Co., Ltd

Pro forma consolidated profit forecast report and
special purpose review report

2010 and 2011

Shenzhen Development Bank Co., Ltd

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Special Purpose Review Report

Ernst & Young Hua Ming (2010) Zhuangzi No.60438538_Ho8

Shenzhen Development Bank Co., Ltd.

We have reviewed accompanying pro forma consolidated profit forecast report of Shenzhen Development Bank Co., Ltd. (the "Company"), for the years ending 31 December 2010 and 2011 (hereafter referred to as the "Pro Forma Consolidated Profit Forecast Report"). 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 Company is solely responsible for the pro forma consolidated profit forecast and its related assumptions. These assumptions have been disclosed in the Pro Forma Consolidated Profit Forecast 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 pro forma consolidated profit forecast for the years ending 31 December 2010 and 2011. In addition, we believe that the Pro Forma Consolidated Profit Forecast Report has been properly prepared in accordance with those assumptions, and presented in accordance with the basis of preparation set out in the accompanying Pro Forma Consolidated Profit Forecast Report.

As the expected events included in pro forma consolidated 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 Pro Forma Consolidated Profit Forecast Report.

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

Ernst & Young Hua Ming

Chinese Certified Public Accountant:
ZhangXiaoDong

Beijing, the People's Republic of China

Chinese Certified Public Accountant:
XuXuMing

14 September 2010

Shenzhen Development Bank Co., Ltd.
Pro Forma Consolidated Profit Forecast Report

Shenzhen Development Bank Co., Ltd. (the "Company") has prepared the pro forma consolidated profit forecast for the years ending 31 December 2010 and 2011 (hereafter referred to as the "Pro Forma Consolidated Profit Forecast") based on individual profit forecast reports of the Ping An Bank Co., Ltd ("Ping An Bank") and the Company (the Company and Ping An Bank hereafter are collectively referred to as the "enlarged Group") which have been reviewed by Ernst & Young Hua Ming as well as the basis of preparation and basic assumptions which are set out in Note III. Basis of Preparation and Basic Assumptions. The Pro Forma Consolidated Profit Forecast has been prepared by management of the Company and reviewed by the board of directors of the Company. In the opinion of the Company's board, the Pro Forma Consolidated Profit Forecast has been cautiously prepared in accordance with the basis of preparation and basic assumptions which are set out in Note III. Basis of Preparation and Basic Assumptions. The Company has adjusted the accounting policies of Ping An Bank in order to ensure consistency, in all material aspects, of the basis of preparation of these pro forma consolidated profit forecast report to the Company's accounting policies which are set out in Note VI.1. Summary of Significant Accounting Policies and Accounting Estimates of the Company of the accompanying Pro Forma Consolidated Profit Forecast Report.

In the opinion of the board of directors, under normal operation situations, the projected net profit attributable to equity holders of the parent of the enlarged Group for the years ending 31 December 2010 and 2011 would be RMB7.62 billion and RMB9.34 billion, respectively.

The Pro Forma Consolidated Profit Forecast has been cautiously prepared. However, considering the uncertainty of the related assumptions, investors should not solely rely on the Pro Forma Consolidated Profit Forecast for investment decision making.

Shenzhen Development Bank Co., Ltd.

14 September 2010

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

I. GENERAL INFORMATION OF COMPANIES

1. General information of Shenzhen Development Bank Co., Ltd.

Shenzhen Development Bank Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") as a result of the restructuring of six agricultural credit co-operatives into a joint stock commercial bank with limited liability. The Company was established on 22 December 1987 after the initial public offering of its RMB ordinary shares on 10 May 1987. The Company was listed on the Shenzhen Stock Exchange on 3 April 1991 and the stock code is 000001.

The institution number of the Company on the 00000028 approval document issued by the China Banking Regulatory Commission ("CBRC") is B0014H144030001. The business licence number of the Company issued by the Shenzhen Municipal Administration of Industry and Commerce is 440301103098545.

The Company is principally engaged in authorised commercial banking business activities.

The registered office of the Company is located at No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong Province, PRC. The Company's headquarter is located in Shenzhen.

2. General information of Ping An Bank Co., Ltd.

Ping An Bank Co., Ltd. (hereafter referred to as "Ping An Bank"), previously known as Shenzhen Ping An Bank Co., Ltd., was formed on 16 June 2007 after Shenzhen Commercial Bank Co., Ltd. ("SZCB") merged with Ping An Bank Company Limited by absorption. Shenzhen Ping An Bank Co., Ltd. was renamed as "Ping An Bank Co., Ltd." with approval from the Shenzhen Municipal Administration of Industry and Commerce on 10 February 2009.

As at 30 June 2010, Ping An Bank has nine branches in Shenzhen, Shanghai, Fuzhou, Quanzhou, Xiamen, Hangzhou, Guangzhou, Dongguan and Huizhou. The registered capital of Ping An Bank is RMB8,622,824,478 Yuan as at 30 June 2010. The institution number of Ping An Bank on 00012580 approval document issued by CBRC is B0289H244030001. The business license number issued by Shenzhen Municipal Administration of Industry and Commerce is 440301103256945.

Ping An Bank is principally engaged in authorised commercial banking business activities.

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

II. PROPOSED BUSINESS COMBINATION PLAN

The Company signed a conditional share placement agreement with Ping An Insurance (Group) Company of China, Ltd. ("China Ping An") on 1 September 2010. Such agreement was approved by the Board of Directors of the Company on 1 September 2010. Furthermore, on 14 September 2010, the Company signed a supplementary agreement relating to the conditional share placement agreement dated 1 September 2010. In accordance with the above agreements, the proposed acquisition cost of China Ping An for the share placement of approximately 1,638,337 thousand shares of the Company includes the holding of 7,825,181,106 shares of Ping An Bank (representing approximately 90.75% of total share capital of Ping An Bank) and RMB2.690 billion cash.

There are several conditions that need to be satisfied prior to the completion of the business combination. Such conditions include but not limiting to the shareholders' approval of both the Company and China Ping An, as well as the approval from China Securities Regulatory Commission ("CSRC") and other relevant regulators.

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

III. BASIS OF PREPARATION AND BASIC ASSUMPTIONS

According to the requirements of the Rule No. 26 on Content and Format of Information Disclosure by Companies with Securities Issued Publicly - Application Documents for the Major Asset Reorganisations of Listed Companies (hereafter referred to as "Rule No. 26"), the Company has prepared the pro forma consolidated profit forecast of the enlarged Group for the purpose of the proposed combination as set out in Note II.

The enlarged Group's pro forma consolidated profit forecast for the years ending 31 December 2010 and 2011 has been prepared based on the individual profit forecast reports of the Company and Ping An Bank which were reviewed by Ernst & Young Hua Ming as well as the following basis of preparation and basic assumptions. Of which, the impairment losses on loans and advances included in the individual profit forecast of the Company and the Ping An Bank are determined in accordance with the estimation and judgements made by respective management. In connection with this, no adjustment is made in the pro forma consolidated profit forecast.

1. The common principal assumptions adopted by the Company and Ping An Bank for preparation of their respective profit forecast are as follows.
 - 1.1 There are no significant changes in politics, laws, finance, markets or economic situations in Mainland China, or any other countries/regions where the businesses of the enlarged Group are located, or any other countries/regions that may have significant impact on the businesses of the enlarged Group.
 - 1.2 There are no changes in laws, rules or regulations which will significantly affect the businesses of the enlarged Group in Mainland China, or any other countries/regions where the businesses of the enlarged Group are located, or any other countries/regions that have signed arrangements/agreements with the enlarged Group.
 - 1.3 There are no significant changes in the current inflations rates, interest rates or exchange rates during the forecast period. Any significant changes of the above may have significant impact on the businesses of the enlarged Group.
 - 1.4 There are no significant changes in the tax bases or statutory tax rates of corporate income tax, business tax and surcharges and other levies in Mainland China, or any other countries/regions where the businesses of the enlarged Group are located or any other countries/regions that may have significant impact on the businesses of the enlarged Group.
 - 1.5 The operations and business of the enlarged Group 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.

The above assumptions are in consistence with those adopted by the Company and Ping An Bank in their respective profit forecast reports for the years ending 31 December 2010 and 2011 which were reviewed by Ernst & Young Hua Ming.

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

- III. BASIS OF PREPARATION AND BASIC ASSUMPTIONS (continued)
2. The Company has also made the following assumptions for the purpose of the pro forma consolidated profit forecast.
- 2.1 The pro forma consolidated profit forecast was prepared based on the assumptions that the business combination had been completed on 1 January 2010 (hereafter referred to as the "acquisition date"). It is assumed that the percentage of shares of Ping An Bank held by the Company remains at 90.75% during year 2010 and 2011. As a result, this 90.75% is used for the calculation of the net profit attributable to the equity holders of the parent in the pro forma consolidated profit forecast report.
- 2.2 Material transactions between the Company and Ping An Bank during the first half of 2010 have been eliminated for the preparation of the pro forma consolidated profit for the first half of 2010. Material foreseeable transactions between the Company and Ping An Bank in the second half of 2010 and 2011 have been eliminated for the preparation of the pro forma consolidated profit forecast.
- 2.3 No synergy is assumed during the preparation of the pro forma consolidated profit forecast. Expenses that may be incurred during the process of the acquisition or any post-acquisition integration expenses are not considered for the purpose of the pro forma consolidated profit forecast.
- 2.4 As at the acquisition date, the difference between the cost of acquisition and the fair value of identifiable net assets (i.e., 90.75%) of Ping An Bank was accounted for as goodwill.
3. Pro forma consolidated income statement for 2009 has been prepared mainly based on aggregating the respective income statement of the statutory financial statements of the Company and Ping An Bank which were audited by Ernst & Young Hua Ming, with elimination adjustments of transactions between the Company and Ping An Bank. Ping An Bank purchased RMB30 million hybrid capital debt instruments issued by the Company on 26 May 2009. In connection with this, relevant interest income of RMB1 million and interest expenses of RMB1 million were eliminated for the purpose of the pro forma consolidated income statement for 2009.

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

III. BASIS OF PREPARATION AND BASIC ASSUMPTIONS (continued)

4. After the acquisition date, the major consolidated adjustments for the pro forma consolidated profit forecast are as follows:

In RMB million	2010					Pro forma consolidated profit forecast figures
	Profit forecast of the Company	Profit forecast of Ping An Bank	Adjustment I	Adjustment II	Adjustment III	
Interest income	25,810	9,164	(2)	-	(15)	34,957
Interest expense	(10,108)	(3,852)	2	-	-	(13,958)
Net interest income	15,702	5,312	-	-	(15)	20,999
Fee and commission income	1,769	696	-	-	-	2,465
Fee and commission expense	(281)	(115)	-	-	-	(396)
Net fee and commission income	1,488	581	-	-	-	2,069
Other net operating income	514	157	-	-	(4)	667
Total operating income	17,704	6,050	-	-	(19)	23,735
Business tax and surcharge	(1,252)	(374)	-	-	-	(1,626)
Business and administrative expenses	(7,555)	(3,108)	-	0.5	3.5	(10,659)
Total operating costs	(8,807)	(3,482)	-	0.5	3.5	(12,285)
Operating profit before impairment losses on assets	8,897	2,568	-	0.5	(15.5)	11,450
Impairment losses on assets	(1,300)	(365)	-	-	-	(1,665)
Operating profit	7,597	2,203	-	0.5	(15.5)	9,785
Add: Non-operating income/(expenses)	50	49	-	-	(6)	93
Profit before tax	7,647	2,252	-	0.5	(21.5)	9,878
Less: Income tax expense	(1,605)	(502)	-	-	8	(2,099)
Profit for the period	6,042	1,750	-	0.5	(13.5)	7,779
Attributable to equity holders of the parent						7,617
Minority interests						162

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

III. BASIS OF PREPARATION AND BASIC ASSUMPTIONS (continued)

4. After the acquisition date, the major consolidated adjustments for the pro forma consolidated profit forecast are as follows: (continued)

In RMB million	2011					Pro forma consolidated profit forecast figures
	Profit forecast of the Company	Profit forecast of Ping An Bank	Adjustment I	Adjustment II	Adjustment III	
Interest income	30,360	10,987	(2)	-	(3)	41,342
Interest expense	(11,719)	(4,150)	2	-	-	(15,867)
Net interest income	18,641	6,837	-	-	(3)	25,475
Fee and commission income	2,325	1,100	-	-	-	3,425
Fee and commission expense	(450)	(178)	-	-	-	(628)
Net fee and commission income	1,875	922	-	-	-	2,797
Other net operating income	619	65	-	-	-	684
Total operating income	21,135	7,824	-	-	(3)	28,956
Business tax and surcharge	(1,495)	(491)	-	-	-	(1,986)
Business and administrative expenses	(8,854)	(3,916)	-	0.5	4.5	(12,765)
Total operating costs	(10,349)	(4,407)	-	0.5	4.5	(14,751)
Operating profit before impairment losses on assets	10,786	3,417	-	0.5	1.5	14,205
Impairment losses on assets	(1,490)	(399)	-	-	-	(1,889)
Operating profit	9,296	3,018	-	0.5	1.5	12,316
Add: Non-operating income/ (expenses)	-	9	-	-	-	9
Profit before tax	9,296	3,027	-	0.5	1.5	12,325
Less: Income tax expense	(2,049)	(727)	-	-	4	(2,772)
Profit for the period	7,247	2,300	-	0.5	5.5	9,553
Attributable to equity holders of the parent						9,340
Minority interests						213

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

III. BASIS OF PREPARATION AND BASIC ASSUMPTIONS (continued)

4. After the acquisition date, the major consolidated adjustments for the pro forma consolidated profit forecast are as follows: (continued)

Adjustment I: Elimination adjustments for transactions between the Company and Ping An Bank

Relevant interest income and interest expenses relating to the Company's hybrid capital debt instrument being held by Ping An Bank have been eliminated for the purpose of the pro forma consolidated profit forecast. In connection with this, the adjustments amounted to RMB1,710 thousand each for 2010 and 2011.

Adjustment II: Adjustments for differences in accounting policies between the Company and Ping An Bank

In respect of the investment properties, there are differences in the accounting policies being adopted by the Company when compared with those of Ping An Bank. The Company adopts the fair value model for the measurement and presentation of investment properties which are not depreciated or amortised. At each period end, the carrying value of the investment properties is adjusted based on the fair value, and any difference between the carrying amount and the fair value is accounted for in the income statement "Gains or losses from changes in fair values of investment properties". However, based on the accounting policies of Ping An Bank, investment properties are initially and subsequently measured using the cost method. Depreciation is calculated using the straight-line method.

According to the 1H 2010 statutory financial statements of Ping An Bank which were audited by Ernst & Young Hua Ming, depreciation expenses for investment properties for the first half of 2010 amounted to RMB261 thousand which have been reversed for the purpose of the pro forma consolidated profit forecast and, accordingly, the income tax expenses increased by RMB57 thousand. The Company has assumed there would be no significant movements in investment properties of Ping An Bank in the 2H 2010 and 2011 and the depreciation expenses for the years of 2010 and 2011 are projected to be RMB522 thousand each. Similarly, the depreciation expenses are reversed for the purpose of the pro forma consolidated profit forecast and the income tax expenses would increase by RMB115 thousand for 2010 and RMB125 thousand for 2011. Being consistent with assumptions adopted in the profit forecast of the Company, it is expected that there are no changes in fair values of the investment properties of Ping An Bank during the years of 2010 and 2011.

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

III. BASIS OF PREPARATION AND BASIC ASSUMPTIONS (continued)

4. After the acquisition date, the major consolidated adjustments for the pro forma consolidated profit forecast are as follows: (continued)

Adjustment III: Consolidated adjustments for changes in fair values as at the acquisition date

- 1) Consolidated adjustments for accumulated changes in fair values of available-for-sale debt instruments prior to the acquisition date

According to the 1H 2010 statutory financial statements of Ping An Bank which were audited by Ernst & Young Hua Ming, the accumulated losses from changes in fair values of available-for-sale debt instruments recorded in capital reserve amounted to RMB106,113 thousand as at the acquisition date (i.e., 1 January 2010). According to financial information provided by management of Ping An Bank, the realised investment income amounting to RMB3,890 thousand for 1H 2010 had been included in the above accumulated changes in fair values as at 1 January 2010. Consequently, such investment income was eliminated during the preparation of the pro forma consolidated profit forecast for Jan- Jun 2010.

It is assumed that the amount of investment income transferred from the accumulated changes in fair values of available-for-sale debt instruments for 2H 2010 and 2011 would not be material. Therefore, no consolidated adjustments are made.

- 2) Identifiable net assets of Ping An Bank is recognised in the pro forma consolidated profit forecast report at their fair values as at 1 January 2010 (i.e., the acquisition date for the pro forma consolidated profit forecast). The valuation is performed by professionally qualified valuers (China United Assets Appraisal Co., Ltd). Net book values and fair values of identifiable assets and liabilities of Ping An Bank as at the acquisition date are as follows.

	<u>Net book value</u>	<u>Fair value</u>
In RMB million	As at acquisition date	As at acquisition date
Fixed assets	539	909
Held-to-maturity investments	10,297	10,263
Reposessed assets	22	99
Intangible assets	230	164
Other assets	209,593	209,593
Less: Liabilities	<u>(206,366)</u>	<u>(206,366)</u>
Net assets	14,315	14,662
Less: Minority interests	<u>(1,324)</u>	<u>(1,356)</u>
Acquired net assets	<u><u>12,991</u></u>	<u><u>13,306</u></u>

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

III. BASIS OF PREPARATION AND BASIC ASSUMPTIONS (continued)

4. After the acquisition date, the major consolidated adjustments for the pro forma consolidated profit forecast are as follows: (continued)

Adjustment III: Consolidated adjustments for changes in fair values as at the acquisition date (continued)

- Owing to revaluation of fixed assets and intangible assets as at the acquisition date, depreciation and amortisation expenses increase by RMB15,663 thousand whereas income tax expense decreases by RMB3,446 thousand for 2010. With the assumption that there are no significant changes in fixed assets and intangible assets in 2011, depreciation and amortisation expenses increase by RMB14,224 thousand whereas income tax expense decreases by RMB3,414 thousand for 2011.
- According to the data provided by management of Ping An Bank, accretion/amortisation of discount/premium of held-to-maturity investments are adjusted because of the revaluation of these investments as at the acquisition date. In connection with this, interest income on held-to-maturity investments and the income tax expense decrease by RMB15,744 thousand and RMB3,464 thousand for 2010, respectively. After excluding the held-to-maturity investments that are due by maturity during 2010, interest income on held-to-maturity investments and income tax expense decrease by RMB2,805 thousand and RMB673 thousand for 2011, respectively.
- According to the data provided by management of Ping An Bank, the disposal gain of repossessed assets for 1H 2010 amounting to RMB5,677 thousand has been included in revaluation amount of repossessed asset as at the acquisition date. Consequently, the above disposal gain was reversed for the 1H 2010 Actual profit in the pro forma consolidated profit forecast and correspondingly, the income tax expense decreased by RMB1,249 thousand. As the profit forecast for the 2H 2010 and 2011 of Ping An Bank has not included any disposal gains of repossessed assets, no adjustments for the 2H 2010 and 2011 are considered necessary for the purpose of the pro forma consolidated profit forecast.
- As at the acquisition date, included in the intangible assets of Ping An Bank was an amount of RMB70,435 thousand that was related to the Guangzhou branch, Quanzhou branch and Xiamen branch. As the fair values of the above intangible assets included in the financial statements of Ping An Bank cannot be reliably measured as at the acquisition date, these intangible assets were not recognised separately as identifiable assets of Ping An Bank for the purpose of the pro forma consolidated profit forecast. In connection with this, the related amortisation charge amounting to RMB19,210 thousand each for 2010 and 2011 included in the profit forecast of Ping An Bank is reversed during the preparation of the pro forma consolidated profit forecast.

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
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IV. FINANCIAL PLANS DURING THE FORECAST PERIOD

1. For the year ending 31 December 2010, the year-end balance of loans and advances of the enlarged Group would increase by RMB66.2 billion or 14% when comparing to 2009. For 2011, the year-end balance of loans and advances would increase by RMB133.5 billion or 25% when comparing to 2010.
2. For the year ending 31 December 2010, the year-end balance of customer deposits of the enlarged Group would increase by RMB122.9 billion or 20% when comparing to 2009. For 2011, the year-end balance of customer deposits would increase by RMB170.9 billion or 24% when comparing to 2010.

The above financial plans of the enlarged Group are basically prepared by aggregating the individual financial plans of the Company and Ping An Bank as set out in their respective profit forecast reports for the years ending 31 December 2010 and 2011 which have been reviewed by Ernst & Young Hua Ming.

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

V. STATEMENT OF THE PRO FORMA CONSOLIDATED PROFIT FORECAST

In RMB million	Note VI	2009	2010		Total	2011
		Pro forma consolidated actual figures	Jan– Jun pro forma consolidated actual figures	Jul– Dec forecast figures		
Interest income	2.1.1	28,659	16,538	18,419	34,957	41,342
Interest expense	2.1.2	(12,249)	(6,683)	(7,275)	(13,958)	(15,867)
Net interest income	2.1	16,410	9,855	11,144	20,999	25,475
Fee and commission income	2.2.1	1,869	1,243	1,222	2,465	3,425
Fee and commission expense	2.2.2	(271)	(173)	(223)	(396)	(628)
Net fee and commission income	2.2	1,598	1,070	999	2,069	2,797
Other net operating income	2.3	1,388	448	219	667	684
Total operating income		19,396	11,373	12,362	23,735	28,956
Business tax and surcharge		(1,367)	(792)	(834)	(1,626)	(1,986)
Business and administrative expenses		(8,877)	(5,068)	(5,591)	(10,659)	(12,765)
Total operating costs	2.4	(10,244)	(5,860)	(6,425)	(12,285)	(14,751)
Operating profit before impairment losses on assets		9,152	5,513	5,937	11,450	14,205
Impairment losses on assets	2.5	(1,758)	(576)	(1,089)	(1,665)	(1,889)
Operating profit		7,394	4,937	4,848	9,785	12,316
Add: Non-operating income/(expenses)		176	93	-	93	9
Profit before tax		7,570	5,030	4,848	9,878	12,325
Less: Income tax expense	2.6	(1,434)	(1,099)	(1,000)	(2,099)	(2,772)
Profit for the period		6,136	3,931	3,848	7,779	9,553
Attributable to equity holders of the parent		Not applicable	3,847	3,770	7,617	9,340
Minority interests		Not applicable	84	78	162	213

Page [2] to page [53] of the pro forma consolidated profit forecast report have been signed by:

Legal representative _____ Acting president _____ Chief financial officer _____ Preparer _____

Company chop _____

VI. NOTES TO THE PRO FORMA CONSOLIDATED PROFIT FORECAST

1. Summary of significant accounting policies and accounting estimates of the Company

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

1.1. Accounting year

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

1.2. Functional currency

The Company's functional currency is Renminbi ("RMB"); and this pro forma consolidated profit forecast report is presented in RMB.

1.3. Basis of accounting and measurement

The Company's financial statements have been prepared on an accrual basis using the historical cost as the basis of measurement, except for financial assets and financial liabilities held at fair value through profit or loss, available-for-sale financial assets, investment properties and cash-settled share-based payments that have been measured at fair value. If an asset is impaired, a provision for impairment loss of the asset is recognised in accordance with the relevant requirements.

1.4. Foreign currency translation

The Company 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 to the foreign currency amount the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the spot exchange rate at the balance sheet date. All exchange differences are recognised in the income statement in "Net foreign exchange difference". Foreign currency non-monetary items measured at historical cost continue to be translated at the spot exchange rates at the dates of the transactions. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined. All exchange differences are recognised in the income statement in "Net foreign exchange difference" or "Other comprehensive income".

1.5. Precious metals

The Company's precious metals represent gold. Precious metals are initially measured at cost. At the balance sheet date, precious metals are measured at the lower of cost and net realisable value. If the cost of precious metals is higher than the net realisable value, a provision for the decline in value of precious metals is recognised in the income statement in "Impairment losses on assets".

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VI. NOTES TO THE PRO FORMA CONSOLIDATED PROFIT FORECAST (continued)

1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.6. Reverse repurchase and repurchase agreements

Assets sold under agreements to repurchase at a specific future date are not derecognised from the balance sheet. The corresponding proceeds are recognised on the balance sheet under "Repurchase agreements". The difference between the sale price and the 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 recognised on the balance sheet. The corresponding cost is recognised on the balance sheet under "Reverse repurchase agreements". The difference between the purchase price and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

1.7. Financial assets

The Company 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. When financial assets are recognised initially, they are measured 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 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. Financial assets classified as held for trading include those financial assets that meet one of the following conditions: 1) they are acquired principally for the purpose of selling in the near term; 2) they are part of a portfolio of identified financial instruments that are managed together and for which there is objective evidence of a recent pattern of short-term profit-taking; or 3) they are derivative instruments unless they are designated and effective hedging instruments. After initial recognition, these financial assets are measured at their fair values. All related realised and unrealised gains or losses are included in the income statement. Of which, changes in fair value are recognised in "Gains or losses from changes in fair values of financial instruments" and interest earned is accrued in interest income according to the terms of the contract.

A hybrid instrument can be 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.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.7. Financial assets (continued)

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 a different basis.
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, and the information about the group is reported on that basis to the Company's key management personnel. Formal documentation has been prepared with respect to such risk management or investment strategy.
- (iii) the hybrid instrument is embedded with derivatives which are required to be separately accounted for.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity date that the Company 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 or impaired, and through the amortisation process. If the Company 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 the held-to-maturity investments before the sale or reclassification, the Company shall reclassify the remaining portion of the held-to-maturity investments as available-for-sale investments, and the Company shall not again classify any financial assets as held-to-maturity investments in the current and the next two financial years. However, sales or reclassifications 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 Company has collected substantially all of the financial asset's original principal through scheduled payments or prepayments.
- (iii) sales or reclassifications are attributable to an isolated event that is beyond the Company's control and is non-recurring and could not have been reasonably anticipated by the Company.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.7. Financial assets (continued)

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. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Company to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income. The interest income of the discounted bills is recognised using effective interest method.

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. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate. Gains or losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses resulted from monetary financial assets, until the financial assets are derecognised, at which time the cumulative gains or losses previously recognised in other comprehensive income are removed from equity and recognised in the income statement in "Investment income".

1.8. Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is evidence of impairment of financial assets (other than those at fair value through profit or loss) as a result of one or more events that occur after the initial recognition of those assets (an incurred 'loss event') and whether that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and the situation where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.8. Impairment of financial assets (continued)

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognised as an impairment loss in the income statement. Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate and includes the value of any related collateral.

The Company 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 year 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 Company.

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 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 profit or loss for the period. 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 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 is charged to profit or loss for the current period. Once an impairment loss is recognised, it shall not be reversed in a subsequent period.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.8. Impairment of financial assets (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, the cumulative loss arising from the decline in fair value that had been recognised directly in owners' equity shall be removed from owners' equity and recognised in the income statement in "Impairment losses on assets". The amount of the accumulated loss that is removed from owners' 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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement.

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.

1.9. Financial liabilities

The Company classifies its financial liabilities into financial liabilities at fair value through profit or loss, financial guarantee contracts, deposits and other financial liabilities.

Financial liabilities at fair value through profit or loss

The Company classifies its financial liabilities at fair value through profit or loss into financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss by management upon initial recognition. Changes in fair value are recognised in "Gains or losses from changes in fair values of financial instruments" and interest incurred is accrued in interest expense according to the terms of the contract.

Financial guarantee contracts

The Company gives financial guarantees consisting of letters of credit, guarantees, and acceptances. Financial guarantee contracts are initially recognised at fair value, in "Other liabilities", being the premium received. The guarantee fee is amortised over the period of the contract and is recognised as fee and commission income. Subsequent to initial recognition, the Company's liability under each guarantee contract is measured at the higher of the initial fair value less cumulative amortisation, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to profit or loss for the period.

Other financial liabilities

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

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.10. Recognition and derecognition of financial instruments

A financial asset or a financial liability is recognised when the Company becomes a party to the contractual provisions of the financial instrument.

A financial asset is derecognised when one of the following conditions is met:

- (i) the contractual rights to receive the cash flows from the financial asset expire; or
- (ii) the financial asset has been transferred and the transfer qualifies for derecognition as set out below.

Transfer of financial assets

The Company transfers a financial asset in one of the following ways:

- (i) the Company transfers the contractual rights to receive the cash flows of the financial asset to another party; or
- (ii) the Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient(s) in an arrangement that meets all of the following conditions:
 - (a) the Company's obligation to pay amounts to the eventual recipient(s) arises only when it has collected equivalent amounts from the original financial asset. Short-term advances by the Company with the right of full recovery of the amount lent plus accrued interest at market rates for bank loans of equivalent terms do not violate this condition.
 - (b) the Company is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipient(s) for the obligation to pay them cash flows.
 - (c) the Company has an obligation to remit any cash flows it collects on behalf of the eventual recipient(s) without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the intervening period between two consecutive payments, which are invested in accordance with the terms of the contract. Income earned on such investments (i.e., reinvesting the cash flows according to the terms of the contract) is passed to the eventual recipient(s) according to the contract terms.

When the Company transfers substantially all the risks and rewards of ownership of a financial asset to the transferee, the financial asset is derecognised. When the Company retains substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognised.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.10. Recognition and derecognition of financial instruments (continued)

When the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it accounts for the transaction as follows:

- (i) when the Company has not retained control of the financial asset, the financial asset is derecognised;
- (ii) when the Company has retained control of the financial asset, the financial asset is recognised to the extent of the Company's continuing involvement in the transferred financial asset and an associated liability is recognised.

Financial liabilities

A financial liability is derecognised when the underlying present obligation is performed, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the period.

1.11. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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 recognised in profit or loss for the period.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains or losses recognised in profit or loss for the period.

1.12. Long term equity investments

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

A long term investment is accounted for using the cost method if the Company 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.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.12. Long term equity investments (continued)

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 recognised 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 Company assesses whether there is an indicator of impairment in accordance with the related policy of asset impairment when a dividend from the investment is recognised.

When the Company can exercise joint control or significant influence over the investee, a long term equity investment is accounted for using the equity method.

Under the equity method, when the initial investment cost of a long term equity investment exceeds the Company'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. When initial investment cost is less than the Company's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss 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 Company recognises 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 Company. The Company shall discontinue recognising 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 Company has incurred obligations to assume additional losses. The Company shall adjust the carrying amount of the long term investment for other changes in owners' equity of the investee (other than net profits or losses), and include the corresponding adjustment in other comprehensive income.

On disposal of a long term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in the income statement in "Investment income". For a long term equity investment accounted for using the equity method, any changes in the owners' equity of the investee (other than net profits or losses) included in the owners' equity of the Company, is transferred to the income statement in "Investment income" on a pro-rata basis according to the proportion disposed of.

For a long term equity investment accounted for using the cost method and which is not quoted in an active market and its fair value cannot be reliably measured, the amount of impairment loss 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 is recognised in the income statement in "Impairment losses on assets" and shall not be reversed. For long term equity investments accounted for using the equity method, any impairment is accounted for in accordance with the accounting policy set out in Note VI.1.18.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.13. Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The investment properties of the Company are buildings that are leased out. The Company adopts the fair value model for the measurement of investment properties which are not depreciated or amortised. At each period end, the carrying value of the investment properties is adjusted based on the fair value, and any difference between the carrying amount and the fair value is accounted for in the income statement "Gains or losses from changes in fair values of investment properties".

For a transfer of owner-occupied property to investment property, the investment property is measured at its fair value at the date of transfer. If the fair value at the date of transfer is less than the original carrying amount, the difference is charged to the income statement. If the fair value at the date of transfer exceeds the original carrying amount, the difference is recognised in "Other comprehensive income". On disposal of an investment property, the amount that had been recognised in "Other comprehensive income" is transferred to the income statement in "Other operating income".

For a transfer from investment property to owner-occupied property, its fair value at the date of transfer is regarded as the carrying amount of the owner-occupied property.

1.14. Fixed assets and accumulated 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, for rental to others, or for administrative purposes; and have useful lives more than one accounting year.

A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Company 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 asset and the carrying amount of the parts that are replaced are derecognised. Otherwise, subsequent expenditures are recognised in the income statement in the period in which they are incurred.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.14. Fixed assets and accumulated depreciation (continued)

(ii) Measurement and depreciation of fixed assets

Fixed assets are initially measured at cost. All fixed assets are stated at cost less any accumulated depreciation and any impairment losses. The cost of an asset comprises the purchase price, related taxes, and any directly attributable expenditures 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 using the straight-line method. The Company reasonably determines the useful lives and estimated net residual values of the 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	15-35 years	1%-5%	2.7%-6.3%
Transportation vehicles	5-8 years	3%-5%	11.9%-19.0%
Computers and automatic teller machines	3-5 years	1%-5%	19.0%-33.0%
Electronic appliances	5-10 years	1%-5%	9.9%-19.8%
Owner-occupied property improvements	5-10 years	-	10.0%-20.0%

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

1.15. Construction in progress

Construction in progress represents costs incurred in the construction of fixed assets. Costs comprise direct costs incurred during the period of construction. Interest charged on related borrowings for the construction is capitalised and such capitalisation of interest ceases when the assets under construction are completed and are ready for their intended use. No capitalisation of interest is made if the cost incurred during the construction is from the Company's own fund. Construction in progress is not depreciated.

Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.16. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned or controlled by the Company. The Company's intangible assets comprise the value of computer software.

Intangible assets are measured initially at cost. The Company analyses and assesses the useful life of an intangible asset on its acquisition. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company.

When the asset is available for use, an intangible asset with a finite useful life is amortised over its useful life. The amortisation method selected reflects the pattern in which the asset's economic benefits are expected to be realised. If that pattern cannot be determined reliably, the straight-line method is used. An intangible asset with an indefinite useful life is not amortised.

The useful life and amortisation method of intangible assets with finite useful lives are reviewed at each balance sheet date. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method is changed accordingly as a change in accounting estimate.

The useful life of intangible assets with indefinite useful lives is reassessed at each balance sheet date. If there is evidence that the useful life of the asset becomes definite, the accounting policies for intangible assets with definite useful life described above are then applied.

1.17. Long term deferred expenses

Long term deferred expenses are those prepaid expenses with an amortisation period of more than one year (excluding one year), mainly includes rental expenses and leasehold improvements.

Rental expenses are operating lease rental of fixed assets and are amortised over the lease term. Other long-term deferred expenses are amortised evenly according to their beneficial periods or legal periods of validity, whichever is shorter.

When long term deferred expenses no longer provide future economic benefits, the unamortised amount is recognised in profit of loss for the period.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.18. Impairment of assets

For assets excluding financial assets, repossessed assets and goodwill, the Company assesses impairment of assets as follows.

At each balance sheet date, the Company assesses whether there is any indication that assets may be impaired. If there is any indication that an asset may be impaired, a recoverable amount is estimated for the asset. For an asset with an indefinite useful life, the asset is tested for impairment at least at each financial year-end, irrespective of whether there is any indication of impairment.

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. The Company estimates the recoverable amount of an asset on an individual basis.

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 recognised as an impairment loss and charged to profit or loss for the period. A provision for impairment loss of the asset is recognised accordingly.

Once an impairment loss is recognised, it shall not be reversed in a subsequent period.

1.19. Repossessed assets

Repossessed assets are initially recognised at fair value. The difference between the initial fair value and the sum of the related 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 realisable value. When the carrying value of the repossessed assets is higher than the net realisable value, a provision for the decline in value of repossessed assets is recognised in the income statement in "Impairment losses on assets".

1.20. Recognition of income and expense

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

Interest income and interest expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available for sale and held for trading, 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 instrument. 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 the future credit losses.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.20. Recognition of income and expense (continued)

Interest income and interest expense (continued)

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

(ii) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or component of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

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

Dividend income

Revenue is recognised when the Company's right to receive the payment is established.

1.21. Income tax

Income tax comprises current and deferred income tax. Except to goodwill arising in a business combination and to the extent that the tax arises from a transaction or event which is recognised directly in other comprehensive income, all the income tax should be expensed or credited to profit or loss as appropriate. Income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income.

Current income tax

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. Taxable profit is the profit for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.21. Income tax (continued)

Deferred tax

Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or deductible loss;
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled enterprises, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

For deductible temporary differences, carryforward of unused deductible losses and tax credits, the Company recognises the corresponding deferred tax asset to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the deductible losses and tax credits can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible loss.

For deductible temporary differences arising from investments in subsidiaries, associates and interests in jointly-controlled enterprises, the corresponding deferred income tax asset is recognised, to the extent that, it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available in the future, against which the temporary differences can be utilised.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the balance sheet date, the Company reviews the carrying amount of a deferred tax asset. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred tax asset to be utilised. Any such reduction in the amount is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.22. Employee benefits

Short term employee benefits

Salaries and bonuses, social security contributions and other short-term employee benefits are accrued in the period in which services are rendered by the employees of the Company.

Defined contribution plans

According to the statutory requirements in Mainland China, the Company is required to make contributions to the pension and insurance schemes that are separately administered by the local government authorities. Contributions to these plans are recognised in the income statement as incurred. In addition, the Company participates in a defined contribution retirement benefit insurance plan managed by an insurance company. Obligation for contributions to the insurance plan is borne by the Company, and contributions paid by the Company are recognised in profit or loss for the period as incurred.

Supplementary retirement benefits

Certain employees of the Company in Mainland China can enjoy supplementary retirement benefits after retirement. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in profit or loss for the period in which they occur.

Share-based payment transactions

The Company grants equity instruments or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees or other parties.

The cost of cash-settled transactions is measured initially at fair value at the grant date using an appropriate pricing model taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date, with changes in fair value recognised in profit or loss for the period.

1.23. Definition of cash equivalents

Cash equivalents are short term, highly liquid monetary assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash equivalents comprise investments that have a short maturity of generally within three months when acquired, the unrestricted balance with the Central Bank, amounts due from banks and other financial institutions and reverse repurchase agreements that have a short original maturity of generally within three months.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.24. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party in making financial and operating decisions, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control, joint control or significant influence from the same party. The following are related parties of an enterprise:

- (1) the enterprise's parents;
- (2) the enterprise's subsidiaries;
- (3) other enterprises which are controlled by the enterprise's parents;
- (4) an investor who has joint control over the enterprise;
- (5) an investor who can exercise significant influence over the enterprise;
- (6) a joint venture in which the enterprise is a venturer;
- (7) an associate of the enterprise;
- (8) principal individual investors of the enterprise, and close family members of such individuals;
- (9) key management personnel of the enterprise or its parent, and close family members of such individuals;
- (10) other enterprises that are controlled, jointly controlled, or significantly influenced by the enterprise's principal individual investors, key management personnel, or close family members of such individuals.

Enterprises are not regarded as related parties simply because they are under common control from the state, if no other related party relationships exist between them.

1.25. Fiduciary activities

Where the Company acts in a fiduciary capacity such as nominee, trustee or agent, assets arising thereon together with the related undertakings to return such assets to customers are excluded from the financial statements.

Entrusted loans granted by the Company on behalf of third-party lenders are recorded as off-balance sheet items. The Company acts as an agent and grants such entrusted loans to borrowers under the direction of the third-party lenders who fund these loans. The Company has been contracted by the third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Company charges a commission related to the management of the entrusted loans. The commission income is recognized pro rata over the period in which the service is provided. The risk of loan loss is borne by the third-party lenders.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.26. Leases

A lease that transfers in substance all the risks and rewards incident to ownership of an asset is classified as a finance lease. An operating lease is a lease other than a finance lease.

As a lessee under operating leases

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of another related asset or charged to profit or loss for the period.

As a lessor under operating leases

Lease income from operating leases is recognised by the lessor in profit or loss for the period on a straight-line basis over the lease term.

1.27. Contingent liabilities

A contingent liability is a possible obligation that arises from past transactions or events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events. It can also be a present obligation arising from past transactions or events but is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

1.28. Provisions

An obligation related to a contingency is recognised as a provision when all of the following conditions are satisfied:

- (i) the obligation is a present obligation of the Company;
- (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and
- (iii) the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. The Company reviews the carrying amount of a provision at the balance sheet date. When there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount is adjusted to the current best estimate.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.29. Trade date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date on which the Company commits to purchase or sell the asset. A regular way purchase or sale of financial assets is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

1.30. Offsetting

Financial assets and financial liabilities are offset only when the Company has a legally enforceable right to offset the recognised amounts and both parties of the transaction intend to settle on a net basis.

1.31. Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company. Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

1.32. Significant accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the balance sheet date. However, the uncertainty of these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

(i) 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 Company 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 Company fails to correctly assess its intention and ability to hold the investments to maturity and the Company sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Company shall classify the whole held-to-maturity investment portfolio as available for sale.

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1. Summary of significant accounting policies and accounting estimates of the Company (continued)

1.32. Significant accounting judgements and estimates (continued)

(ii) Impairment losses of loans and advances

The Company 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 Company 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.

(iii) Income tax

Determining income tax provisions requires the Company to estimate the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimates 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.

(iv) Fair value of financial instruments

If the market for a financial instrument is not active, the Company establishes fair value by using a valuation technique. 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, 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 Company's and the counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

(v) Impairment of available-for-sale and held-to-maturity investments

In determining whether there is any objective evidence that impairment losses on available-for-sale and held-to-maturity investments have been incurred, the Company assesses periodically whether there has been a significant or prolonged decline in the fair value of the investment below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, change of technology, operating and financing cash flows, etc. This requires significant level of judgement of the management, which would affect the amount of impairment losses.

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2. Analyses of individual items in the pro forma consolidated profit forecast

2.1. Interest income and interest expenses

Interest income of the enlarged Group mainly include: (1) interest income on loans and advances; (2) interest income on bond investments; (3) interest income on amounts due from the Central Bank; and (4) interest income on amounts due from other financial institutions (including financial assets of placements of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements). Interest expenses of the enlarged Group mainly include: (1) interest expense on customer deposits; (2) interest expense on amounts due to other financial institutions (including financial liabilities of placements of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements); and (3) interest expense on bonds payable.

Net interest income of the enlarged Group in 2010 is projected to be RMB21 billion, representing an increase of RMB4.6 billion or 28% when compared with that of 2009. Net interest income of the enlarged Group in 2011 is projected to be RMB25.5 billion, representing an increase of RMB4.5 billion or 21% when compared with that of 2010.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.1. Interest income and interest expenses (continued)

The following table shows the average balances of interest-earning assets/interest-bearing liabilities of the enlarged Group for 2009 (Actual), 2010 (Forecast) and 2011 (Forecast), and the corresponding interest income/expenses and average yields/costs of funding.

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		
	Average balance (Note 1)	Interest	Average rate	Average balance (Note 1)	Interest	Average rate (Annualised)	Average balance (Note 2)	Interest	Average rate (Annualised)	Average balance (Note 2)	Interest	Average rate	Average balance (Note 2)	Interest	Average rate
Assets															
Loans and advances	431,571	22,428	5.20%	493,371	12,453	5.05%	525,685	13,544	5.15%	509,607	25,997	5.10%	612,926	31,124	5.08%
Bond investments	123,705	3,775	3.05%	147,625	2,029	2.75%	164,347	2,337	2.84%	155,998	4,366	2.80%	188,030	5,335	2.84%
Due from the Central Bank	62,416	933	1.49%	81,832	563	1.38%	94,823	737	1.55%	88,365	1,300	1.47%	109,035	1,597	1.46%
Amounts due from other financial institutions	86,206	1,489	1.73%	110,801	1,432	2.58%	119,340	1,720	2.88%	115,172	3,152	2.74%	109,166	3,111	2.85%
Other interest-earning assets	1,815	34	1.87%	8,420	61	1.45%	9,159	81	1.77%	8,793	142	1.61%	11,061	175	1.58%
Total interest-earning assets	705,713	28,659	4.06%	842,049	16,538	3.93%	913,354	18,419	4.03%	877,935	34,957	3.98%	1,030,218	41,342	4.01%
Liabilities															
Customer deposits	545,775	9,541	1.75%	635,858	4,855	1.53%	703,185	5,390	1.53%	669,733	10,245	1.53%	802,391	12,055	1.50%
Amounts due to other financial institutions	118,047	2,118	1.79%	152,799	1,481	1.94%	141,823	1,496	2.11%	147,281	2,977	2.02%	151,841	3,046	2.01%
Bonds payable	10,368	582	5.61%	12,456	336	5.39%	12,456	339	5.44%	12,456	675	5.42%	12,456	673	5.40%
Other interest-bearing liabilities	1,515	8	0.53%	1,988	11	1.11%	2,357	50	4.24%	2,174	61	2.81%	2,826	93	3.29%
Total interest-bearing liabilities	675,705	12,249	1.81%	803,101	6,683	1.66%	859,821	7,275	1.69%	831,644	13,958	1.68%	969,514	15,867	1.64%
Net interest income		<u>16,410</u>			<u>9,855</u>			<u>11,144</u>			<u>20,999</u>			<u>25,475</u>	
Net interest spread (Note 3)			2.25%			2.27%			2.34%			2.30%			2.37%
Net interest margin (Note 4)			2.33%			2.34%			2.44%			2.39%			2.47%

Note 1: Average daily balance of relevant periods

Note 2: Projected average balance of relevant periods

Note 3: Net interest spread = Yield of interest-earning assets – Cost of funding of interest-bearing liabilities

Note 4: Net interest margin = Net interest income/Average balance of interest-earning assets

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.1. Interest income and interest expenses (continued)

The following table shows the changes between 2010 forecast figures and 2009 actual figures as well as the changes between 2011 forecast figures and 2010 forecast figures of the enlarged Group.

In RMB million	2009 Actual			2010 Forecast			Increase/(decrease)			2011 Forecast			Increase/(decrease)		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets															
Loans and advances	431,571	22,428	5.20%	509,607	25,997	5.10%	78,036	3,569	(0.10%)	612,926	31,124	5.08%	103,319	5,127	(0.02%)
Bond investments	123,705	3,775	3.05%	155,998	4,366	2.80%	32,293	591	(0.25%)	188,030	5,335	2.84%	32,032	969	0.04%
Due from the Central Bank	62,416	933	1.49%	88,365	1,300	1.47%	25,949	367	(0.02%)	109,035	1,597	1.46%	20,670	297	(0.01%)
Amounts due from other financial institutions	86,206	1,489	1.73%	115,172	3,152	2.74%	28,966	1,663	1.01%	109,166	3,111	2.85%	(6,006)	(41)	0.11%
Other interest-earning assets	1,815	34	1.87%	8,793	142	1.61%	6,978	108	(0.26%)	11,061	175	1.58%	2,268	33	(0.03%)
Total interest-earning assets	705,713	28,659	4.06%	877,935	34,957	3.98%	172,222	6,298	(0.08%)	1,030,218	41,342	4.01%	152,283	6,385	0.03%
Liabilities															
Customer deposits	545,775	9,541	1.75%	669,733	10,245	1.53%	123,958	704	(0.22%)	802,391	12,055	1.50%	132,658	1,810	(0.03%)
Amounts due to other financial institutions	118,047	2,118	1.79%	147,281	2,977	2.02%	29,234	859	0.23%	151,841	3,046	2.01%	4,560	69	(0.01%)
Bonds payable	10,368	582	5.61%	12,456	675	5.42%	2,088	93	(0.19%)	12,456	673	5.40%	-	(2)	(0.02%)
Other interest-bearing liabilities	1,515	8	0.53%	2,174	61	2.81%	659	53	2.28%	2,826	93	3.29%	652	32	0.48%
Total interest-bearing liabilities	675,705	12,249	1.81%	831,644	13,958	1.68%	155,939	1,709	(0.13%)	969,514	15,867	1.64%	137,870	1,909	(0.04%)
Net interest income		<u>16,410</u>			<u>20,999</u>			<u>4,589</u>			<u>25,475</u>			<u>4,476</u>	
Net interest spread			2.25%			2.30%			0.05%			2.37%			0.07%
Net interest margin			2.33%			2.39%			0.06%			2.47%			0.08%

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)
- 2.1. Interest income and interest expenses (continued)
- 2.1.1 Interest income
- 2.1.1.1 Loans and advances
- 1) Average balance

The following table shows the average balance of major products of loans and advances to customers of the enlarged Group during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Corporate loans (including discounted bills)	196,463	233,867	320,151	357,149	367,042	442,061	19%	37%	15%	20%
Retail loans	68,598	89,737	111,420	136,222	142,565	170,865	31%	24%	28%	20%
Total	<u>265,061</u>	<u>323,604</u>	<u>431,571</u>	<u>493,371</u>	<u>509,607</u>	<u>612,926</u>	<u>22%</u>	<u>33%</u>	<u>18%</u>	<u>20%</u>

The average balance of the enlarged Group's total loans and advances during the first half of 2010 amounted to RMB493.4 billion, representing an increase of RMB61.8 billion or 14% compared with that of 2009. Of which, the average balance of corporate loans (including discounted bills) amounted to RMB357.1 billion, representing an increase of RMB37.0 billion or 12% when compared with that of 2009. The average balance of retail loans amounted to RMB136.2 billion, representing an increase of RMB24.8 billion or 22% when compared with that of 2009. In view of the lending business for the first half of 2010, the enlarged Group projects the average balance of loans and advances for the year of 2010 to amount to RMB509.6 billion, representing an increase of RMB78.0 billion or 18% when compared with that of 2009.

Based on the above analysis, the enlarged Group projects the balance of loans and advances at the end of 2010 to amount to RMB532.9 billion, representing an increase of RMB66.2 billion or 14% when compared with that of 2009. For 2011, taking into account of maintaining the loan-to-deposit ratio required by regulators and the prevailing macroeconomic environment and related policies, the enlarged Group projects the year-end balance of loans and advances to amount to RMB666.4 billion, representing an increase of RMB133.5 billion or 25% when compared with that of 2010.

The enlarged Group projects the average balance of loans and advances in 2011 to amount to RMB612.9 billion, representing an increase of RMB103.3 billion or 20% when compared with that of 2010. Of which, the average balance of corporate loans is expected to increase by RMB75.0 billion or 20% and retail loans by RMB28.3 billion or 20%.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.1. Interest income and interest expenses (continued)

2.1.1 Interest income (continued)

2.1.1.1 Loans and advances (continued)

2) Average yield

The enlarged Group projects that the average yield of loans and advances will decrease to 5.10% in 2010 from 5.20% in 2009. The decrease is mainly because of the drop in interest rates by five times consecutively during the second half of 2008 with the related effect fully felt in 2009.

The enlarged Group expects the yield of loans and advances in 2011 to be lower than that of 2010 by 2bp based on the following assumptions:

- 1) Assuming that the Central Bank does not adjust any benchmark interest rates and statutory reserve ratios during the profit forecast period.
- 2) Assuming that there are no significant differences in the composition of the loan portfolio by product type and maturity between 2011 and 2010.

2.1.1.2 Bond investments

The following table shows the average balances and interest income of bond investments of the enlarged Group during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Average balance	83,983	99,784	123,705	147,625	155,998	188,030	19%	24%	26%	21%
Average yield	3.08%	3.73%	3.05%	2.75%	2.80%	2.84%	0.65%	(0.68%)	(0.25%)	0.04%
Interest income	2,587	3,719	3,775	2,029	4,366	5,335	44%	2%	16%	22%

1) Average balance

Owing to the increase in volume of deposit business of the enlarged Group and the capital raised from the Company's share placement at the end of June, the enlarged Group projects the average balance of bond investments in 2010 to amount to RMB156.0 billion, representing an increase of RMB32.3 billion or 26% when compared with that of 2009.

Based on the expected yields of debt securities market and availability of funding, the enlarged Group projects an increase in average balance of bond investments of RMB32.0 billion or 21% in 2011 when compared with that of 2010.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.1. Interest income and interest expenses (continued)

2.1.1 Interest income (continued)

2.1.1.2 Bond investments (continued)

2) Average yield

Owing to the decrease in market yield of debt securities, the enlarged Group projects the average yield of bond investments in 2010 to be 2.80%, representing a decrease of 25bp when compared with that of 2009. The enlarged Group expects the average yield of debt securities in 2011 to be higher than that of 2010 by 4bp.

Based on the above analysis, the interest income on bond investments of the enlarged Group is projected to amount to RMB4.37 billion which is higher than that of 2009 by RMB0.59 billion or 16%. The interest income on bond investments for 2011 is projected to amount to RMB5.34 billion, representing an increase of RMB0.97 billion or 22% when compared with that of 2010.

2.1.1.3 Due from the Central Bank

The following table shows the average balances and interest income of amounts due from the Central Bank of the enlarged Group during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Average balance	36,528	61,225	62,416	81,832	88,365	109,035	68%	2%	42%	23%
Average yield	1.71%	1.71%	1.49%	1.38%	1.47%	1.46%	-	(0.22%)	(0.02%)	(0.01%)
Interest income	623	1,048	933	563	1,300	1,597	68%	(11%)	39%	23%

1) Average balance

During the first half of 2010, the Central Bank has adjusted the statutory reserve ratio for three times. In connection with this, the statutory reserve ratio of RMB deposits of the enlarged Group was adjusted to 15% from 13.5% at 2009 year end. With the continuing growth in customer deposit balances, the enlarged Group projects the average balance of amounts due from the Central Bank for 2010 to amount to RMB88.4 billion, representing an increase of RMB25.9 billion or 42% when compared with that of 2009. For 2011, it is expected that the various items of deposits will have a stable growth rate and the average balance of amounts due from the Central Bank is estimated to amount to RMB109.0 billion, representing an increase of 23% when compared with that of 2010. The following table shows the ratio of the average balance of amounts due from the Central Bank to the average balance of customer deposits of the relevant periods.

Ratio of average balance	2007	2008	2009	2010.1.1- 2010.6.30	2010	2011
	(Actual)	(Actual)	(Actual)	(Actual)	(Forecast)	(Forecast)
	9.8%	14.1%	11.4%	12.9%	13.2%	13.6%

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.1. Interest income and interest expenses (continued)

2.1.1 Interest income (continued)

2.1.1.3 Due from the Central Bank (continued)

2) Average yield

The enlarged Group projects the yield of amounts due from the Central Bank to be 1.47% in 2010, representing a decrease of 2bp when compared with that of 2009. The yield for 2011 is expected to slightly decrease by 1bp.

2.1.1.4 Amounts due from other financial institutions

The following table shows the average balances and interest income of amounts due from other financial institutions of the enlarged Group during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Average balance	44,252	67,720	86,206	110,801	115,172	109,166	53%	27%	34%	(5%)
Average yield	6.07%	6.61%	1.73%	2.58%	2.74%	2.85%	0.54%	(4.88%)	1.01%	0.11%
Interest income	2,685	4,473	1,489	1,432	3,152	3,111	67%	(67%)	112%	(1.30%)

1) Average balance

Amounts due from other financial institutions include placements of deposits with other financial institutions, funds loaned to other financial institutions, reverse repurchase agreements and wealth management products that classified as receivables.

For the first half of 2010, the average balance of amounts due from other financial institutions amounted to RMB110.8 billion, representing an increase of RMB24.6 billion or 29% when compared with that of 2009. Based on the increase in interbank related balances during 1H 2010, the enlarged Group projects the average balance of amounts due from other financial institutions to amount to RMB115.2 billion in 2010, representing an increase of RMB29 billion or 34% when compared with that of 2009. Such increase was mainly attributable to the significant increase in average balance of wealth management products.

For 2011, the projected average balance of amounts due from other financial institutions of the enlarged Group is RMB109.2 billion, representing a decrease of RMB6.0 billion or 5% when compared with that of 2010.

2) Average yield

For the first half of 2010, as a result of tightened liquidity and an increase in market interest rates, the average yield of amounts due from other financial institutions of the enlarged Group has increased by 85bp compared with that at the beginning of the year. The enlarged Group projects that the average yield will gradually increase in the second half of 2010, with the average yield for 2010 increasing to 2.74%. The average yield for 2011 is expected to be higher than that of 2010 by 11bp.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)
- 2.1. Interest income and interest expenses (continued)
- 2.1.2 Interest expenses
- 2.1.2.1 Customer deposits
- 1) Average balance

In view of the historical data of the Company and Ping An Bank for the past three years, the prevailing capital market in China, the expectation of monetary policies in future, as well as the business plans and annual budgets of the Company and Ping An Bank for 2010 and 2011, the projected average balances of customer deposits of the enlarged Group for 2010 and 2011 are as follows.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Corporate deposits (Note)	325,282	370,638	463,140	540,738	567,009	671,563	14%	25%	22%	18%
Retail deposits	48,979	63,662	82,635	95,120	102,724	130,828	30%	30%	24%	27%
Total	374,261	434,300	545,775	635,858	669,733	802,391	16%	26%	23%	20%

Note: Corporate deposits include negotiated deposits, fiscal deposits and post-office deposits

For the first half of 2010, the average balance of customer deposits of the enlarged Group amounted to RMB635.9 billion, representing an increase of RMB90.1 billion or 16.5% when compared with that of 2009. Of which, the average balance of corporate deposits amounted to RMB540.7 billion, representing an increase of RMB77.6 billion or 17% when compared with that of 2009; and the average balance of retail deposits amounted to RMB95.1 billion, representing an increase of RMB12.5 billion or 15%. Based on the deposit growth rate during 1H 2010 and the annual plan of deposit businesses, the enlarged Group projects the average balance of deposits in 2010 to amount to RMB669.7 billion, representing an increase of RMB124 billion or 23% when compared with that of 2010.

In view of the prevailing macroeconomic environment and related policies, the enlarged Group projects the average balance of customer deposits to amount to RMB802.4 billion in 2011, representing an increase of RMB132.7 billion or 20% when compared with that of 2010.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.1. Interest income and interest expenses (continued)

2.1.2 Interest expenses (continued)

2.1.2.1 Customer deposits (continued)

2) Average interest rate

The average deposit interest rate of the enlarged Group for the first half of 2010 was 1.52%. In view of the slight increase in interest rates of customer deposits recently, the enlarged Group projects the average interest rate in 2010 to be 1.53%.

The enlarged Group projects the average deposit rate in 2011 to be slightly lower than that of 2010 by 3bp based on the following key assumptions:

- (1) Assuming that the Central Bank does not adjust any benchmark interest rates during the forecast period.
- (2) Assuming that there are no significant changes in the structure of customer deposits during the forecast period.

2.1.2.2 Amounts due to other financial institutions

The following table shows the average balances and interest expenses of amounts due to other financial institutions during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Average balance	45,890	84,421	118,047	152,799	147,281	151,841	84%	40%	25%	3%
Average cost of funding	8.08%	6.66%	1.79%	1.94%	2.02%	2.01%	(1.42%)	(4.87%)	0.23%	(0.01%)
Interest expense	3,709	5,624	2,118	1,481	2,977	3,046	52%	(62%)	41%	2%

1) Average balance

For the first half of 2010, the average balance of amounts due to other financial institutions of the enlarged Group amounted to RMB152.8 billion, representing an increase of RMB34.8 billion or 29% when compared with that of 2009. Based on the actual result of the first half of 2010 and the expectation of interbank market of the second half of 2010, the enlarged Group expects the average balance of amounts due to other financial institutions to amount to RMB147.3 billion in 2010, representing an increase of RMB29.2 billion or 25% when compared with that of 2009.

It is expected that the transaction volume relating to amounts due to other financial institutions in 2010 will slightly increase compared to 2010. In connection with this, the enlarged Group projects the average balance of amounts due to other financial institutions to amount to RMB151.8 billion in 2011, representing an increase of RMB4.6 billion or 3% when compared with that of 2010.

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- 2.1. Interest income and interest expenses (continued)
- 2.1.2 Interest expenses (continued)
- 2.1.2.2 Amounts due to other financial institutions (continued)

2) Average interest rate

For the first half of 2010, the average interest rate of amounts due to other financial institutions of the enlarged Group was 1.94%. In view of the continuing increase in interbank market rates recently, the average interest rate in 2010 is expected to be 2.02%.

The average interest rate in 2011 is expected to be slightly lower than that of 2010 by 1bp with the assumption that the interbank market condition remains stable.

2.1.2.3 Bonds payable

1) Average balance

The following table shows the average balances of bonds payable of the enlarged Group during the relevant periods.

In RMB million	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %	
					2010 vs.2009	2011 vs.2010
Subordinated bonds	9,492	10,966	10,966	10,966	16%	-
Hybrid capital debt instrument	876	1,490	1,490	1,490	70%	-
Total	10,368	12,456	12,456	12,456	20%	-

The enlarged Group projects the average balance of issued debt securities to amount to RMB12.5 billion in 2010, representing an increase of RMB2.1 billion or 20% when compared with that of 2009. Such increase was mainly because of an issue of RMB1.5 billion hybrid capital debt instrument by the Company on 26 May 2009 as well as an issue of RMB3.0 billion subordinated bonds by Ping An Bank in June 2009.

Based on the assumption that the enlarged Group will not issue any new subordinated bonds or hybrid capital debt instrument in 2011, the enlarged Group expects the average balance of bonds payable in 2011 to be approximately the same as that of 2010.

2) Average interest rate

The enlarged Group expects that the interest rates of issued debt securities remain stable at approximately 5.4% in 2010 and 2011. Such forecast is mainly based on the assumptions that the benchmark interest rates will not be adjusted by the Central Bank and there will be no adjustments to the interest rates in respect of the majority of issued debt securities of the enlarged Group in 2010 and 2011.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.2. Net fee and commission income

2.2.1 Fee and commission income

The following table shows the historical data and the forecasts of fee and commission income of the enlarged Group during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							vs. 2007	vs. 2008	vs. 2009	vs. 2010
Settlement fee income	297	377	467	277	567	716	27%	24%	21%	26%
Agency business and wealth management products related fee income	185	198	234	153	306	417	7%	18%	31%	36%
Bank card fee income	194	399	581	502	1,025	1,619	106%	46%	76%	58%
Advisory and consultancy fee income	-	169	341	156	306	281	N/A	102%	(10%)	(8%)
Others	134	156	246	155	261	392	16%	58%	6%	50%
Total	<u>810</u>	<u>1,299</u>	<u>1,869</u>	<u>1,243</u>	<u>2,465</u>	<u>3,425</u>	<u>60%</u>	<u>44%</u>	<u>32%</u>	<u>39%</u>

2.2.1.1 Settlement fee income

Settlement fee income includes fee and commission income earned from RMB/foreign currency corporate and retail settlement businesses. Settlement fee income of the enlarged Group for the first half of 2010 amounted to RMB0.277 billion. In view of the stable growth in business volume and customers, the settlement fee income of the enlarged Group in 2010 is projected to amount to RMB0.567 billion, representing an increase of RMB0.1 billion or 21% when compared with that of 2009.

In view of continuing growth in business volume and customers, the settlement fee income of the enlarged Group in 2011 is projected to amount to RMB0.716 billion, representing an increase of 26% when compared with that of 2010.

2.2.1.2 Agency business and wealth management products related fee income

Agency business and wealth management products related fee income includes fee and commission income relating to entrusted loans, being an agent of selling open-ended funds for fund management companies and voucher-type government bonds, and financial planning advisory services. The agency business and wealth management products related fee income amounted to RMB0.15 billion for the first half of 2010. Based on the fee income for the first half of 2010, the projected agency business and wealth management products related fee income in 2010 is expected to amount to RMB0.31 billion, representing an increase of 31% when compared with that of 2009.

Considering that the growth of this fee and commission income remains stable, the projected fees in 2011 is expected to amount to RMB0.42 billion, representing an increase of 36% when compared with that of 2010.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.2. Net fee and commission income (continued)

2.2.1 Fee and commission income (continued)

2.2.1.3 Bank card fee income

Bank card fee income mainly includes commission income for settlement and agency services and annual fees of bank cards issued by the enlarged Group. For the first half of 2010, the bank card fee income amounted to RMB0.502 billion which represents 86% of the corresponding bank card fee income of 2009. This is mainly attributable to the growth in the numbers of bank cards issued and active bank cards. The bank card fee income of the enlarged Group in 2010 is projected to amount to RMB1.025 billion, representing an increase of 76% when compared with that of 2009.

In 2011, the enlarged Group will continue to strengthen the research and development of bank card related products, to increase the volume of bank cards issued and to increase the proportion of active bank cards. The bank card fee income in 2011 is projected to amount to RMB1.619 billion, representing an increase of 58% when compared with that of 2010.

2.2.1.4 Advisory and consulting fee income

Advisory and consulting fee income mainly includes fee income earned from provision of financial consulting services, syndicated loan arrangement and underwriting services of debt instruments. Advisory and consulting fee income amounted to RMB0.156 billion for the first half of 2010. The advisory and consulting fee income of the enlarged Group in 2010 is projected to amount to RMB0.306 billion, representing a decrease of 10% when compared with that of 2009. In 2011, the advisory and consulting fee income of the enlarged Group is projected to amount to RMB0.281 billion, representing a decrease of 8% when compared with that of 2010.

2.2.2 Fee and commission expenses

The following table shows the historical data and the forecasts of fee and commission expenses of the enlarged Group during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Bank card and agency business fee expenses	(115)	(208)	(222)	(129)	(291)	(390)	81%	7%	31%	34%
Others	(65)	(33)	(49)	(44)	(105)	(238)	(49%)	48%	114%	127%
Total	(180)	(241)	(271)	(173)	(396)	(628)	34%	12%	46%	59%

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.2 Net fee and commission income (continued)

2.2.2 Fee and commission expenses (continued)

Fee and commission expenses mainly include expenses paid to third parties that are directly attributable to the provision of respective intermediary services, including agency business fee expenses, bank card fee expenses and wealth management products related fee expenses. In line with the growth in business and transaction volume, the projected fee and commission expenses of the enlarged Group in 2010 are RMB0.396 billion, representing an increase of 46% when compared with those of 2009. The projected fee and commission expenses of the enlarged Group in 2011 are RMB0.63 billion, representing an increase of 59% when compared with those of 2010.

2.3. Other operating income

The following table shows the historical data and the forecasts of the other operating income of the enlarged Group during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Investment income	266	454	731	230	253	202	71%	61%	(65%)	(20%)
Gains or losses from changes in fair values of financial instruments	(44)	(114)	204	10	25	6	159%	(279%)	(88%)	(76%)
Gains or losses from changes in fair values of investment properties	43	(15)	48	13	-	-	(135%)	(420%)	(100%)	N/A
Net foreign exchange difference	292	481	267	118	230	291	65%	(44%)	(14%)	27%
Others	190	132	138	77	159	185	(31%)	5%	15%	16%
Total	<u>747</u>	<u>938</u>	<u>1,388</u>	<u>448</u>	<u>667</u>	<u>684</u>	<u>26%</u>	<u>48%</u>	<u>(52%)</u>	<u>3%</u>

2.3.1 Investment income

Investment income mainly includes net gains or losses on disposals of available-for-sale debt securities, equity investments and bills. For the 1H 2010, the investment income of the enlarged Group amounted to RMB0.23 billion. As there have been increases in interest rates of bonds and bills recently, the amount of net gain on disposals of bonds and bills for the 2H 2010 is of certain extent of uncertainty. With cautious consideration, investment income of the enlarged Group in 2010 is projected to amount to RMB0.253 billion. The projected investment income in 2011 is RMB0.2 billion, representing a decrease of 20% when compared with that of 2010. The decrease is mainly because it is expected that the bond market remains stable and the amount of net realised gain on disposals of available-for-sale financial assets would decrease.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.3. Other operating income (continued)

2.3.2 Net foreign exchange difference

Net foreign exchange difference of the enlarged Group is mainly derived from the sales and purchases of FX for the customers. For the 1H 2010, the net foreign exchange difference amounted to RMB0.118 billion. In view of the actual foreign exchange gains for the first half of 2010 and the expectation of continuous development of international trade finance in the second half of 2010, the projected net foreign exchange difference in 2010 of the enlarged Group is RMB0.23 billion. Considering that the enlarged Group would place emphasis on the development of trade finance business in 2011, the foreign exchange difference is expected to increase continuously, with the projected net foreign exchange difference in 2011 to amount to RMB0.29 billion, representing an increase of 27% when compared with that of 2010.

2.3.3 Others

The other operating income includes rental income of investment properties, telecommunication and postage charges, and handling charges. For the 1H 2010, the other operating income of the enlarged Group amounted to RMB0.077 billion. Based on the actual income for the first half of 2010, the other income of the enlarged Group in 2010 is projected to be RMB0.159 billion, representing an increase of 15% when compared with that of 2009. For 2011, the projected other income of the enlarged Group is RMB0.185 billion, representing an increase of 16% when compared with that of 2010.

2.4. Operating costs

The operating costs of the enlarged Group include: (1) business tax and surcharges; (2) staff expenses; (3) general and administrative expenses; and (4) depreciation and amortisation. The following table shows the historical data and the forecasts of the operating costs during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by %			
							2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Business tax and surcharges	(1,000)	(1,425)	(1,367)	(792)	(1,626)	(1,986)	43%	(4%)	19%	22%
Business and administrative expenses:										
Staff expenses	(2,979)	(3,476)	(4,407)	(2,597)	(5,363)	(6,410)	17%	27%	22%	20%
General and administrative expenses	(2,410)	(3,249)	(3,994)	(2,193)	(4,722)	(5,644)	35%	23%	18%	20%
Depreciation and amortisation	(285)	(343)	(476)	(278)	(574)	(711)	20%	39%	21%	24%
Subtotal	(5,674)	(7,068)	(8,877)	(5,068)	(10,659)	(12,765)	25%	26%	20%	20%
Total	(6,674)	(8,493)	(10,244)	(5,860)	(12,285)	(14,751)	27%	21%	20%	20%

VI. NOTES TO THE PRO FORMA CONSOLIDATED PROFIT FORECAST (continued)

2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.4. Operating costs (continued)

2.4.1 Business tax and surcharges

The tax rates of the business tax and surcharges applicable to the enlarged Group are as follows.

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

The amount of business tax and surcharges for 2010 and 2011 are expected to increase in line with the related taxable income of the corresponding periods.

2.4.2 Staff expenses

In view of the increase in the staff number and the average emolument, the staff expenses of the enlarged Group in 2010 are estimated to amount to RMB5.36 billion, representing an increase of 22% compared with those of 2009. The staff expenses of the enlarged Group in 2011 are projected to amount to RMB6.41 billion which increases by 20% when compared with those of 2010, but at a slightly lower rate of growth comparing to 2010.

2.4.3 General and administrative expenses

Considering the factors such as growth in business, set up of new branches and increase in rental level, the amount of general and administrative expenses would increase. The general and administrative expenses of the enlarged Group in 2010 are estimated to be RMB4.72 billion, representing an increase of 18% compared with that of 2009. The general and administrative expenses in 2011 are projected to amount to RMB5.64 billion, representing an increase of 20% when compared with that of 2010.

2.4.4 Depreciation and amortisation

In view of the new capital expenditure items in recent years including the branch/sub-branch relocation and renovation as well as new automatic teller machines, depreciation and amortisation expenses would increase. The depreciation and amortisation expenses of the enlarged Group in 2010 are estimated to be RMB0.57 billion, representing an increase of 21% when compared with those of 2009. The depreciation and amortisation expenses in 2011 are projected to amount to RMB0.71 billion which increases by 24% when compared with those of 2010.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.5. Impairment losses on assets

The following table shows the historical data and the forecasts of the impairment losses on assets for the relevant periods.

In RMB million	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)
Impairment losses on loans and advances	1,634	569	1,603	1,827
Impairment losses on other assets	124	7	62	62
Total	<u>1,758</u>	<u>576</u>	<u>1,665</u>	<u>1,889</u>

2.5.1 Impairment provisions for loans and advances

The impairment losses on loans and advances of the enlarged Group are calculated by aggregating the respective impairment losses on loans and advances of the Company and Ping An Bank. Based on the impairment losses on loans and advances of the enlarged Group for 1H 2010, it is expected that the projected impairment losses on loans and advances are RMB1.034 billion and RMB1.827 billion for the second half of 2010 and 2011, respectively. The following table shows the movements in impairment provisions for loans and advances of the enlarged Group during 2010 and 2011.

In RMB million	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)
Balance at beginning of the year/period	2,628	4,727	4,727	7,120
Charge for the year/period	1,634	569	1,603	1,827
Amounts write off	(186)	(115)	(224)	(320)
Reversal for the period/year	1,030	846	1,096	1,006
Amounts released upon disposal of loans	(303)	-	-	-
Interest accrued on impaired loans and advances	(122)	(40)	(80)	(90)
Other movements	46	(3)	(2)	-
Balance at end of the period/year	<u>4,727</u>	<u>5,984</u>	<u>7,120</u>	<u>9,543</u>

Loans written off in 2010 and 2011 are mainly related to the write off of non-performing advances of credit cards and the forecast figures are estimated based on the loss rate of credit card advances. Reversal of the impairment provisions is mainly related to the recovery of loans written off previously.

The enlarged Group adopts collective assessment and individual assessment to determine the impairment provisions for loans and advances.

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2. Analyses of individual items in the pro forma consolidated profit forecast (continued)

2.5. Impairment losses on assets (continued)

2.5.1 Impairment provisions for loans and advances (continued)

The key assumptions of the above forecasts of impairment provisions for loans and advances at the year ends of 2010 and 2011 are as follows.

- (1) The loan migration rates are mainly estimated based on the historical data.
- (2) It is assumed that there would be no disposals of non-performing loans during 2010 and 2011.
- (3) It is assumed that there are no significant changes in the overall economic environment between 30 June 2010 and the year ends of 2010 and 2011. Therefore, the assumptions used in collective impairment assessment at the year ends of 2010 and 2011 are in line with those of 30 June 2010.
- (4) In view of the monitoring of the loans to urban development investment corporations (UDIC) and related policies issued by the Central Government and regulators, it is expected that potential risk of the loans to UDIC will emerge in a progressive manner. Consequently, the projected impairment provisions for UDIC will slightly increase during the second half of 2010 and 2011.

2.6. Income tax expense

The enlarged Group's income tax is at the statutory rate of 25%. (Of which, there are tax rate concessions for Shenzhen, Zhuhai and Haikou during the transitional period and the income tax rates applicable to these three areas are 18%, 20%, 22% and 24% from 2008 to 2011.) Income tax expense is calculated based on the forecast profit and the applicable tax rate of the enlarged Group. The reconciliation of income tax expense applicable to profit before tax at the statutory tax rate to income tax expense at the effective income tax rate of the enlarged Group is as follows:

In RMB million	2009 (Actual)	2010.1.1- 2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)
Profit before tax	7,570	5,030	9,878	12,325
Income tax at the statutory rate of 25%	1,893	1,258	2,470	3,081
Tax adjustments	(459)	(159)	(371)	(309)
Income tax expense	<u>1,434</u>	<u>1,099</u>	<u>2,099</u>	<u>2,772</u>
Effective tax rate	18.9%	21.8%	21.2%	22.5%

The tax adjustments of the above table mainly comprise of non-taxable income such as interest income on government bonds, non-deductible expenses and effects of tax rate concessions applicable to Shenzhen, Zhuhai and Haikou. The effective tax rate of the enlarged Group increases from 18.9% in 2009 to 21.2% and 22.5% in 2010 and 2011, respectively. Such changes are mainly because the income tax rate applicable to Shenzhen, Zhuhai and Haikou will progressively increase in future.

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VI. NOTES TO THE PRO FORMA CONSOLIDATED PROFIT FORECAST (continued)

3. Key issues that may affect profit forecast results and proposed measures

3.1. Key issues that may affect profit forecast results

3.1.1 Effect of movements in market interest rate

Movements in market interest rate will have impact on the yields of interest-earning assets and costs of funding of interest-bearing liabilities and will, in turn, affect the profit forecast of the enlarged Group. The effect of changes in yields/costs of funding of the key IEA/IBL on the profit forecast is as follows:

In RMB million	Effect on forecast profit by changes of 1bp (Note)	
	Jul- Dec 2010	2011
<u>Interest-earning asset (IEA)</u>		
Loans and advances	26	61
Bond investments	8	19
Amounts due from the Central Bank	5	11
Amounts due from other financial institutions	6	11
<u>Interest-bearing liability (IBL)</u>		
Customer deposits	(35)	(80)
Amounts due to other financial institutions	(7)	(15)

Note: Based on the average balance of IEA or IBL for the corresponding period* 1bp

3.1.2 Effect of movements in market currency rate

Currency risk is the risk of incurring losses that arise from adverse changes in currency rates in connection with the exposures from the mismatch of foreign currency assets and liabilities as well as off-balance sheet foreign exchange positions arisen from derivative transactions. The currency risk of the enlarged Group mainly arises from loans and advances, investments and deposits denominated in foreign currencies.

Considering that the amount of foreign currency items of the enlarged Group is relatively immaterial, the enlarged Group does not take into account of any effect of movements in currency rates for the purpose of pro forma consolidated profit forecast.

3.1.3 Effect of changes in loan quality

If the quality of the loan portfolio of the enlarged Group deteriorates, the required loan impairment provision may exceed the impairment loss on loans and advances included in the pro forma consolidated profit forecast. As a result, this may affect the pro forma consolidated profit forecast of the enlarged Group.

VI. NOTES TO THE PRO FORMA CONSOLIDATED PROFIT FORECAST (continued)

3. Key issues that may affect profit forecast results and proposed measures (continued)

3.2. Proposed measures

3.2.1 Market interest rate risk management

The enlarged Group manages interest rate risk mainly by adjusting the composition of assets and liabilities, monitoring indicators such as interest rate sensitivity gap on a regularly basis and measuring risk exposure in accordance with the re-pricing characteristics of assets and liabilities. The Asset and Liability Management Committee of the enlarged Group meets regularly and manages interest rate risk exposures by adjusting the composition of the assets and liabilities in accordance with the movement in market interest rates.

3.2.2 Market currency risk management

The enlarged Group has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

3.2.3 Credit risk management

The enlarged Group has formulated a complete set of operational procedures for credit approval and management. These procedures are being enforced across the Group. The enlarged Group has placed emphasis on systems of post-disbursement monitoring and early warning monitoring for the credit business in order to facilitate early detection of early warning signals and effective management of credit risks.

Shenzhen Development Bank Co., Ltd.
Pro forma consolidated profit forecast report
For the years ending 31 December 2010 and 2011

APPENDIX: Summary of pro forma consolidated profit forecast KPI

	2010 (Forecast)	2011 (Forecast)
Profitability indicator:		
Cost to income ratio	44.9%	44.1%
Credit cost	0.31%	0.30%
Net interest spread	2.30%	2.37%
Net interest margin	2.39%	2.47%

Note: Credit cost= Credit provision for the current period/Average loan balance (including discounted bills) for the period

Net interest spread= Yield of IEA - Cost of funding of IBL

Net interest margin= Net interest income/ Average IEA balance